Melrose
Buy
Improve
Sell

Melrose Industries PLC

Annual Report
for the year ended 31 December 2013

Melrose Industries PLC

Business strategy

Melrose buys good manufacturing businesses with strong fundamentals, whose performance can be improved. Melrose finances its acquisitions using a low level of leverage, improves the businesses by a mixture of investment and changed management focus, sells them and returns the proceeds to shareholders.

Read more about the Melrose business strategy

Measuring success

During the 10 year period since first listing, Melrose has grown its market capitalisation from £13 million to £3.9 billion and has created £3 billion of shareholder value.* The average annual return on investment during this period is 27%.**

Read more about how Melrose measures success

* October 2003 to 31 December 2013

** Since the first acquisition in 2005

Download the latest Annual Report at
www.melroseplc.net/investors/reports

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Melrose business strategies reflect an in-depth knowledge and understanding of its markets and of the current and emerging trends and regulations.


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Proven 'Buy-Improve-Sell' track record.


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The Group is made up of five distinct operating segments: Elster Gas, Elster Electricity, Elster Water, Energy and Lifting.


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

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

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Highlights

Operational

During 2013, Melrose sold five of its businesses – Crosby, Acco, Marelli, Truth and Harris – for a combined price of approximately £950 million.

In accordance with the Melrose strategy, a return of capital was made to shareholders in February 2014 to the value of approximately £600 million.

China

£30 million investment is being made in China to build a new manufacturing facility for Brush, which is scheduled to be operational during 2015.

Elster

Within all Elster divisions, operating profit improved significantly in 2013, as a result of strategic actions identified by Melrose on acquisition in August 2012.

Gas – good progress has been made in rationalising the European manufacturing footprint with production of a number of products previously manufactured in Western Europe transferred to the newly extended plant in Slovakia.

Electricity – production and assembly for North America moved to Mexico during 2013.

Water – successful in reducing its overhead cost base through restructuring, which significantly contributed to the operating profit improvement during 2013.

Melrose success story

Transformational growth

10 year timeline
Melrose is led by a management team which has a strong track record in the successful implementation of a disciplined strategy, which has seen the Company grow its market capitalisation from £13 million to approximately £3.9 billion, since listing on the London Stock Exchange in 2003.

2003 £13m

October 2003
Listed on AIM – £13 million.

2005

May
Acquired McKechnie and Dynacast for £429 million from private equity group Cinven. Raised £230 million in equity.

December 2005
Listed on London's main exchange. Entered the FTSE 250.

2007

May
Sold the McKechnie Aerospace business for £428 million and the PSM business for £30 million, doubling the shareholder value in 18 months.

August
Shareholders received a capital return of £220 million.

2008

July
Completed the acquisition of FKI plc for a total consideration including debt of just under £1 billion.

2009

June
Sold Logistex (excluding UK) for £50 million.

Financial[1]

Revenue
£1,732.8m

2012	£1,791.9m[3]
2013	£1,732.8m

Headline[2] operating profit
£274.9m

2012	£228.5m[3]
2013	£274.9m

Headline[2] diluted earnings per share
12.8p

2012	9.4p[3]
2013	12.8p

Proforma[3] Headline[2] results
- Revenue of £1,732.8 million (2012: £1,791.9 million), down 3%
- Operating profit of £274.9 million (2012: £228.5 million), up 20%
- Elster operating profit up 37%
- Elster operating margin of 17.4% (2012: 12.4%), up 5.0 percentage points
- Diluted earnings per share of 12.8p (2012: 9.4p), up 36%

Results after exceptional items and intangible asset amortisation
- Profit after tax of £121.9 million (2012: loss of £6.9 million)
- Diluted earnings per share of 9.3p (2012: loss of 0.9p)

Net debt of £140.8 million (31 December 2012: £997.7 million). Net debt equal to 0.4x EBITDA[4] (31 December 2012: 2.6x). Adjusting for the Return of Capital proforma net debt would have been £736.1 million, 2.3x EBITDA[4].

Completion of the disposal of five of the businesses acquired with FKI, for gross proceeds of £950 million, which more than tripled their value since 2008 for shareholders in the five years of ownership.

Shareholder payments
- Return of Capital of approximately £600 million (47.0p per share) on 28 February 2014, alongside an 11 for 13 share consolidation
- Final proposed dividend of 5.0p per share (2012: 5.0p). Full year dividend increased by 2% to 7.75p per share (2012: 7.6p)

Following the Return of Capital the net shareholder investment in Melrose is £0.5 billion, which has successfully grown into the current market capitalisation of £3.5 billion.

(1) Continuing operations only unless otherwise stated.
(2) Before exceptional costs, exceptional income and intangible asset amortisation, as explained in the Finance Director's review.
(3) Assuming a full year's ownership of Elster in 2012, as explained in the Finance Director's review.
(4) Headline[2] operating profit before depreciation and amortisation.
(5) Restated to include the effects of the 2 for 1 Rights Issue that concluded in August 2012, resulting in the Issue of 844,418,024 new Ordinary Shares in the capital of Melrose PLC, raising approximately £1.2 billion in relation to the purchase of Elster.

2011

February
Sold Brush Traction, Logistex UK and Madico for £18 million.

July
Sold Dynacast for £367 million, generating 4x original equity investment. Nearly £1 billion in cash generated from McKechnie and Dynacast acquisition.

August
Gave back £373 million to shareholders which returned virtually all of the previous equity raised from shareholders.

2012

June
Disposal of MPC for £30.7 million, the final piece of the McKechnie and Dynacast businesses, generating a return on initial equity of approximately 3.25x.

August
Completed the acquisition of Elster Group SE for £1.8 billion. Fully underwritten £1.2 billion Rights Issue and new £1.5 billion five year bank facility.

2013

£3.9bn
Market cap as at 31 December 2013

July
Disposal of Truth Hardware for US $200 million.

August
Disposal of Marelli Motori for €212 million, which in combination with the Truth disposal generated four x the original equity investment.

November
Sold Crosby and Acco for US $1.01 billion, equal to a return on the original equity of over three x.

December
Sale of Harris.

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Melrose at a glance

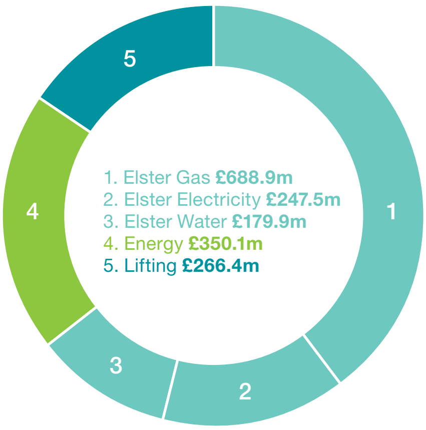
Melrose aims to create significant gains by increasing the value of the businesses currently owned through substantial investment, and by seeking to make suitable acquisitions which have attractive potential rewards.

The Melrose Group is split into five segments: Elster Gas, Elster Electricity, Elster Water, Energy and Lifting. The Other Industrial division is now included in discontinued operations following the sale of Truth and Harris during 2013.

International operations

Melrose operates internationally. It has manufacturing facilities located throughout the world, predominantly in Europe and North America, but also has a growing presence in South America and the Far East, together with smaller scale operations in South Africa and Australasia.

2013 Group revenue



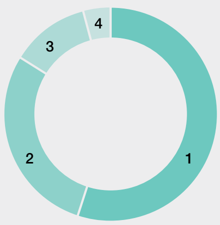
Elster Gas

Elster Gas meters, systems, heat process units and technologies are deployed all over the world. For over 175 years Elster Gas has engineered the vital connections between integral infrastructure, technology and communities, with best-in-class products and solutions for measurement, regulation and the safe control and application of gases.

Revenue by geographical destination

(Year ended 31 December 2013)

£688.9m



1. Europe **55%**
2. North America **29%**
3. Asia **12%**
4. RoW **4%**

Revenue

2011	n/a
2012	£236.9m(2)
2013	£688.9m

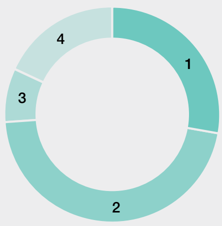
Elster Electricity

Elster Electricity meters, communications and energy management platforms are engineered for residential, commercial and industrial, and interchange metering applications. Elster Electricity meets the expanding needs of utilities by providing advanced metering products and services worldwide.

Revenue by geographical destination

(Year ended 31 December 2013)

£247.5m

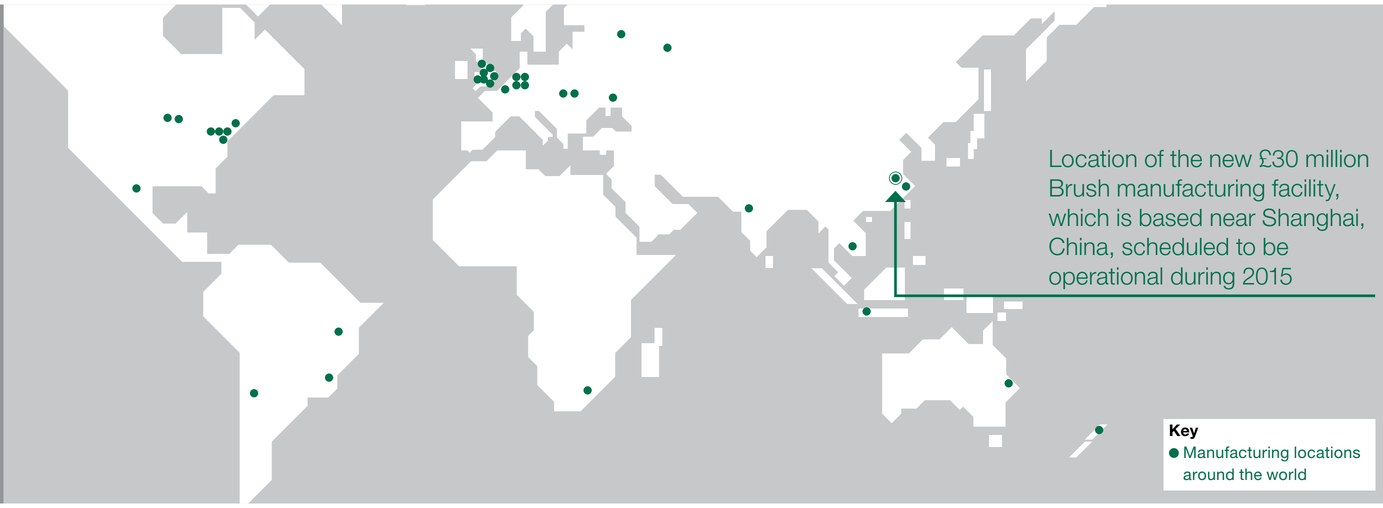


1. Europe **28%**
2. North America **46%**
3. Asia **8%**
4. RoW **18%**

Revenue

2011	n/a
2012	£106.8m(2)
2013	£247.5m

(1) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations.
(2) Relates to Elster for the four month period from acquisition to 31 December 2012.



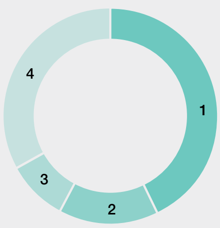
Elster Water

Elster Water engineers award-winning metering and communication systems for water utilities and industries to meet the demands of an expanding and increasingly connected global community. Elster provides the technology and products to manage, preserve and deliver this valuable resource around the world in a cost-effective way.

Revenue by geographical destination

(Year ended 31 December 2013)

£179.9m



1. Europe **43%**
2. North America **15%**
3. Asia **9%**
4. RoW **33%**

Revenue

2011	n/a
2012	£67.4m(2)
2013	£179.9m

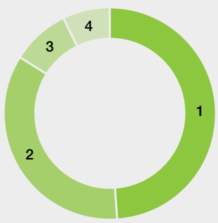
Energy

World number one independent supplier of turbogenerators and leading supplier of other electricity generating machinery, switchgear, transformers and power infrastructure equipment for the power generation, industrial, oil & gas and offshore sectors. Strong aftermarket service and product support capabilities.

Revenue by geographical destination

(Year ended 31 December 2013)

£350.1m



1. Europe **49%**
2. North America **35%**
3. Asia **9%**
4. RoW **7%**

Revenue

2011	£353.5m(1)
2012	£371.6m(1)
2013	£350.1m

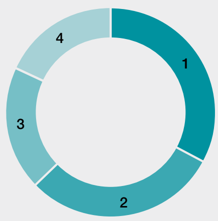
Lifting

Global technology leading supplier for wire rope. Key product lines include wire rope and strand, fibre rope and wire, specialist installations and inspection services, supplying global customers in the oil & gas, mining, industrial, marine and infrastructure sectors.

Revenue by geographical destination

(Year ended 31 December 2013)

£266.4m



1. Europe **33%**
2. North America **30%**
3. Asia **19%**
4. RoW **18%**

Revenue

2011	£258.7m(1)
2012	£268.4m(1)
2013	£266.4m

Market overview

Businesses within the Melrose Group operate in diverse markets around the world. In this section, current market trends and external factors affecting the growth of each Melrose business are considered, together with individual business responses to these trends and factors.

Elster Gas

Elster Gas is a world leader in the design and manufacture of gas measurement, process heat control and gas safety control equipment, supplying a global customer base in more than 110 countries. It has one of the most extensively installed utility measurement bases in the world with more than 75 million gas metering devices deployed in the last 10 years alone. Its complete range of end-to-end solutions enables customers to efficiently manage and control natural gas resources.

Current market trends

Global energy consumption is continuing to increase. Natural gas is increasing its share, whilst reliance on coal and oil is diminishing. New gas resources, such as shale gas in the US, are also helping to change the energy mix.

While environmental concerns are driving European Union ("EU") targets on energy consumption, the global economic situation is, in certain areas, increasing competition.

The increasing global gas consumption and the growing demand for unconventional gas sources (such as shale and biogas), are driving an increase in infrastructure projects, including Liquefied Natural Gas terminals.

External factors: competition and regulation

The EU directive to replace the majority of existing meters with Smart meters by the end of the decade has been implemented in different ways across the EU. The UK, Italy, France and the Netherlands are leading the roll out. The precise timing of the roll out is still uncertain.

The market is also governed by both national and international metrology and safety standards.

International legislation is aimed at driving down emission levels and increasing efficiency. The ongoing global trend to harmonise all regional standards to one global ISO standard is putting pressure on China to meet this global standard. China accounts for almost 50% of global steel production and steel applications are the most important drivers for growth within the process heat market.

Business response

In response to the growth in gas infrastructure, Elster is supplying the full scope of energy measurement solutions worldwide, with a strong focus on Asia, the Middle East and the US. The international nature of the larger infrastructure projects is matched by Elster's international presence and wide project experience.

> "Increasing global gas consumption and the growing demand for unconventional gas sources are driving an increase in infrastructure projects."

Elster has developed a range of customer and market-specific integrated technology solutions, covering residential, commercial and industrial applications. Elster is actively involved in major pilot projects in preparation for the large scale implementation of Smart meters and is working in close partnership with key customers and technology providers in a number of countries.

Specific solutions for process heat and heating applications are being developed by Elster. A dedicated Elster Gas service team is available around the world to support customers during the planning and start-up process. Sales and application skills of the engineering team are key factors in continuing to deliver high quality products and solutions, with "added value thinking". This is an important market differentiator for the Gas Utilisation business.

Elster Electricity

Elster Electricity is one of the largest international Smart metering solutions providers for residential, commercial, industrial, transmission and distribution markets.

Current market trends

Elster Electricity's primary markets are the EU, US, the Middle East and Africa. The EU, which is its largest market, has experienced significant growth during the last year and, following calls for a European wide roll out of Smart meter solutions by 2022, significant growth is expected during the coming years. A regulatory framework is now in place in parts of the Middle East to upgrade the metering infrastructure, which is expected to result in substantial growth over the coming years.

"The global market will continue to see a shift from 'traditional' electricity metering to Smart meter solutions."

External factors: competition and regulation

The global market will continue to see a shift from "traditional" metering to Smart meter solutions. Whilst the North America market is expected to remain constant at existing sales volumes, other markets are expected to see growth. In Europe, further pilot projects are planned which will lead to significant tender activities from 2015 onwards.

Business response

New products and technologies have been developed and successfully launched. During 2014, further investment will be made in Meter Data Collection solutions and in partnerships with Smart Grid application providers.

Elster Water

Elster Water is a leading supplier of water meters recognised globally with sales revenue derived from more than 90 countries.

Current market trends

There is an increase in the adoption of communicating meters for Smart metering projects, particularly in Europe, the Middle East and North America. This trend is also pushing growth in electronic meters, equipped with standard communication interfaces. This technology allows extended meter life in harsh water quality conditions, for example in the Middle East. Elsewhere, legislation on water quality is driving lead-free materials, resulting in an increase in sales of polymer-bodied water meters in emerging, as well as established, markets.

External factors: competition and regulation

The global water industry continues to seek innovative metering solutions to support the objectives of water providers, including water conservation, customer service and resource efficiency. The competitive environment is comprised of a few large suppliers based in Europe and North America, together with many regional companies. Regulations are both regional and national, however most markets adopt international standards.

Business response

There is a continued focus on the delivery of innovative, value added products in market segments that are responsive to higher performing metering products. Recent innovations by the business include an award winning polymer-bodied residential meter.

"Smart meter technology allows extended meter life in harsh water quality conditions, for example in the Middle East."

Elster Water continues to work with key water industry partners in several regions to address local requirements. Strong customer relationships in major markets will ensure that Water business can develop meter products and solutions tailored to customer needs. Over the medium term further growth is expected in strategic products, including polymer meters, Smart meters and electronic meters.

Market overview
continued

Energy

Brush is the world's number one independent supplier of turbogenerators and a leading supplier of other electricity generating machinery, switchgear, transformers and power infrastructure equipment with strong aftermarket service and product support capabilities.

Current market trends

There is a continuing trend towards power generation through aero derivative gas turbine packages. Gas is cleaner than coal fired generation and is an attractive alternative, with a lower infrastructure cost and increasing availability of relatively low cost shale gas. Emissions regulations and increasing concerns about the economics of renewals and safety of nuclear power means that gas will be preferred for the replacement of existing coal fired power generation.

Power infrastructure, particularly in the mature economies, is ageing, which is increasing demand for both new equipment and aftermarket services as plant comes to the end of its useful life.

Although the medium-term outlook, particularly for the aero derivative gas turbine sector, is encouraging, in the short term, the utility, oil & gas and industrial market sectors have suffered from investment stagnation as a result of the global financial crisis. This has resulted in many projects being delayed due to an inability to complete financing.

External factors: competition and regulation

The Brush businesses have strong UK revenue streams, which are regulated by OFGEM (Office of Gas and Electricity Markets).

National content rules have also made direct access to the Brazilian oil & gas market difficult for non-indigenous manufacturers.

Business response

In 2014, Brush will begin delivering turbogenerators to Chinese customers from its European factories. These deliveries are expected to increase in 2015.

In addition, continued activity in the Middle East power market is expected to increase demand for Brush's large air-cooled generators in 2015.

"There is a continuing trend towards power generation through aero derivative gas turbine packages."

"Gas is cleaner than coal fired generation and is an attractive alternative, with a lower infrastructure cost and increasing availability of relatively low cost shale gas."

"Rope demand in the oil & gas sector is likely to remain strong in the offshore sector with an increasing emphasis on the extraction of deep water reserves to meet growing global demand for oil."

Lifting

Bridon designs and manufactures a comprehensive range of lifting and stabilising solutions for applications in wire rope, fibre rope, steel wire and strand. The company services global customers in the oil & gas, mining, industrial, marine and infrastructure sectors.

Current market trends

Within the oil & gas sector, rope demand is likely to remain strong in the short to medium term in the offshore sector, with an increasing emphasis on the extraction of deep water reserves to meet growing global demand for oil. Activity in the exploration, construction, production and decommissioning segments is forecast to increase in target territories such as Brazil, West Africa, Australia and the Gulf of Mexico.

The global mining sector weakened significantly in 2013 owing to falling commodity prices, slowing demand in China and a consequent restriction in capital and operating expenditure by the global mining companies. This impacted both new equipment orders and maintenance expenditure.

Demand for ropes within the industrial sector improved in 2013 and is likely to continue, as global economic growth increases. The commercial construction market has improved in North America and the Middle East and there are tentative signs of recovery in other developed economies. The Chinese domestic market has been subdued, although it will remain a significant driver of demand owing to its size. In the medium term, global trade and the growing demand for energy and infrastructure are likely to drive crane activity and therefore demand for industrial ropes.

Demand for minerals appears to have stabilised, although new supply sources lead to uncertainty regarding the trends for commodity prices. The global mining companies remain largely positive on growth for 2014. However, this is based principally on the ability of miners to cut costs and drive productivity, rather than as a result of any immediate increase in demand. Marginal projects are unlikely to be pursued, but essential maintenance will still have to be carried out. Increased forecasts for coal consumption in China, India and other developing countries are driven by urbanisation and higher energy demand.

As mines begin to undertake essential maintenance work and more mines are brought under the authority of the Chinese government regulator, businesses will seek suppliers who deliver value. Reduced demand has led to intense price competition.

External factors: competition and regulation

The offshore oil & gas industry is heavily regulated by organisations such as The America Petroleum Institute, Lloyd's of London and various industry and government bodies.

Competition is increasing in the industrial sector, particularly from Asian manufacturers in the bulk/commodity end of the market, although the need for high capacity crawler, port and marine cranes requires high performance solutions.

Business response

The Bridon Technology Centre has enhanced the technological capabilities of the business. This, combined with the new factory at Neptune Quay, UK, provides a strong foundation to solve the challenges of deeper water operations and changing regulations. The fast-track development of differentiated market-led technology solutions will deliver growth within the offshore construction market.

Within the mining sector, Bridon's high performance ropes, coupled with their technical applications support, enable mines to operate more safely and consistently in order to achieve productivity gains.

Within the industrial sector, Bridon will launch next generation products this year and it continues to work on new developments to help extend the service life of cranes.

Chairman's statement

I am pleased to report our 11th set of annual results since flotation in 2003.

2013 has been an extremely busy year for your Company. It has seen the successful integration of Elster, acquired in 2012, as well as the disposal of five businesses from our FKI acquisition in 2008. Truth, Marelli, Crosby, Acco and Harris were sold during the year for a total of £950 million, representing a more than tripling of their value for shareholders during the five years of Melrose ownership. Associated with these sales and in line with our proven strategy, a return of capital of approximately £600 million was announced on 21 January 2014 and was paid on 28 February 2014. Two large businesses from the FKI acquisition, Brush and Bridon, still remain in the Group.

Headline(1) diluted earnings per share(2)

12.8p ↑ 36%(3)

Dividend per share

7.75p ↑ 2%

The current shareholder investment in Melrose, net of annual dividends and all returns of capital since 2003 (totalling £1.5 billion), amounts to approximately £0.5 billion. Our market capitalisation at the current share price amounts to £3.5 billion, meaning that approximately £3.0 billion of shareholder value has been created over the period.

We are proud of this achievement in growing shareholder value and the Board, on behalf of shareholders, recognises the efforts of our employees and thanks them for their outstanding contribution to this.

Results for the Group
These financial statements report the results for the Group for the year to 31 December 2013 and comparatives for the previous year.

Revenue from continuing businesses for the year was £1,732.8 million (2012: £1,051.1 million) and headline profit before tax (before exceptional costs, exceptional income and intangible asset amortisation) was £226.1 million (2012: £117.9 million).

Adjusting for the five disposals in the year, headline diluted EPS (before exceptional costs, exceptional income and intangible asset amortisation) on continuing businesses was 12.8p (2012 proforma: 9.4p), an increase of 36%.

Further details of these results are contained in the Finance Director's review.

Trading
The speedy and rigorous implementation of restructuring projects in our 2012 Elster acquisition produced an equally swift improvement in operating margins – ahead of our best expectations – which led to an increase of over a third in Elster's profits in its first full year. Since acquisition we have raised our expectations of what Elster can achieve and the outcome to date is very encouraging.

As we indicated, despite the subdued order books of recent periods, the remaining "FKI" businesses of Bridon and Brush maintained their operating margins – a good performance. The recent and continuing level of investment in these two businesses means that the medium-term outlook remains positive but weakness in specific market areas may hold back growth in the short term.

Operating cash generation remains a major focus and this has been another excellent year. This, together with the proceeds from disposals, has meant a substantial reduction of net debt to £141 million at the year end from £998 million last year. The return of capital after the year end has returned debt to our more usual levels.

Dividends
The Board proposes to pay a final dividend of 5.0p per share (2012: 5.0p). This will be paid on 15 May 2014 to those shareholders on the register at 22 April 2014, subject to approval at the AGM on 13 May 2014. This gives a total for the year of 7.75p per share (2012: 7.6p).

We continue to pursue a progressive dividend policy.

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated using continuing businesses.
(3) Assuming a full year's ownership of Elster in 2012, as explained in the Finance Director's review.

"Last year was a tremendous year for Melrose with great successes in the 'improve' and 'sell' parts of our strategy. Almost £1 billion was raised from disposals which trebled shareholders' money and Elster increased its profits by over a third in our first full year of ownership. We are ready and keen to buy again but we remain patient for the right opportunity to arise."

£4 billion
market capitalisation from £13 million in 10 years

£3 billion
of shareholder value created

27%
average annual return on investment
(since first deal in 2005)

Board changes
Miles Templeman, our Senior non-executive Director, will be stepping down at the conclusion of the AGM in May. He has been a director since our inception in 2003 and in this time his experience and judgement have been highly valued by the Board. We will miss his distinctive input.

At the same time we were delighted to welcome Liz Hewitt to the Board on 8 October 2013. Liz has an excellent background and experience in areas very relevant to Melrose's operations and we are already benefiting from her contribution.

Following Miles' departure, Perry Crosthwaite will become our Senior non-executive Director. Perry will simultaneously relinquish his position as Chairman of the Remuneration Committee, a role that will be filled by Justin Dowley, following the conclusion of this year's AGM. Liz Hewitt will chair the Nomination Committee with effect from the end of the 2014 AGM.

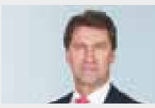
Strategy
Our strategy of "buy, improve, sell" is by now well understood. 2013 was a highly successful year particularly in the "improve" and "sell" categories. The speed of improvement in operating margins at Elster is a tribute to the strength of our management teams. But this did not dilute our focus on realising the value in several of our "FKI" businesses, nor in returning this to shareholders. As stated before, we are now actively looking for an appropriate opportunity to repeat the success of our previous acquisitions. This is a rigorous process and we will take as long as is necessary to identify the right company.

Outlook
The recovery from the financial crisis of 2008 has been slow, anaemic and patchy. Much of our growth in recent years has been from margin improvement rather than revenue growth. In common with many other companies, sales growth remains challenging and we face a headwind from the current strength of Sterling. However, there is more margin improvement still achievable which, together with the inherent strength of our businesses and the continuing recovery in most of the world's economies, gives us confidence over the medium term.

Christopher Miller
Chairman
5 March 2014

The Board
We are committed to the highest standards of corporate governance and consider it critical for upholding our business integrity wherever we work around the world.


Christopher Miller
Executive Chairman


David Roper
Executive Vice-Chairman


Simon Peckham
Chief Executive


Geoffrey Martin
Group Finance Director


Miles Templeman(1)
Senior non-executive Director


Perry Crosthwaite
Non-executive Director

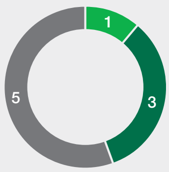

Justin Dowley
Non-executive Director


John Grant
Non-executive Director


Liz Hewitt(2)
Non-executive Director

(1) Miles Templeman will be retiring from the Board at the conclusion of the 2014 Annual General Meeting to be held on 13 May 2014.
(2) Liz Hewitt was appointed to the Board on 8 October 2013.

Board composition



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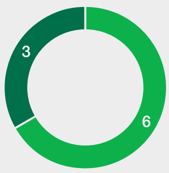
Industry background



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Chief Executive's review

Revenue

£1,732.8m

2012	£1,791.9m(1), (3)
2013	£1,732.8m

Headline(2) operating profit

£274.9m

2012	£228.5m(1), (3)
2013	£274.9m

(1) Restated to include the Truth, Marelli, Crosby, Acco and Harris results within discontinued operations.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Assuming a full year's ownership of Elster in 2012, as explained in the Finance Director's review.

Divestments during the year

Realising value in businesses at the appropriate time and returning all or part of this value to shareholders has been a fundamental part of the "buy, improve, sell" strategy that Melrose has followed since being founded 10 years ago.

2013 has been another highly successful year for Melrose as we continue to "improve" elements of the portfolio and have implemented the "sell" phase of our strategy. In the second half of the year, we completed the disposals of five of our "FKI" businesses for a total consideration of approximately £950 million, having more than tripled the shareholder value in respect of these businesses in five years of Melrose ownership. In July 2013, Melrose sold Truth Hardware to Tyman PLC for £135 million. In the following month, we completed the disposal of Marelli Motori to an affiliate of The Carlyle Group, for a total consideration of £177 million. In November 2013, the disposal of Crosby and Acco to an affiliate of KKR & Co LP, was completed for a consideration of £633 million. Finally in December 2013, Melrose disposed of Harris Waste Management Group to Avis Industrial Corporation.

Return of capital

Following these divestments, and in accordance with our strategy, we announced in January 2014 our intention to use part of the proceeds of the disposals to return approximately £600 million in cash to shareholders and to undertake a share consolidation on an 11 for 13 basis. The balance of the net sale proceeds have been used to pay down Melrose's existing borrowings.

Improving the portfolio

Elster

Following the sale of Crosby and Acco, the three Elster businesses represent two thirds of the revenue of the continuing Group. In the 18 months since their acquisition, the improvement programmes implemented within the Elster businesses are yielding significant results.

The Gas business has benefited from strategic and operational initiatives including the closure of uneconomic facilities, new product launches and the rationalisation and relocation of manufacturing operations. The Gas business is well positioned to benefit from a continued growth in gas usage across the world.

Operating profits in the Electricity business have improved significantly as a result of the relocation, reorganisation and consolidation of operational and functional activities both in North America and Europe. New products and technologies have been launched, enhanced quality control processes implemented and improvements to the supply chain initiated. Across the global market, regulatory frameworks are being put in place to upgrade the metering infrastructure from traditional metering to Smart meter solutions, providing significant growth opportunities.

In the Water business, operating profit has also improved substantially following the completion of a restructuring programme, product and business rationalisation and new product launches. Water is well positioned for growth.

"2013 has been another highly successful year for Melrose as we continue to 'improve' elements of the portfolio and have implemented the 'sell' phase of our strategy."

Bridon

Turning to the rest of the Group, Bridon's trading results in 2013 were marginally down on 2012. Reductions in operating expenditure in the mining industry continued to impact demand for mining ropes and this has offset improved trading conditions in other core sectors such as the oil & gas, commercial construction and industrial markets. The difficult trading circumstances in the mining sector are expected to continue for at least the first half of 2014.

Bridon's strategy is to be a global technology leader for demanding rope applications. Bridon's new factory in Newcastle, UK, is fully operational and the Bridon Technology Centre, providing state of the art product design, development and testing facilities, was opened in early 2013. During the year, 19 product development and enhancement projects were completed resulting in higher performance ropes for the mining, oil & gas and industrial sectors.

Looking ahead, while the outlook for the mining sector remains uncertain, demand from the oil & gas sector is expected to be solid in 2014. At the same time, commercial construction and industrial activity continue to grow in China, and signs of recovery are also visible in the US. To mitigate the effects of the downturn in the mining sector, Bridon has focused on implementing operational efficiency improvements and strong working capital control.

Brush

Market dynamics for new generators are likely to remain subdued in 2014. However, Brush has outperformed the turbogenerator market with operational efficiency gains, a strong return on capital investment and growth in the aftermarket business.

We are investing £30 million in a new manufacturing plant in China to meet the rapid growth in demand for gas turbines in the region.

A key priority for Brush is the growth and development of the aftermarket business which, during 2013, was consolidated into a single focused global business unit. This restructuring, together with capital investment in an aftermarket workshop facility in the US and new service offerings, has driven order intake up 34%, on the previous year.

Hawker Siddeley Switchgear had another strong year with sales and operating profit achieving gains of 6% and 37% respectively. Performance at the Transformers business also improved, with revenue up 6%, year-on-year.

The medium to long-term outlook for power generation and the gas turbine market is positive and Brush is well placed to benefit from this and the additional growth opportunities in China and the aftermarket business.

Business strategy

Buy

Melrose aims to acquire good manufacturing businesses that are underperforming their potential. Businesses are targeted that have strong headline fundamentals, such as high quality products, or a leading market share, to generate sustainable cash flows, achieve profit growth and create value for shareholders.

Improve

The Melrose Directors are actively involved within each of the businesses, to agree strategy and targets, drive operational improvements, invest in the businesses it purchases and oversee change management.

Sell

At the appropriate time, each business will be disposed of, in order to return value that has been created to shareholders. The Directors are experienced in being able to recognise the appropriate time in the business cycle for disposal, in order to provide funding for acquisitions and return funds to investors.

Outlook

Overall market conditions remain challenging and sales growth in 2014 is not going to be easy to achieve. We are confident that we will see further progress in our Elster businesses in 2014. However, Bridon and Brush will find it more difficult to improve their performance. Foreign exchange rates have continued to become an increasing headwind into 2014.

We are actively looking for our next acquisition and are hopeful of progress this year although, as ever, we remain disciplined in applying our criteria.

Simon A Peckham

Simon Peckham
Chief Executive
5 March 2014

Business strategy

Melrose buys good manufacturing businesses with strong fundamentals, whose performance can be improved. Melrose finances its acquisitions using a low level of leverage, improves the businesses by a mixture of investment and changed management focus, sells them and returns the proceeds to shareholders.

Melrose business strategy

Buy

- Good manufacturing businesses whose performance can be improved
- Use low (public market) leverage

p.16

Improve

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

p.18

Capital realised from markets

Profit made by improved acquisition performance

Melrose business principles

GOV

Governance

The Board of Directors remains committed to maintaining the high standards of corporate governance required to ensure the Company can continue to deliver its long-term strategic goals for shareholders. As part of this approach, the Board supports the principles of the UK Corporate Governance Code (the "UK Code") as it applied to the year ended 31 December 2013.

RES

Melrose areas of operation

Elster Gas

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Elster Electricity

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Elster Water

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Sell

- Identify the optimal time to sell, often between three to five years but flexible
- Return value to shareholders from significant disposals

p.20

Returns to shareholders

Melrose Group
Capital realised
Profit made

Melrose management team own a substantial shareholding in the Company

Responsibility

Through supporting the development of employees, developing and maintaining close ties with stakeholders and minimising waste, Melrose believes good corporate social responsibility is not only desirable in its own right but also makes good business sense. Group companies work closely with their local communities, engaging with them and building relationships with charities and environmental organisations.

OFE

Operational and financial efficiency

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

Energy

p.28

Lifting

p.30

Strategy in action

Buy › Improve › Sell

Buy

Melrose aims to acquire good manufacturing businesses that are currently underperforming their potential.

Businesses are targeted that have strong headline fundamentals, such as high quality products, or a leading market share, to generate sustainable cash flows, achieve profit growth and create value for shareholders.

During the 10 years since first listing in 2003, there have been three major acquisitions.

Elster
The largest and most recent of these was Elster Group SE, purchased for an enterprise value of £1.8 billion in August 2012. Elster is a world leading engineering business, established over 100 years ago, designing and making meters and gas utilisation products mainly for the energy market. The deal was funded by a fully underwritten Rights Issue, which raised £1.2 billion.

FKI
FKI plc was acquired in July 2008, for an enterprise value of approximately £1 billion. FKI was a major international diversified engineering group, including some businesses with very good market positions. Bridon, Brush, Crosby, Marelli, Truth, Harris and Acco were all part of FKI. However, now all but the first two of these businesses have been sold.

McKechnie and Dynacast
The McKechnie and Dynacast businesses were acquired, in May 2005, for £429 million. The various individual businesses that were acquired at this time were subsequently sold between May 2007 and June 2012 and created considerable shareholder returns.

Image: Brush engineers in Loughborough, UK, making final checks and setting the exciter outboard shaft seal.

Strategy in action

Buy Improve Sell

Improve

Melrose is actively involved within each of the businesses, to agree strategy and targets, drive operational improvements, invest in the businesses it purchases, oversee change management and ensure a focus on operational improvements.

£3 billion

of shareholder value created during the 10 years since first listing in 2003

Image: Reels of Bridon rope being lifted into position ready for delivery to the quayside at Bridon's new Neptune Quay facility, near Newcastle, UK.

Strategic Report
Governance
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Elster

A business with strong fundamentals, Elster fits the Melrose acquisition criteria. It is a high quality business with strong end markets which has the potential for significant development and improvement under Melrose management.

Elster serves markets with attractive long-term demand drivers such as growing global energy demand, energy efficiency and conservation and global gasification and is the global market leader in gas metering.

Melrose sees opportunities to improve Elster's performance through expanding margins and improving the quality of the business through investment and development. Following its acquisition in August 2012, a variety of restructuring projects have already been completed within the Elster businesses.

Dynacast/McKechnie

Melrose successfully steered Dynacast through the global slowdown and the cost savings made during the downturn were retained as sales recovered. Melrose invested fully in Dynacast to expand capacity, particularly in the Far East and to improve efficiency.

Dynacast also successfully completed some bolt on acquisitions. Under Melrose ownership, sales in all three of Dynacast's main geographic regions grew.

Within McKechnie, Melrose saw significant scope to invest in the business and improve its operational and financial performance by adopting a vigorous hands-on approach.

FKI

FKI had a weak balance sheet and borrowings which were due to be refinanced in the near term. The financing terms of Melrose's acquisition enabled the balance sheet issues to be resolved and a more appropriate group borrowing structure with lower overall debt leverage.

In addition to addressing the financial constraints facing FKI, Melrose identified a number of opportunities to improve the performance of FKI's businesses, principally through an increased focus on cash generation and profitability. Melrose continues to invest in existing facilities and new capacity within the remaining businesses in order to continue growing these businesses. Examples of recent investments include Bridon's new £20 million facility at Neptune Energy Park, Newcastle upon Tyne, UK, which became operational in November 2012 and a £30 million investment in a new production facility for Brush in China, which is due to commence production during 2015.

Since the acquisition of FKI, steps taken by Melrose have resulted in an increase in operating margin from 10% to 17%, which will result in substantial shareholder value being created.


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Elster Gas business review


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Elster Electricity business review


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Elster Water business review


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Energy business review


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Lifting business review

Strategy in action

Buy > Improve > **Sell**

Sell

At the appropriate time, each business will be sold, in order to return value that has been created to shareholders. The Directors are experienced in being able to recognise the appropriate time in the business cycle for disposal, in order to provide funding for acquisitions and return funds to investors.

£600 million

approximate return of capital to shareholders in February 2014

Image: McKechnie Plastic Components manufactures engineered plastic injection-moulded and extruded components and metal pressings for sectors including food and beverage packaging, automotive, construction and industrial. This business was sold by Melrose in June 2012, for £30.7 million.

FKI

In 2013, Melrose sold five FKI businesses: Truth, Marelli, Crosby, Acco and Harris, which made up approximately half of the FKI group. On average these produced a return on the original shareholder value of over three times.

The combined sale price of these five businesses was approximately £950 million. In accordance with the Melrose strategy, a return of capital was made to shareholders in February 2014 to the value of approximately £600 million. The balance of the net proceeds has been used to pay down Melrose's existing borrowings.

Dynacast/McKechnie

Following the acquisition of the McKechnie business in 2005, its Aerospace business was subsequently sold for £428 million in May 2007, two years after the initial acquisition. This resulted in acquisition debt being repaid and a return of capital to shareholders of £220 million.

During the six years of ownership of Dynacast, as a result of the improvement in its performance, Melrose quadrupled shareholders' investment, selling the business for an enterprise value of £377 million in July 2011. Consistent with Melrose strategy, following the disposal approximately £373 million was returned to shareholders in August 2011.

The final part of the McKechnie business, being McKechnie Plastic Components, was sold for £30.7 million in June 2012.

The sale of Dynacast means that nearly £1 billion in cash was generated from the original £429 million McKechnie and Dynacast acquisition.

Business review

Elster Gas

Quality and safety are Elster's first priority

Each Gas meter that leaves the production line is leakage tested. This test is carried out in the highly automated assembly line and is controlled by standardised touch screen panels.

www.elster.com

Total revenue
(Year ended 31 December 2013)

£688.9m

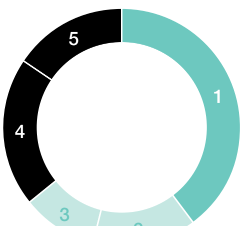
(2012: £236.9m[2])

Headline[1] operating profit
(Year ended 31 December 2013)

£152.4m

(2012: £46.7m[2])

Proportion of Group revenue
(Year ended 31 December 2013)



1. Elster Gas
2. Elster Electricity
3. Elster Water
4. Energy
5. Lifting

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) 2012 figures for Elster relate only to the four month period post-acquisition.

Elster Gas is a world leader in gas measurement and gas safety control equipment, supplying a global customer base in more than 110 countries. With one of the most extensive installed utility measurement bases in the world and more than 75 million gas metering devices deployed over the last 10 years alone, Elster Gas products enable customers to efficiently measure, manage and control natural gas resources across the complete gas value chain.

From its four lead plants in Europe and the US, coupled with sizeable subsidiary operations in China, Malaysia, Russia and Mexico, Elster Gas designs and manufactures gas meters and related products for residential, commercial and industrial customers. In addition, the Elster Gas control equipment range of products is used extensively by global customers in both the midstream and downstream gas market sectors.

Global revenues increased by over 5% in 2013*. There were strong performances from the integrated Gas metering station business, the new wholly owned Russian plant and the US "Perfection" connections business. Global demand for conventional gas meters remained robust, which compensated for further delays in the roll out of Smart meters in Europe. The control equipment market saw strong demand for residential heating products, although the process heat market remained flat as global steel production stagnated in 2013.

Operating profit increased significantly when compared to 2012, as the actions identified by the new management team at acquisition started to take effect. There has been a significant improvement within the North American businesses where operational improvements were implemented during the year. This included the closure of the in-house die casting operation at the Nebraska City facility.

Further good progress has also been made in rationalising the European manufacturing footprint, with production of a number of products previously manufactured in Western Europe transferred to the newly extended plant in Slovakia. In addition, three sites were closed in 2013 and this strategy will continue to be executed throughout 2014 and 2015.

* Including the period in 2012 prior to acquisition

Proven, trusted metering solutions for the gas industry

The introduction of new products and technologies requires a clear focus on productivity, value stream and quality; this includes both the metrology and safety aspects of gas measurement instruments. A key element of this is the complete traceability of all components over the entire value chain.

Capital investment to support Smart meter growth will be committed as required. These investments will primarily be at our Osnabruck and Stara Tura facilities and will be phased as the Smart rollout in Europe gains momentum.

75 million

Gas metering devices deployed over the last 10 years

In 2013, there were four major new product launches, focused primarily at the commercial and industrial sector, which is a key element in better positioning the business to exploit the projected long-term growth in its end markets. In Italy, Elster launched Themis Plus, the first commercial and industrial diaphragm meter in the world to measure, display and transmit billing data daily based on the standard volume of gas. Until now, in the gas industry these functions have been carried out by separate devices.

Elster are also involved in the Smart residential gas meter programmes in the UK. While overall progress in the UK has been slower than expected, a number of key milestones have recently been passed and there is an expectation that more significant progress will be made in 2014.

Outlook

Elster Gas end markets remain healthy with order input in 2013 similar to that achieved in 2012. When coupled with further planned operational and cost improvements, Elster Gas should enjoy another good performance in 2014.

Key strengths

With proven excellence in engineering, sales and operational capability and a “Best in Class” approach to everything it does, Elster Gas is well positioned to exploit growth opportunities and to succeed as technology shifts towards Smart meter solutions. In parallel, Elster Gas is expanding its global service network winning customer loyalty across the world.

Products

- Universal device for volume conversion, billing and system monitoring, with optional GSM/GPRS modem – used in diaphragm-turbine or rotary meters
- Rotary gas meter (RABO) for high measuring rates, compact dimensions and high accuracy
- Encal 3000 gas Chromotograph for Biogas analysis applications
- Chekker mechanical index for diaphragm gas meters with checksum generation to cross-check data for accurate billing

Semi-automatic production lines

The Elster Gas site at Lotte, Germany, features a highly automated production line with an annual capacity of 2 million gas meters. In future, Elster Gas’s global manufacturing network will be managed from Lotte. The implementation of the EU directive to replace the majority of existing meters with Smart meters by 2022 is expected to result in demand for up to 70 million Smart meters. The Lotte site is increasing its operational capacity to meet this demand.

70 million

Expected demand for Smart meters by 2022

Business review

Elster Electricity

Smart metering solutions

Through Elster Electricity's portfolio of innovative and trusted Smart metering solutions, Elster's products help utilities globally to improve energy efficiency through accurate measurement of consumption.

www.elster.com

Total revenue
(Year ended 31 December 2013)

£247.5m

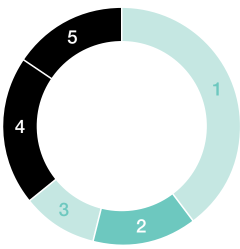
(2012: £106.8m[2])

Headline[1] operating profit
(Year ended 31 December 2013)

£21.5m

(2012: £12.6m[2])

Proportion of Group revenue
(Year ended 31 December 2013)



1. Elster Gas
2. Elster Electricity
3. Elster Water
4. Energy
5. Lifting

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) 2012 figures for Elster relate only to the four month period post-acquisition.

Elster Electricity is one of the largest international Smart metering solutions providers, supplying both traditional and Smart meter equipment, including applications for residential, commercial, industrial, transmission and distribution markets.

The product range includes distribution and control monitoring equipment, advanced Smart metering, demand response, networking and software solutions including MDC (Meter Data Collection), together with several other communication products and services. Elster has key production facilities located in Europe, North America and South America.

Elster Electricity operates in most global markets through its own offices or agents. In South America, the biggest markets are Brazil, Argentina and Colombia, where Elster Electricity has a market leading position selling stand-alone metering and advanced metering systems. Market leading technology has also been developed by Elster Electricity to prevent electricity theft through the accessing of power lines before it arrives at the meter; this solution also allows utility companies to pin-point where there may have been a potential breach of their electricity power lines. An increasing demand for similar solutions across the region will further strengthen Elster's position across South America.

North America is served through factories and sales offices, and offers Smart metering solutions to commercial, industrial and residential markets. Elster has deployed more than five million Smart Residential Meters over the last six years and thus has one of the largest installed meter bases. Most of the large utilities across the region have started deploying Smart meter solutions and it is expected that the future market demand will stabilise at the current level. Growth is expected in Mexico, where a regulatory framework is in place to accelerate further the deployment of Smart meters.

Europe and Africa have seen significant growth over the last year. In Europe the third Energy Package is calling for a European-wide roll out of Smart meter solutions through to 2022 and significant growth is expected in the coming years. Elster Electricity is well positioned with a broad range of products and solutions to capture its fair share of the market. The Middle East, led by United Arab Emirates, where a regulatory framework is now in place to upgrade the metering infrastructure, is also expected to experience further growth.

5 million

Elster Electricity has deployed more than 5 million Smart residential meters over the last six years

The main markets served in the Asia Pacific regions are Australia and New Zealand. These are managed through dedicated sales offices. As with other regions served, the regulatory framework is in place to upgrade the metering infrastructure.

Research and Development

Looking at the smallest detail to deliver the absolute best products to its clients is at the heart of every research and development engineer at Elster Electricity. Staying at the forefront of new and emerging technologies requires dedication and expert knowledge, which is shared throughout the business.

Key strengths

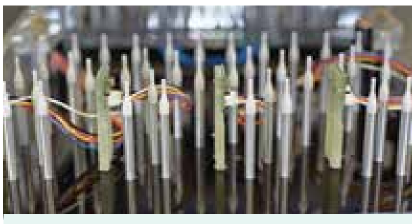
- End-to-end solution provider for the Smart Grid, covering the entire energy distribution value chain
- Delivering complete Smart Grid and Energy Management Solutions that drive energy efficiency, operational improvements and cost savings
- Driving interoperability and Open Standards through strategic collaboration with customers and partners
- Leading on Privacy Enhancement Technology and Security
- Reputation for quality, reliability, accuracy and innovation

Products

- Complete end-to-end product range, covering every aspect of the value chain
- Innovative, advanced and modular electricity meters for both residential, commercial and industrial markets
- Providing new concepts and technologies in data collection and communication
- Full range of services, delivering business solutions

Sales grew in Europe based on initial Smart metering pilot projects, which will pave the way for later full deployments across a number of key utilities within most served markets. Tender activities in the year give management confidence that further growth is to be expected in the coming years. The North American market saw a slight revenue decrease compared to the previous period in line with expectations following significant Smart metering deployment over the last few years.

Operating profit improved significantly as a result of consolidation activities started in 2012, both in North America and Europe.



Development centre for data concentrators

Maintaining our high quality standards is the true driving force behind Elster Electricity's development centres. Data concentrators are rigorously tested throughout every step of the development and production phase.

In 2013, production and assembly for North America was moved to Mexico; this also resulted in a streamlining of all other central functions across sales, development and product management in the US. In Europe a similar initiative commenced with key operational functions consolidated into Romania. At the same time development, product management and sales were strengthened across all markets served to support the future roll out of Smart metering solutions.

During 2014, management focus will be on further optimising processes across all functions, with investments in open Meter Data Collection solutions and partnerships with Smart Grid application providers.

Outlook

The global market will continue to see a shift from "traditional" metering to Smart meter solutions in 2014. Whilst management expect the North America market to stabilise at current sales volumes, other markets are expected to see growth, especially Europe, where the year will see further pilot projects and significant tender activities for deployment in 2015 and beyond.

Business review

Elster Water

V210 volumetric polymer water meter

The V210 volumetric polymer water meter offers long-life and high accuracy over a wide operating range with very low environmental impact for residential billing applications.

www.elster.com

elster
Vital Connections

Total revenue
(Year ended 31 December 2013)

£179.9m

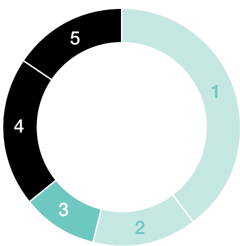
(2012: £67.4m[2])

Headline[1] operating profit
(Year ended 31 December 2013)

£23.0m

(2012: £1.4m[2])

Proportion of Group revenue
(Year ended 31 December 2013)



1. Elster Gas
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Elster Water designs, manufactures and provides a comprehensive range of water metering solutions including high accuracy mechanical meters, fully electronic meters and Smart metering solutions for residential, commercial and industrial sectors.

Operating profit substantially improved in 2013, when compared to 2012. This followed the completion of restructuring work that was started in 2012 and completed during the first half of 2013. The business ceased its manufacture of mechanical meters for the North American market which resulted in the closure of its large production site and the creation of a sales and distribution centre focusing on electronic residential and commercial and industrial products for the US market. In Europe, Elster Water further rationalised product lines and closed production sites with the consolidation of its production into its core manufacturing sites and further investment in local sales and distribution centres.

The move to higher accuracy meters and the discontinuation of low margin, low accuracy meters favourably impacted average meter selling prices. The Elster Water business continued to be very successful in reducing its overhead cost base through restructuring, which significantly contributed to the operating profit improvement. The business also benefited from a year-on-year reduction in working capital, with strong cash conversion.

Total revenue reduced 15% in 2013, when compared to 2012. This was due to the cessation of North American mechanical meter production from the end of the first half of 2013, the rationalisation of low accuracy, low margin products in Germany and Poland, the closure of sales offices, the completion of a large Australian contract in 2012 and a move to third party distribution in South America. Within Europe, the Middle East and the Asia Pacific regions, revenues were generally flat. Africa delivered good levels of growth.

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) 2012 figures for Elster relate only to the four month period post-acquisition.

New product launches in 2013 included the introduction of the polymer-bodied version of the S150 single jet meter range, reducing environmental impact and complying with future water quality requirements. A new generation of mechanical sub-meters was also launched, compatible with the latest data communication systems and an extension of the advanced electronic water meter range; this provides a full portfolio of residential products with improved battery life and polymer body technology in North America.

1 million+
polymer-bodied meters sold in 2013

The Commercial and Industrial high accuracy mechanical range of products have also been enhanced following the metrological approval of the H5000 meters, which offer customers improved flexibility and lower installation costs. Also within this market, the Emeris Log system has recently been launched offering advanced data logging, storage and management features with GPRS communications.

Globally, sales of polymer-bodied meters continue to grow with more than 1 million units sold in 2013. Elster's award winning polymer meters are helping customers achieve their CO_2 reduction targets as well as providing lead-free alternatives to traditional brass and bronze-bodied products.

Significant capital expenditure has been approved in the year to increase capacity at our Luton plant for polymer-bodied meter production and on radio module designs to support customer AMR/AMI product solutions.

Outlook

Following the completion of the restructuring programme in 2013, the business is well positioned for further growth. Focus will continue to be on high accuracy meters and advanced metering solutions, where good opportunities exist within core markets.

Key strengths

- Leading position in many of the world markets for water metering
- At the forefront of developing the next generation of water metering technology
- Leading innovative product development and technology choice for customers
- World leader in polymer and high accuracy metering technology
- Strong long-term customer relationships and strategic partnerships
- Reputation for quality, reliability, accuracy and innovation within the water industry

Products

- Broad range of class leading mechanical water meters pre-equipped for Smart metering
- Advanced electronic water meters for both residential and commercial customers
- Innovative Smart metering solutions and services

H5000 Woltmann water meter

With a measuring range of 2000:1, the H5000 offers customers a solution that provides accurate water measurement in support of both commercial billing and network applications. It also simplifies meter selection and helps to provide reliable connectivity for Smart metering and other telemetry devices.

H5000 uses the same body as Elster's industry leading H4000 Woltmann meter, providing simple, cost effective change-out of existing meter stocks.

Business review

Energy

State-of-the-art manufacturing equipment

Investment has been made in a new state-of-the-art plasma and oxy cutter at the Brush manufacturing facility in Loughborough, UK. This machine is used to manufacture heavy steel plates as part of the manufacturing process to produce stator frames and can cut through steel plate in excess of 100mm in thickness with a high degree of accuracy.

www.brush.eu

BRUSH

Total revenue

(Year ended 31 December 2013)

£350.1m

(2012: £371.6m)

Headline[1] operating profit

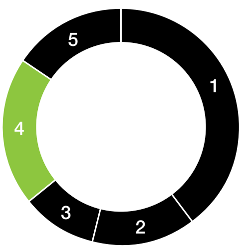
(Year ended 31 December 2013)

£73.1m

(2012: £77.9m)

Proportion of Group revenue

(Year ended 31 December 2013)



1. Elster Gas
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5. Lifting

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

Brush Turbogenerators ("Turbogenerators") is the world's largest independent manufacturer of electricity generating equipment for the power generation, industrial, oil & gas and offshore sectors.

From its four plants in the UK, Czech Republic, Netherlands and US it designs, manufactures and services turbogenerators, principally in the 10 MW to 250 MW range, for both gas and steam turbine applications and supplies a globally diverse customer base.

In addition, Brush designs and manufactures system and power transformers under the brand name Brush Transformers ("Transformers") and also produces a wide range of indoor and outdoor medium voltage AC/DC switchgear under the Hawker Siddeley Switchgear ("HSS") brand name. Harrington Generators International ("HGI") is a specialist UK based small generator manufacturer supplying the construction, military, telecoms and rail sectors.

Turbogenerators is a late cycle business and as such macro-economic factors typically impact new machine order intake with a lag of approximately 18 months. The global financial crisis has created delays in funding approvals and uncertainty in investment decisions affecting the order intake levels of Brush's Turbine OEM customers. These factors all had a subsequent impact on market levels during the first half of 2013 and are anticipated to do so in 2014.

£30m

Capital investment to produce generators primarily for the Chinese market

Whilst the turbogenerator market in general is believed to be circa 35% down, Brush managed to outperform the market with generator sales down just 17%. This performance has continued to include a higher than normal proportion of smaller machines, with unit sales just 4% down year-on-year.

Brush has continued its extensive capital investment programme across all of its units, focused on efficiency improvement, state of the art engineering machinery and production processes as well as product development. These benefits are delivering positive results.

Key strengths

- Expertise in the design and manufacture of an extensive range of high quality, 2 and 4 pole high voltage generators and electric motors
- Innovative design and developments
- Comprehensive and integrated aftermarket support tailored to meet customers' needs
- Switchgear and transformer products in service with all UK energy supply authorities
- Hydropower generators to produce environmentally green energy
- Generators and electric motors for marine applications
- Strategically located around the world

Products

- Quality products and service
- Power generation equipment from 10 MVA to 300 MVA
- Synchronous motors, induction motors, submersible and traction motors
- Power management and excitation systems
- Medium voltage AC and DC switchgear
- Power and system transformers
- Aftermarket servicing/support/ spares/lifetime extension

In addition to productivity-based investments, Brush is proceeding with the construction of a greenfield generator manufacturing plant near Shanghai, China. This £30 million capital investment will produce generators primarily for the Chinese market. The investment is being made in support of several of its international turbine customers, who are setting up manufacturing operations in China to address this significant, developing market. The factory has commenced construction and is expected to deliver its first generator during the last quarter of 2015. Brush has already signed a six year long-term purchase agreement with one of its major customers, Huadian GE Aero Gas Turbine Equipment Company LTD, for the supply of generators from the new factory. In the short term this will bring increased demand for the European factories, to satisfy the demand during the factory build and into the long term for key sub-component manufacture.

The turbogenerator plant in the Netherlands had an improved year, benefiting from restructuring that took place in 2012. The industrial market for these machines remains competitive and further efficiency restructuring during 2014 will position this business to compete more aggressively in the global market.

Investment in research and development continues at a strong pace in Brush with the introduction of uprated and new products across its product lines. One of these developments resulted in the delivery, in the last quarter of 2013, of a 200 MW turbogenerator for a project in Colombia. This is the largest air-cooled generator ever built by Brush. Existing generators in the range have had their output and performance significantly increased as a result of the research and development programmes put in place by Brush. This has led to new orders and the successful retention of existing business.

The growth and development of the aftermarket business remained a key priority, capitalising on the significant fleet of Brush machines in the market globally, many of which are of an age to benefit from lifetime extension activities, as well as opportunities to use aftermarket expertise on third party machines. During the year the aftermarket business was separated out into one global business unit within Brush, to focus on this growth; this also allowed workshop facilities and service engineers to be managed more efficiently as one global resource. Aftermarket contributed strongly to 2013, helping to mitigate a softer market for new machines, by launching various new service offerings.

The aftermarket workshop facility in the US benefited from significant capital investment, increasing its efficiency and capacity and thus its ability to address the key markets of the Americas, and was completed in time for the important autumn outage season. As a result of all these initiatives, aftermarket order intake was 34% above the previous year.

The HSS business had another strong year with sales 6% ahead and operating profit 37% ahead of the previous year. The business was able to benefit from both the restructuring programme in 2012 and the capital project to convert the factory layout to product flow lines. New product development remains a key priority for the HSS business, with further enhancements to the indoor AC Eclipse and AC/DC rail network products a major focus.

Revenue within the Transformers business has improved by 5% year-on-year as we enter the fourth of the current five year OFGEM (the UK Government's Office of Gas and Electricity Markets) cycle. The capital expenditure programme approved to reorganise the production process and value engineer the product is nearing completion; this has resulted in significant margin improvement and another strong year of growth for the Transformers business. Capital was approved to develop, design and manufacture high voltage 132kV transformers, to support our power distribution customers in the UK and open up increased export opportunities.

Outlook

The medium to long-term growth prospects in power generation and in particular the aero-derivative gas turbine market, where Brush has such a strong leading position, remain positive. This, coupled with the additional growth available by entering the Chinese market and continued operational improvements, means the business is well positioned to benefit. As stated above, the overall market dynamics remain challenging in the short term. However, this will continue to be mitigated by growth in the aftermarket business, aided by internal reorganisation, product development, continued investment and efficiency improvements.

Precise Engineering

Employees at the Brush facility in Loughborough, UK, carrying out the very precise operation of threading a balanced rotor through the completed stator winding of a BDAX 62-170ER Turbogenerator.

Business review

Lifting

Rope Closing machine at Bridon

Bridon's new Neptune Quay state-of-the-art manufacturing facility is capable of producing highly engineered ropes in package weights of 650 tonnes. The rope closing machine (pictured), which is the largest of its kind in existence, was constructed to a unique specification and will enable Bridon to produce engineered non-rotating multi-strand ropes for critical deepwater oil and gas applications.

www.bridon.com

BRIDON

Total revenue

(Year ended 31 December 2013)

£266.4m

(2012: £268.4m)

Headline[(1)] operating profit

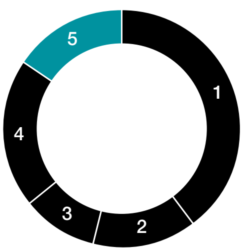
(Year ended 31 December 2013)

£34.1m

(2012: £35.8m)

Proportion of Group revenue

(Year ended 31 December 2013)



1. Elster Gas
2. Elster Electricity
3. Elster Water
4. Energy
5. Lifting

Bridon designs and manufactures a comprehensive range of lifting and stabilising solutions for applications in wire rope, fibre rope, steel wire and strand. The business services global customers in the oil & gas, mining, industrial, marine and infrastructure sectors.

Bridon's trading results were slightly lower in 2013 compared to 2012. Whilst demand in most of Bridon's core markets remained solid, reductions in expenditure in the mining industry impacted demand for mining ropes. This effect is likely to continue into 2014. Bridon primarily supplies ropes for use in existing mines rather than in the development of new mines and so should be well placed when the mining cycle starts to pick up. Bridon continued to focus on operational improvements across all its factories. Working capital control remained strong and profit to cash conversion improved significantly.

While the onshore rig count in the US and Canada was flat, Bridon saw increases for onshore oil & gas ropes, reflecting a growth in market share through new distribution channels. The offshore sector also improved, as global production companies invested in new ships and platforms. The expansion in exploration and drilling also offers Bridon the chance to compete for some significant contracts for bespoke anchor lines, deep water mooring systems and offshore crane ropes. The contract for the Stella deep water mooring system for offshore production was won during the year.

342 tonnes

Bridon's new factory in Newcastle has already produced the largest rope ever made in the UK. Weighing 342 tonnes, the rope has a length of 3.5km and is used as a hoist rope within offshore oil and gas vessels

The mining market was much weaker in 2013 compared to 2012 and this effect was felt strongly in the second half of the year. Falling commodity prices, reductions in capital expenditure by most of the larger mining companies, industrial relations issues in South Africa and lower order books for the mining machine OEMs combined to reduce demand significantly. Sales to China remained solid but demand in Russia and South Africa was subdued. In North America demand was also depressed.

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

Key strengths

- Comprehensive and competitive range of solutions in steel wire, wire and fibre rope and strand
- Technical expertise to support customers' demanding applications, training, installation and testing
- Advanced manufacturing facility on Neptune Quay in Newcastle, UK
- Expert technical and services support
- State-of-the-art technology centre in Doncaster, UK
- Strategically located around the world

Products

- Wire rope and strand
- Fibre rope and wire
- Specialist installations
- Inspection services

The commercial construction market in the Middle East demonstrated some signs of improvement in 2013, while crane rope sales showed moderate growth in North America, reflecting Bridon's premier position with OEMs. Demand for crane and mining ropes remained solid in China and demand for oil & gas and industrial ropes held up well in Asia. Bridon's Chinese operation based in Hangzhou continued to make progress, both in domestic and local export markets.

Laboratory at Bridon Technology Centre

Bridon's new pioneering state-of-the-art manufacturing facility at Neptune Quay, Newcastle, UK and the Bridon Technology Centre, Doncaster, UK demonstrate Bridon's commitment to global technology leadership. These significant investments in world leading facilities and expertise greatly enhance the organisation's ability to enable its customers to confidently face the toughest challenges of deepwater exploration and production.

During 2013, Bridon further developed its Bridon Academy. As part of its strategy of continuing to develop people capability, the Academy represents Bridon's strong commitment to invest in its workforce. The Academy offers the following learning solutions: management and leadership, personal effectiveness, technical and compliance. Bridon is adopting the principle of 70/20/10 learning – 70% on the job, 20% coaching and 10% formal training. Comprehensive trainer material has been developed and internal facilitators have been introduced to ensure that Bridon is self-sufficient with expertise being retained in-house.

During the year Bridon opened a technical and service office in Aberdeen, UK. In addition, a new warehouse and service centre in Macae, Brazil is now fully operational. This facility provides wire rope, termination and inspection services to rig operators in the fast growing Brazilian oil & gas market, as well as supporting import sales into Latin America.

Bridon has continued to upgrade its operations through targeted investment and by progress in programmes to drive quality, efficiency and health and safety. In both North America and Europe significant improvements were made throughout the factories in terms of waste reduction and efficiencies.

In keeping with Bridon's strategy to be the global technology leader for demanding rope applications, Bridon's new factory in Newcastle, UK, is now fully operational. This facility has already produced the largest rope ever made in the UK, which weighs 342 tonnes, has a length of 3.5km and is used as a hoist rope on offshore oil & gas vessels. The plant was profitable in its first year of operation. The Neptune Quay facility is capable of producing the world's largest and most complex ropes and is equipped to load them directly onto barges or vessels in the deep water port of the River Tyne for export. In addition, the Bridon Technology Centre was formally opened in February 2013 and has been fully operational since the middle of the year. The Technology Centre provides state of the art new product design, development and testing facilities and is already fully utilised.

In 2013, Bridon completed 19 product development and enhancement projects. For the oil & gas sector a low temperature polymer core was developed for the Bristar and Zebra ropes to allow the first high performance ropes to be used in arctic conditions at temperatures down to -50°C.

Three new high strength compacted crane ropes were developed for the industrial sector. Meanwhile in the mining sector, further enhancements were made to triangular strand and Tiger Blue shovel ropes to enhance rope performance and improve service life, as well as the development of a plastic impregnated rope to increase corrosion resistance in challenging operating conditions.

A fully synthetic trawl warp was launched for use in the marine sector, which offers significant fuel savings to the vessels through reduced drag in the water, while a synthetic mooring rope was developed for Liquefied Natural Gas vessels with superior stability and fatigue performance.

Major planned activities for 2014 include a spiral strand design enhancement involving larger diameter wires, a patented advanced sheathing technology with translucent inspection windows and a new slimline socket for structural and deep water mooring applications. Further planned projects include improving rope lubrication, extra-long deep shaft mining ropes, as well as continuing the work on hybrid ropes.

Outlook

Bridon expects demand in oil & gas to remain solid in 2014. The oil price and demand for oil, particularly in the emerging markets, should support activity levels in this sector. However, the outlook for mining remains very uncertain. Although the need for mines to begin replenishing their operating equipment should benefit Bridon, the timing of this is difficult to predict. Commercial construction and industrial activity appears to be picking up in the US and continuing in China, but still remains subdued in some developed countries.

Key performance indicators

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

Financial KPIs

Headline[1] diluted earnings per share

12.8p

2011	6.7p[5]
2012	8.8p (proforma[7] 9.4p)
2013	12.8p

Method of calculation
Group headline[1] profit after tax (excluding the profit on disposal of businesses) from continuing operations (as reported in this 2013 Annual Report), divided by the diluted weighted average number of Ordinary Shares in issue.

Strategic objective
To create consistent and long-term value for shareholders.

Buy Improve Sell

Dividend per share

7.75p

2011	7.4p[5]
2012	7.6p
2013	7.75p

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

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

Buy Improve Sell

Headline[1] operating profit

£274.9m

2011	£96.4m[4]
2012	£149.3m[4] (proforma[7] £228.5m)
2013	£274.9m

Method of calculation
Headline[1] operating profit for the continuing Group.

Strategic objective
To improve the profitability of Group operations.

Buy Improve Sell

Cash conversion

96%

2011	96%[4]
2012	85%[4]
2013	96%

Method of calculation
Percentage of headline[1] EBITDA[2] conversion to cash for continuing businesses, pre capital expenditure.

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

Buy Improve Sell

Net debt to headline[1] EBITDA[2]

0.5x

2011	1.4x[3]
2012	2.6x[6]
2013	0.5x

Method of calculation
Net debt at average exchange rates divided by headline[1] EBITDA[2] for existing businesses at each year end.

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

Buy Improve Sell

Interest cover

11.8x

2011	11.7x[3]
2012	9.1x
2013	11.8x

Method of calculation
Calculated as headline[1] EBITDA[2] as a multiple of interest payable on bank loans and overdrafts for the full Group during each year.

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

Buy Improve Sell

Headline[1] operating profit margin

15.9%

2011	15.7%[4]
2012	14.2%[4] (proforma[7] 12.8%)
2013	15.9%

Method of calculation
Headline[1] operating profit as a percentage of revenue, for the continuing Group.

Strategic objective
To improve the profitability of Group operations.

Buy Improve Sell

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Headline[1] operating profit before depreciation and amortisation of computer software and development costs.
(3) Calculated under previous banking covenants as required by banking facilities in place at that time.
(4) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations.
(5) Restated to include the effects of the 2 for 1 Rights Issue that concluded in August 2012, resulting in the issue of 844,418,024 new Ordinary Shares in the capital of Melrose PLC, raising approximately £1.2 billion in relation to the purchase of Elster.
(6) Based on 1 January 2012 to 31 December 2012 EBITDA[2] for all continuing businesses. Elster pre acquisition EBITDA[2] has been adjusted to estimate the impact of the transition to Melrose accounting policies under IFRS.
(7) Assuming a full year's ownership of Elster in 2012, as explained in the Finance Director's review.

Non-financial KPIs

Health and safety

Method of calculation
A variety of different health and safety KPIs are used by each of the businesses within the Group, which are specific to the exact nature of the business and its associated risks.

Strategic objective
The Company has an objective to stop all preventable accidents.

Performance
As each business uses its own Health and Safety KPIs, performance in 2013 when compared to 2012 will vary. Further information in relation to the various health and safety initiatives undertaken by the Group's businesses during 2013 can be found within the Corporate Social Responsibility section of this Strategic Report on page 51.

Buy Improve Sell

Environmental and energy usage

Method of calculation
Environmental KPIs used within the Group and their method of calculation vary by business unit, which depends on the specific nature of the operation. A range of environmental measures are used, including energy consumption, CO_2 emissions, water consumption, water contamination and waste disposal.

Strategic objective
Each of the Group's businesses is committed to ensuring that their operations have a minimum adverse effect on the environment and that ongoing reductions are achieved, where practicable. Particular relevance has been placed on the reduction of energy consumption and CO_2 emissions.

Performance
Investment was provided by the Group for several environmental improvement initiatives during 2013. The Group is now required to disclose greenhouse gas emissions data in relation to the 2013 financial year. See the Corporate Social Responsibility section of this Strategic Report on pages 52 and 53.

Buy Improve Sell

Other non-financial KPIs

Method of calculation
Due to the diverse nature of the Group each business uses a range of its own specific non-financial KPIs, which are used to drive business performance and assist in managing risk. This helps to ensure that the KPIs used are relevant to each business and take into account specific operational and reporting requirements. Such KPIs cover operational, quality, commercial and human resource measures. Further information regarding some of the Group's recent initiatives can be found within the Corporate Social Responsibility section of this Strategic Report on pages 48 to 53.

Buy Improve Sell

Risk management

Melrose operates in a variety of sectors and countries and is exposed to a wide range of risks and uncertainties from a strategic, operational, compliance and financial perspective.

The Board has approved a formalised but pragmatic Group risk management framework.

Identifying risks
The identification and management of risks across the Group are integral to the Group's strategic objectives. They are vital in helping protect the Group's businesses, its people and its reputation.

View our Risks and uncertainties

View our Governance overview

Risk management framework

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

The Board is ultimately responsible for the Group's overall system of internal control and for reviewing its effectiveness, while the role of management at a business level is to implement the policies adopted by the Board.

The Audit Committee also monitors the effectiveness of the internal control processes implemented across the Group, through a review of the key findings presented by the external and internal auditors and discussions with senior management.

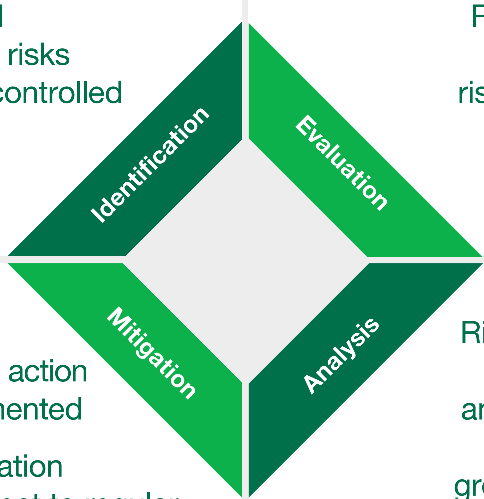
The Board is responsible for considering Audit Committee recommendations and ensuring implementation by management of those recommendations it deems appropriate for the business.

The Group operates on a de-centralised basis and the Board has established an organisational structure with clear reporting procedures, lines of responsibility and delegated authority, as depicted in the diagram opposite.

A summary of the principal risks and uncertainties that could impact on the Group's performance is shown on pages 36 to 39. Further information detailing the internal control and risk management policies and procedures operated within the Group are shown on pages 64 and 65 of the Corporate Governance report.

Identification
Financial and non-financial risks recorded in controlled risk registers

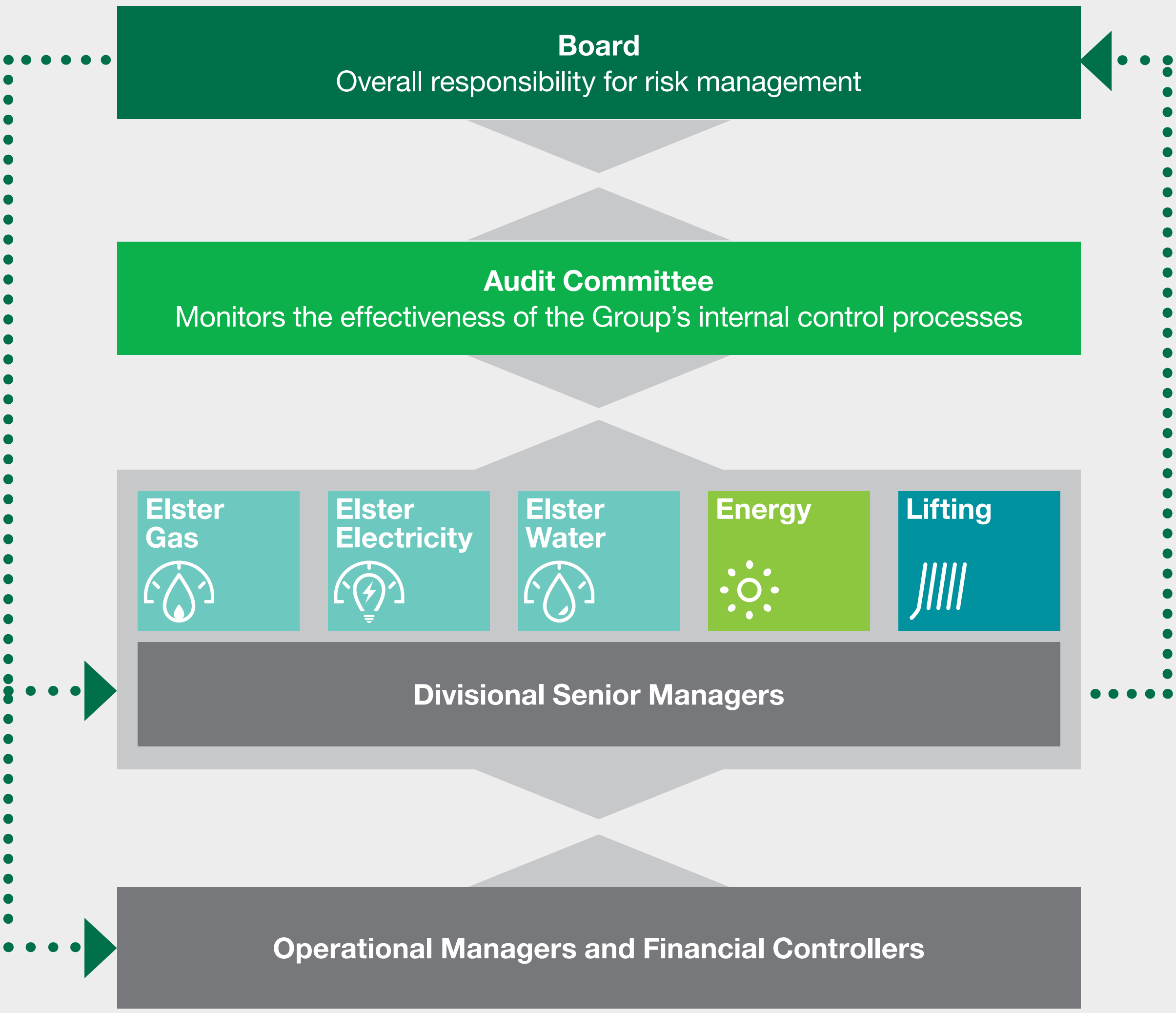
Evaluation
Risk exposure reviewed and risks prioritised



Mitigation
Risk owners identified and action plans implemented

Robust mitigation strategy subject to regular and rigorous review

Analysis
Risks analysed for impact and probability to determine gross exposure


Board
Overall responsibility for risk management
Audit Committee
Monitors the effectiveness of the Group's internal control processes
Elster Gas
Elster Electricity
Elster Water
Energy
Lifting
Divisional Senior Managers
Operational Managers and Financial Controllers

Risks and uncertainties

The table below lists the principal risks and uncertainties that may affect the Group and highlights the mitigating actions that are being taken and the opportunities that the Group aims to exploit. The content of the table, however, is not intended to be an exhaustive list of all the risks and uncertainties that may arise.

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

Key risk	Description and impact
Strategic risk	
Acquisition of new businesses and improvement strategies	As per the Group's strategy to buy and improve good underperforming manufacturing businesses, there is a risk that the Group will not succeed in driving strategic operational improvements to generate value post acquisition or in integrating the newly acquired business within the Melrose Group. In making acquisitions, there is a risk of unforeseen liabilities being discovered which are not known at the time of the due diligence process but which arose in the business before it was acquired. The success of the Group's acquisition strategy depends on identifying targets, obtaining authorisations and having the necessary financing. Even if an acquisition is completed, the acquired products and technologies may not be successful or may require significantly greater resources and investment than anticipated. The Group may not be able to integrate the businesses that it acquires. If integration is unsuccessful, anticipated benefits are not realised or trading by acquired businesses falls below expectations, it may be necessary to impair the carrying value of these assets. The Group's return on capital employed may fall if acquisition hurdle rates are not met. The Group's financial performance may suffer from goodwill or other acquisition-related impairment charges, or from the identification of additional liabilities not known at the time of the acquisition.
Timing of disposals	In line with our strategy and depending where the Group is within the buy, improve and sell strategic cycle, the expected timing of disposal of companies is considered as a principal risk which could have a material impact on the Group strategy. Further, due to the Group's global operations, there may be a significant impact on timing of disposal due to political and macroeconomic factors. Depending on the timings of disposals and nature of companies' operations there may be long-term liabilities which could be retained by the Group. Insufficient allowance for indemnities and warranties given at disposal may also affect the Group's financial position.
Operational risk	
Economic and political risk	The Group operates, through manufacturing and/or sales facilities, in over 50 countries and is affected by global economic conditions particularly in the US and Europe. Businesses are also affected by government spending priorities and the willingness of governments to commit substantial resources. Current global economic and financial market conditions and the potential for a significant and prolonged global recession, may materially and adversely affect the Group's operational performance, financial condition and could have significant impact on timing of acquisitions and disposals. A recession may also materially affect customers, suppliers and other parties with which the Group does business. Adverse economic and financial market conditions may cause customers to terminate existing orders, to reduce their purchases from the Group, or to be unable to meet their obligations to pay outstanding debts to the Group. These market conditions may also cause our suppliers to be unable to meet their commitments to the Group or to change the credit terms they extend to Group businesses.
Loss of key management	The success of the Group is built upon strong management teams. As a result, the loss of key personnel can have a significant impact on performance, at least for a time. The loss of key personnel or the failure to plan adequately for succession or develop new talent may impact the reputation of the Group, or lead to a disruption in the leadership of the business. Competition for personnel is intense and the Group may not be successful in attracting or retaining qualified personnel, particularly engineering professionals. The loss of key employees, the Group's inability to attract new and adequately trained employees, or a delay in hiring key personnel, could seriously harm the Group's business. Over time, the Group's competitive advantage is defined by the quality of its people; should the Group fail to attract, develop and retain key talent, in time the competitive advantage will erode, leading to weaker growth potential or returns in particular with significant restructuring activities undertaken to improve the acquired businesses.

Mitigation	Strategic priorities
• Structured and focused due diligence undertaken. • Focus on acquisition targets that have strong headline fundamentals – high quality products, leading market share but are underperforming their potential and ability to generate sustainable cash flows and profit growth. • Hands-on role taken by Directors and other senior employees of the Group. Development of strategic plans, restructuring opportunities, capital expenditure and working capital management.	Buy, Improve
• Directors are experienced in judging and regularly reviewing the appropriate time in a business cycle for disposal to realise maximum value for shareholders. • Each disposal is assessed on its merits, along with the extent to which indemnities, warranties and guarantees are provided.	Sell
• Diverse range of companies operating within the Group, within a variety of different industries and countries, which reduces macro-economic and political risks. • Regular monitoring of order books and other leading indicators, to ensure the Group and each of its businesses can respond quickly to any adverse trading conditions. This includes the identification of cost reduction and efficiency measures.	Buy, Improve, Sell
• Succession planning within the Group and its various businesses is co-ordinated via the Nomination Committee in conjunction with the Board and includes all Directors and senior employees. • The Company recognises that, as with most businesses, particularly those operating within a technical field, it is dependent on Directors and employees with particular managerial, engineering, or technical skills. Appropriate remuneration packages and long-term incentive arrangements are offered in an effort to retain such individuals.	Improve

Risks and uncertainties
continued

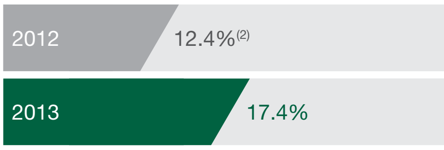
Key risk	Description and impact
Compliance and ethical risk	
Legal, regulatory and intellectual property ("IP")	There is a risk that the Group may not always be in complete compliance with laws, regulations or permits, for example concerning environmental or safety requirements. The Group could be held responsible for liabilities and consequences arising from past or future environmental damage, including potentially significant remedial costs. There can also be no assurance that any provisions for expected environmental liabilities and remediation costs will adequately cover these liabilities or costs. The Group operates in highly regulated sectors. In addition, new legislation, regulations or certification requirements may require additional expense, restrict commercial flexibility and business strategies or introduce additional liabilities for the Company or Directors. Should a regulator's approval process take a particularly long time, our products may be delayed in getting to market, which could lead to a loss of revenue or benefit a competitor with a similar product. Failure to comply with certain regulations may result in significant financial penalties, debarment from government contracts and/or reputational damage and impact our business strategy.
Financial risk	
Foreign exchange rate	Due to the global nature of operations and volatility in the foreign exchange market, exchange rate fluctuations have and could continue to have a material impact on the reported results. The Group is exposed to three types of currency risk: transaction risk, translation risk and risk when a business that is predominantly based in a foreign currency is sold. The Group's reported results will fluctuate as average exchange rates change. The Group's reported net assets will fluctuate as the year-end exchange rate changes.
Pensions	As at 31 December 2013, the Group has legacy defined benefit pension plans, with aggregate net liabilities of £219.3 million on an accounting basis. Changes in discount rates, inflation, asset values or mortality assumptions could lead to a materially higher deficit. For example, the cost of a buyout on a discontinued basis uses more conservative assumptions and is likely to be significantly higher than the accounting deficit. In addition, there is a risk that the plan's assets, such as investments in equity and debt securities, will not be sufficient to cover the value of those benefits. The implications of a higher pension deficit include a direct impact on valuation, credit rating and potential additional funding requirements at subsequent triennial reviews. In the event of a major disposal, that generates significant cash proceeds which are returned to the shareholders, the Group may be required to make additional cash payments to the plans or provide additional security.
Liquidity	The Group has £341.2 million of debt as at 31 December 2013. The ability to refinance its borrowings in the bank or capital markets is dependent on market conditions and the proper functioning of financial markets. Furthermore, in line with the Group's strategy, investment is made in the businesses (capital expenditure in excess of depreciation) and there is a requirement to assess liquidity and headroom when new businesses are acquired and the Group may be unable to refinance its debt when it falls due.

Mitigation	Strategic priorities
• Regular monitoring of legal and regulatory matters at both a Group and business unit level. Consultation with external advisers where necessary. • Development of suitable corporate governance and compliance procedures both at a Group and business unit level. • Protection of rights over trademarks, copyright, patents, designs and trade secrets, where necessary.	Buy Improve Sell
• The Group policy is to protect against the majority of foreign exchange risk which affects cash, via financial instruments such as hedging. • Protection against specific transaction risks is taken by the Board on a case-by-case basis.	Buy Improve Sell
• Each of the Group's key funded pension plans are now closed to new entrants and future service accrual. Long-term funding arrangements are agreed with each of these plans and reviewed following completion of actuarial valuations. Other pension plans exist within the Group but these are largely unfunded plans whereby funding plans are not required and benefit obligations are paid when due. • Active management of pension plan assets.	Buy Improve Sell
• Ensure the Company has adequate resources to meet its liabilities by reviewing its rolling forecasts, ensuring there is sufficient headroom within committed bank facilities to cope with market volatility.	Buy Improve Sell

Finance Director's review

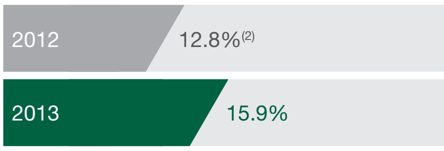
Elster – headline[1] operating profit margin

17.4%



Group – headline[1] operating profit margin

15.9%



(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Proforma results adjusted for a full year of ownership for Elster in 2012, as explained on page 41.

The year to 31 December 2013 included the disposal of five businesses which in the prior year comprised 22% of annualised Group revenue and 28% of annualised Group headline operating profit. Consequently, in accordance with IFRS 5, the trading results of these businesses have been shown as discontinued in both years.

Split of divisions

The continuing operations consist of the FKI businesses, containing the divisions of Energy and Lifting, and the Elster businesses, containing the divisions of Gas, Electricity and Water.

The discontinued operations include the results, up until the date of disposal, of the Marelli business, previously shown within the Energy division, the Crosby and Acco businesses, previously shown within the Lifting division and the Truth and Harris businesses, previously shown within the Other Industrial division. In addition, the discontinued operations in 2012 include the results of the MPC business, previously shown within the Other Industrial division.

Group trading results – continuing operations

To help understand the results of the continuing operations the term "headline" has been used. This refers to results calculated before exceptional costs, exceptional income and intangible asset amortisation as this is considered by the Melrose Board to be the best measure of performance.

For the year ended 31 December 2013 the Group achieved revenue from continuing operations of £1,732.8 million (2012: £1,051.1 million). Headline operating profit in the year ended 31 December 2013 was £274.9 million (2012: £149.3 million) and the headline operating profit margin (defined as the percentage of headline operating profit to revenue) increased from 14.2% in 2012 to 15.9% in 2013. The results for 2013 are not directly comparable to 2012 as the prior year performance includes only four months of Elster trading after its acquisition on 23 August 2012. This is explained in more detail later in this report.

After exceptional costs, exceptional income and intangible asset amortisation, Group operating profit was £219.9 million (2012: £54.0 million).

"Headline operating profit in the year ended 31 December 2013 was £274.9 million. Headline operating profit margin increased from 14.2% in 2012 to 15.9% in 2013."

Trading results by division – continuing operations

A split of revenue, headline operating profit and headline operating profit margin for 2013 and 2012 is as follows:

	2013 Revenue £m	2013 Headline operating profit/(loss) £m	2013 Headline operating profit margin %	2012 Revenue £m	2012 Headline operating profit/(loss) £m	2012 Headline operating profit margin %
Elster	**1,116.3**	**194.2**	**17.4**	411.1	57.8	14.1
FKI	**616.5**	**107.2**	**17.4**	640.0	113.7	17.8
Central – corporate	**–**	**(13.5)**	**n/a**	–	(13.7)	n/a
Central – LTIPs(1)	**–**	**(13.0)**	**n/a**	–	(8.5)	n/a
Continuing Group	**1,732.8**	**274.9**	**15.9**	1,051.1	149.3	14.2

(1) Long Term Incentive Plans.

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

Central costs comprise £13.5 million (2012: £13.7 million) of Melrose corporate costs and a Long Term Incentive Plan ("LTIP") accrual of £13.0 million (2012: £8.5 million). The LTIP accrual includes an amount of £4.0 million in respect of the Melrose share-based Incentive Plan (2012: £3.5 million), and a charge of £9.0 million (2012: £5.0 million) for the cash-based divisional management incentive plans.

Proforma Group trading results

The results for 2013 are not directly comparable to 2012 as the prior year performance includes only four months of Elster trading after its acquisition on 23 August 2012. A more appropriate comparative to use for 2012 would include a full year's ownership of Elster in 2012, along with an allowance for the finance costs of the acquisition and a consistent number of shares in both years, at constant currency. The pre-ownership results of Elster were prepared under previous accounting policies and US GAAP. On this basis the unaudited proforma headline results would be:

	2013 Actual £m	2012 Proforma £m	Proforma growth %
Revenue			
Elster(1)	1,116.3	1,146.6	-3%
FKI(2)	616.5	645.3	-4%
Continuing Group	**1,732.8**	**1,791.9**	**-3%**
Headline operating profit			
Elster(1)	194.2	141.6	+37%
FKI(2)	107.2	114.1	-6%
Continuing Group(3)	**274.9**	**228.5**	**+20%**
Headline operating margin			
Elster	17.4%	12.4%	+5.0ppts
FKI	17.4%	17.7%	-0.3ppts
Continuing Group	**15.9%**	**12.8%**	**+3.1ppts**
Headline diluted EPS	**12.8p**	**9.4p**	**+36%**

(1) Elster revenue as reported in 2012 of £411.1 million plus £717.8 million to include the pre-ownership revenue and also £17.7 million to show at constant currency. Elster headline operating profit as reported in 2012 of £57.8 million plus £81.5 million to include the pre-ownership profits and also £2.3 million to show at constant currency.

(2) FKI revenue as reported in 2012 of £640.0 million plus £5.3 million to show at constant currency. FKI headline operating profit as reported in 2012 of £113.7 million plus £0.4 million to show at constant currency.

(3) Includes the Melrose central costs and an additional divisional LTIP charge of £5 million in 2012 as if Elster were owned for the full year.

Finance Director's review
continued

Finance costs and income
The net headline finance cost in 2013 was £48.8 million (2012: £31.4 million).

In 2013 the Group had a blended interest rate of 3.1% (2012: 2.7%). The increase in the absolute value of finance costs results from the full year effect of the higher net debt following the acquisition of Elster on 23 August 2012.

Net interest on external bank loans, overdrafts and cash balances was £34.4 million (2012: £21.9 million). Melrose uses interest rate swaps to fix the majority of the interest rate exposure on its drawn debt. More detail on these swaps is given in the finance cost risk management section of this review.

Also included in the net headline finance cost is a £4.7 million (2012: £2.4 million) amortisation charge relating to the arrangement costs of raising the bank facility, a net interest cost on pension liabilities of £9.0 million (2012: £6.2 million) and a charge for the unwinding of discounts on long-term provisions of £0.7 million (2012: £0.9 million).

The introduction of IAS 19 (revised): "Employee benefits" in 2013 has resulted in the pension interest charge being £5.1 million higher than it would have been under the previous accounting standard and increased the 2012 pension interest charge by £2.7 million.

Tax
The headline Income Statement tax rate was 27% (2012: 27%). The headline tax rate was expected to increase in 2013, where a full year of 2013 Elster results are included, but the disposal of FKI businesses with tax rates higher than the Group average offset this expected increase.

The reason that the headline tax rate for the Group is lower than the weighted blend of the statutory tax rates around the world is the recognition of deferred tax assets that were not previously thought to be recoverable. There is also a small benefit from the release of provisions previously held against potential overseas tax audits which have been successfully cleared for less cost than expected.

The tax rate after exceptional items and intangible asset amortisation is 29% (2012: 210%). The main reason for the higher rate after exceptional items than the headline rate is the £8.1 million exceptional tax charge on Group reorganisations against which there is no income.

The cash tax rate on headline continuing operations of 21% (2012: 24%) is again below the headline Income Statement rate due to the benefit arising from the utilisation of pre-existing Melrose Group tax losses and other deferred tax assets. The rate includes £9 million paid during the year in settlement of tax audits of the Elster businesses relating to tax periods ended prior to our ownership of Elster.

The deferred tax liability of £287.4 million (2012: £347.2 million) in respect of intangible assets is not expected to represent a future cash tax payment and will unwind as the brand names and customer relationships are amortised.

The total amount of tax losses in the Group has decreased during the year due to their utilisation against taxable profits and also as a result of some forfeiture on Group reorganisations. The total gross tax losses within the Group are shown below:

Tax losses	Recognised £m	Unrecognised £m	Total £m
UK	22.5	124.8	147.3
North America	0.3	3.1	3.4
Rest of World	19.2	47.2	66.4
Total 2013	**42.0**	**175.1**	**217.1**
Total 2012	35.5	215.1	250.6

Exceptional items and amortisation of intangible assets
In the year ended 31 December 2013 the Group incurred exceptional operating costs of £19.3 million (2012: £70.8 million). These include £14.1 million of restructuring costs in Elster, which are expected to deliver further cost savings in the future, and other restructuring costs of £4.7 million which occurred in FKI. The Group benefited from exceptional income of £28.9 million (2012: £7.0 million) mainly as a result of success in resolving a number of warranty issues inherited with the acquisition of Elster for less expense than expected. There were no exceptional finance costs in the year (2012: £16.3 million).

In addition, intangible asset amortisation of £64.6 million (2012: £31.5 million) was charged. A net tax credit on these exceptional costs, exceptional income and intangible asset amortisation, of £18.9 million (2012: £24.1 million), and an exceptional tax charge of £8.1 million (2012: £5.8 million) has been taken in the year.

Overall, the net exceptional items and intangible asset amortisation, after tax, shows a net expense of £44.2 million (2012: £93.3 million).

Fair value exercise
Upon the acquisition of Elster, on 23 August 2012, in accordance with IFRS 3: "Business Combinations", an extensive review of the Elster assets, liabilities and accounting policies commenced and this was completed by the half year in 2013. Certain fair value adjustments were identified in the first half of 2013 which increased goodwill by £29.3 million with corresponding increases to provisions of £32.9 million, deferred tax assets of £5.2 million, and other Balance Sheet items of £1.6 million. The 2012 Balance Sheet was restated for these items in accordance with IFRS 3.

Earnings per share (EPS) and number of shares in issue
In accordance with IAS 33, two sets of basic and diluted EPS numbers are disclosed on the face of the Income Statement, one for continuing operations and one that also includes discontinued operations. In the year ended 31 December 2013, the diluted EPS for continuing operations was 9.3p (2012: loss of 0.9p). For continuing and discontinued operations the diluted EPS for 2013 was 43.7p (2012: 4.1p).

Headline continuing diluted EPS for 2013 was 12.8p (2012: 8.8p). However, to reflect the underlying earnings performance, a proforma basis has been used for the continuing results in 2012. This assumes that Elster had been owned for the full year in 2012 (unaudited), with an allowance for the finance cost of the acquisition for the period Elster was not owned, and uses the same number of shares in both years, at constant currency. On this basis, the proforma headline continuing diluted EPS growth is 36%.

Disposals during the year

On 22 November 2013 the disposal of Crosby and Acco to a newly incorporated company, controlled by affiliates of Kohlberg Kravis Roberts & Co. L.P, was completed for a gross cash consideration of £632.6 million. The profit on disposal of these two businesses was £256.6 million after costs of £13.0 million.

Three other businesses were disposed in 2013, Truth, Marelli and Harris. The gross disposal proceeds for these three businesses was £317.8 million with related costs of £12.0 million, realising a profit on disposal of £144.1 million.

These five businesses were all acquired with FKI in July 2008 and contributed £392.8 million of revenue and £79.5 million of headline operating profit in 2013, shown within discontinued operations. During the five years of Melrose ownership, the shareholder value in these businesses increased by approximately 3.5 times.

At 31 December 2013, £1.7 billion of cash had been generated from trading and disposal proceeds in respect of the FKI acquisition so far, which compares to the acquisition cost of just under £1 billion, even though two large businesses, namely Brush and Bridon, remain in the Melrose Group.

Cash generation and management

The cash generation performance in 2013 and the movement in net debt are summarised as follows:

	2013 £m
Headline operating profit	274.9
Depreciation and amortisation of computer software and development costs	40.7
Working capital movement	(13.5)
Headline operating cash flow (pre capex)	**302.1**
Headline EBITDA conversion to cash (pre capex) %	**96%**
Net capital expenditure	(44.6)
Net interest and net tax paid	(78.4)
Defined benefit pension contributions	(32.7)
Other (including discontinued operations)	(37.1)
Cash inflow from trading (after all costs including tax)	**109.3**

The conversion of headline operating profit (before depreciation and amortisation) into cash was 96% in 2013 (2012: 85%). This strong level of cash generation was consistent across both the FKI and Elster businesses.

The movement in net debt in the year is reconciled as follows:

	2013 £m
Opening net debt	**(997.7)**
Cash inflow from trading (after all costs including tax)	109.3
Net cash flow from disposals(1)	888.2
Amounts paid to shareholders	(98.1)
Foreign exchange and other	(42.5)
Closing net debt	**(140.8)**

(1) Gross disposal proceeds of £950.4 million, less costs of £25.0 million and cash disposed of £37.2 million.

The Balance Sheet leverage (calculated as net debt divided by continuing headline operating profit before depreciation and amortisation) was approximately 0.4x at 31 December 2013 (31 December 2012: 2.6x). Net debt increased in February 2014 following the return of capital and, allowing for this, the proforma leverage at 31 December 2013 would have been 2.3x which is considered to be a better measure of the underlying leverage level.

Capital expenditure

By business, the net capital expenditure and depreciation in the year was as follows:

	Elster	FKI	Central	Total
Net capital expenditure £m	18.8	25.1	0.7	**44.6**
Depreciation £m	26.6	13.4	0.7	**40.7**
Net capital expenditure to depreciation ratio (full year)	0.7x	1.9x	1.0x	**1.1x**
Melrose nine year (2005-2013) average annual multiple				**1.3x**

The net capital spend to depreciation ratio was 1.1x in 2013 (2012: 1.7x). Within this, the ratio in the FKI businesses was 1.9x which included the commencement of the significant investment in a new factory in the Shanghai area of China. This is discussed further in the Chief Executive's review. The net capital spend to depreciation ratio in Elster was 0.7x, while the Board assessed strategies for these businesses. Elster is inherently a less capital intensive business than FKI.

Assets and liabilities

The summary Melrose Group assets and liabilities are shown below:

	2013 £m	2012 £m
Fixed assets (including computer software and development costs)	**265.3**	345.1
Intangible assets	**985.9**	1,156.3
Goodwill	**1,602.0**	1,866.2
Net working capital	**126.9**	217.0
Retirement benefit obligations	**(219.3)**	(261.3)
Provisions	**(177.8)**	(287.2)
Deferred tax and current tax	**(272.9)**	(301.9)
Other(1)	**18.6**	5.2
Total	**2,328.7**	2,739.4

(1) Includes interests in joint ventures and derivative instruments.

Finance Director's review
continued

These assets and liabilities are funded by:

	2013 £m	2012 £m
Net debt	**(140.8)**	(997.7)
Equity	**(2,187.9)**	(1,741.7)
Total	**(2,328.7)**	(2,739.4)

The movements in net debt and equity primarily relate to the five disposals in the year.

Goodwill, intangible assets and impairment review

The total value of goodwill as at 31 December 2013 was £1,602.0 million (31 December 2012: £1,866.2 million) and intangible assets was £985.9 million (31 December 2012: £1,156.3 million). These balances reduced as a result of the disposals in the year and the split is as follows:

	Elster £m	FKI £m	Total £m
Goodwill	1,308.4	293.6	1,602.0
Intangible assets	804.9	181.0	985.9
Deferred tax on intangible assets	(247.6)	(39.8)	(287.4)
Other net assets	(17.2)	168.5	151.3
Total carrying value	**1,848.5**	**603.3**	**2,451.8**

The goodwill and intangible assets have been tested for impairment as at 31 December 2013. The Board is comfortable that no impairment is required.

Provisions

Total provisions at 31 December 2013 were £177.8 million (31 December 2012: £287.2 million). The significant decrease year on year related to the cash spend on restructuring provisions that were mainly set up in 2012 following the acquisition of Elster, along with a conscious decision to resolve certain warranty liabilities inherited with Elster. In total, £98.2 million of cash was spent on provisions of which £72.2 million related to restructuring and warranty. The following table details the movement in provisions in the year:

	Total £m
At 31 December 2012	**287.2**
Cash spent on the utilisation of provisions	(98.2)
Non-cash utilisation of provisions	(7.2)
Net release to exceptional items	(3.7)
Net charge to headline operating profit	7.9
Disposal of businesses	(9.8)
Other (including foreign exchange)	1.6
At 31 December 2013	**177.8**

The net release to exceptional items of £3.7 million includes £26.9 million of provisions originally booked as fair value adjustments but no longer required due to their successful resolution, offset by £23.2 million of exceptional costs in the year, mainly relating to further restructuring costs at Elster.

The significant reduction in provisions has not distorted headline operating profit because there was a net charge to headline operating profit in the year of £7.9 million.

Pensions

The Group has a number of defined benefit and defined contribution pension plans.

On 1 January 2013, IAS 19 (revised): "Employee benefits" was adopted which increased the pre-tax pension expense in the year by £7.9 million (2012: £4.8 million).

In July 2013, the FKI UK Pension Plan was demerged into three pension plans, resulting in two new pension plans being set up, namely, the Brush Group (2013) Pension Plan and the Bridon Group (2013) Pension Plan. These three defined benefit plans are now run independently and are closed to new members and to current members' future service.

Despite the demerger in July 2013, the FKI UK Pension Plan remains the most significant pension plan in the Group with an accounting net deficit of £70.8 million at 31 December 2013. Plan assets were £452.5 million and plan liabilities were £523.3 million.

At 31 December 2013, the three FKI UK plans had an accounting net deficit of £109.2 million (31 December 2012: £100.0 million). This was net of plan assets at 31 December 2013 of £671.4 million (31 December 2012: £630.2 million) and liabilities of £780.6 million (31 December 2012: £730.2 million).

The other UK defined benefit pension plan of significant size in the Group, namely the McKechnie UK Pension Plan, had a deficit of £0.5 million at 31 December 2013 (31 December 2012: £8.2 million). This plan had assets at 31 December 2013 of £182.5 million (31 December 2012: £170.8 million) and liabilities of £183.0 million (31 December 2012: £179.0 million). The McKechnie UK Pension Plan is closed both to new members and current members' future service.

In addition, a US defined benefit plan for FKI exists. At 31 December 2013, the FKI US plan had assets of £177.6 million (31 December 2012: £198.3 million), liabilities of £183.0 million (31 December 2012: £228.4 million) and consequently a net deficit of £5.4 million (31 December 2012: £30.1 million). This plan is closed to new members and to current members' future service.

Elster has a number of defined benefit plans, most of which are unfunded, with a net accounting deficit at 31 December 2013 of £101.5 million (31 December 2012: £115.2 million). Within this, 82%, £83.6 million, (31 December 2012: 78%) related to unfunded German defined benefit plans and early retirement programmes.

The assumptions used to calculate the IAS 19 deficit for all pension plans within the Melrose Group are considered carefully by the Board of Directors.

For the most significant plan (the FKI UK Pension Plan) a male aged 65 in 2013 is expected to live for a further 21.9 years (31 December 2012: 22.1 years), whilst a woman aged 65 would live for a further 24.1 years (31 December 2012: 24.2 years). This is assumed to increase by 1.4 years (6%) for a male and 1.5 years (6%) for a female aged 65 in 2033.

A summary of the other key assumptions used for all of the UK plans is shown below:

	2013 Assumptions %	2012 Assumptions %
Discount rate	4.40	4.50
Inflation	3.40	3.00

It is noted that a 0.1 percentage point decrease in the discount rate would increase the pension liabilities on the UK pension plans by £14.8 million, or 2%, and a 0.1 percentage point increase to inflation would increase the liabilities on these plans by £10.9 million, or 1%. Furthermore, an increase by one year in the expected life of a 65 year old member would increase the pension liabilities on these plans by £24.4 million, or 3%.

The long-term strategy for the UK plans is to concentrate on the cash flows required to fund the liabilities as they fall due whether that is within the timescales of Melrose ownership or beyond. The pension plan cash flows extend many years into the future and the ultimate objective is that the total pool of assets derived from future company contributions and the investment strategy allows each cash payment to members to be made when due. In 2013 the Melrose Group made annual contributions of £20.0 million, in total, (2012: £18.5 million) to the three UK schemes within the FKI businesses and £5.2 million (2012: £4.6 million) to the McKechnie UK Pension Plan.

The Melrose Board recognises that as businesses are bought and sold then pension plan liabilities need to exit the Group, however this can be done at a time which is commercially sensible.

Risk management

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

Liquidity risk management

The Group's net debt position at 31 December 2013 was £140.8 million compared to £997.7 million a year earlier. The decrease in net debt resulted, primarily, from the five disposals completed during the year. The return of capital of £595.3 million, discussed under post balance sheet events later in this review, increased net debt in February 2014.

At 31 December 2013, the Group had a committed term loan drawn down in two tranches of £180 million and US $290 million. In addition, the Group has two revolving credit facilities of £741.5 million and €300 million at 31 December 2013. These facilities are due to mature on 29 June 2017.

The Sterling denominated term loan is subject to mandatory repayments of 5% on 30 June 2015, 30 June 2016 and 31 December 2016, adjusted for non-mandatory repayments and cancellations. The US Dollar denominated term loan is no longer subject to mandatory repayment following the repayment and cancellation of US $210 million in the year.

The facility has two financial covenants, a net debt to headline EBITDA (headline operating profit before depreciation and amortisation) covenant and an interest cover covenant, both of which are tested half yearly at June and December and both of which afforded comfortable headroom at 31 December 2013.

The first covenant, which calculates net debt at average exchange rates during the period, was set at 3.25x at 31 December 2013 and reduces to 3.0x from 30 June 2015 onwards. For the year ended 31 December 2013 it was 0.5x (31 December 2012: 2.6x) but allowing for the return of capital was 2.3x on a proforma basis at this date.

The interest cover covenant remains at 4.0x throughout the life of the facility. At 31 December 2013 it was 11.8x (31 December 2012: 9.1x).

The drawdown of the facilities are made in the core currencies of the Group, being US Dollars, Euro and Sterling and in proportions to protect the Group as efficiently as possible from currency fluctuations on net assets and profit.

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

Cash, deposits and marketable securities amounted to £200.4 million at 31 December 2013 (31 December 2012: £156.5 million) and are offset against gross debt of £341.2 million (31 December 2012: £1,154.2 million) to arrive at the net debt position of £140.8 million (31 December 2012: £997.7 million). The combination of this cash and the size of the debt facilities allows the Directors to consider that the Group has sufficient access to liquidity for its current needs.

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

Finance Director’s review
continued

Finance cost risk management

The Group remained in a net debt position at 31 December 2013. The Group’s facility bears interest at interbank rates plus a margin which varies dependent on the level of the leverage and which ranges from 1.40% to 2.65%. As at 31 December 2013, the margin was 2.25% (31 December 2012: 2.00%).

At the beginning of 2013 the Group protected just under 80% of gross borrowings from exposure to changes in interest rates by holding a number of interest rate swaps to fix the interest rate cost on US $560.0 million, £336.8 million and €292.0 million of debt.

During the year, post the disposals of businesses and the resulting reduction in gross debt, several interest rate swap arrangements were closed out. This left swap arrangements in place fixing the interest rate cost on US $246.8 million, £336.8 million and €200.0 million of gross borrowings.

For the swap arrangements that remain, the Group will pay, annually in arrears, a weighted blended fixed finance cost of 0.70% (2012: 0.84%) for US Dollar swaps, 0.72% (2012: 0.78%) on Euro swaps and 0.91% (2012: 0.91%) on Sterling swaps, plus the relevant bank margin which is currently 2.25%. Following the return of capital, on 28 February 2014, 78% of gross borrowings are now protected against exposure to movement in interest rates.

Exchange rate risk management

The Group trades in various countries around the world and is exposed to many different foreign currencies. The Group therefore carries an exchange rate risk that can be categorised into three types, as described below. The Board policy is designed to protect against the majority of the cash risks but not the non-cash risks. The most common cash risk is the transaction risk the Group takes when it invoices a sale in a different currency to the one in which its cost of sale is incurred. This is addressed by taking out forward cover against approximately 60% to 80% of the anticipated cash flows over the following 12 months, placed on a rolling quarterly basis and for 100% of each material contract. This does not eliminate the cash risk but does bring some certainty to it.

Exchange rates used in the year

US Dollar	12 month average rate	Closing rate
2013	1.56	1.66
2012	1.59	1.62
Euro		
2013	1.18	1.20
2012	1.23	1.23

The effect on the key headline numbers in 2013 for the continuing Group due to the translation movement of exchange rates from 2012 to 2013 is shown below. The table illustrates the translation movement in revenue and headline operating profit if the 2012 average exchange rates had been used to calculate the 2013 results rather than the 2013 average exchange rate.

The translation difference in 2013	£m
Revenue decrease	21.3
Headline operating profit decrease	4.0

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

Sensitivity of profit to translation and unhedged transaction exchange risk	Increase in headline operating profit £m
For every 10 cent strengthening of the US Dollar against Sterling	5.0
For every 10 cent strengthening of the Euro against Sterling	8.4

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

Sensitivity of profit to translation and full transaction exchange rate risk	Increase in headline operating profit £m
For every 10 cent strengthening of the US Dollar against Sterling	7.3
For every 10 cent strengthening of the Euro against Sterling	6.4

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

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

Contract and warranty risk management

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

Commodity cost risk management

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

Post balance sheet events – return of capital

Consistent with the Melrose strategy of returning proceeds to shareholders following significant disposals, Melrose announced the return of £595.3 million to shareholders on 21 January 2014, which was subsequently approved by shareholders on 7 February 2014.

The return was made via a redeemable share scheme which gave shareholders the option of receiving a payment either on 28 February 2014 or 7 May 2014, or a combination of both.

Alongside the capital return, a share consolidation took place which reduced the number of Ordinary Shares by a factor of 11 for 13, or 15%, from 1,266.6 million to 1,071.8 million.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report section of the Annual Report, as is the financial position of the Group, its cash flows, liquidity position, and borrowing facilities. In addition, the consolidated financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources and the breadth of the end markets that the Melrose Group companies trade in, both by sector and geographically, gives some balance to various market and economic cycle risks. Furthermore, the Group has a consistent cash generation record, and as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

Geoffrey Martin

Geoffrey Martin
Group Finance Director
5 March 2014

Corporate Social Responsibility

“The Group recognises its responsibilities for the fair treatment of all its current and potential employees.”

Melrose seeks to be a good corporate citizen wherever it conducts business, to observe all national and local laws and take into account regional and local concerns, customs and traditions. One of the fundamental principles of Melrose is to conduct all of its business in an open, honest and ethical manner.

Employment policies

The Group recognises its responsibilities for the fair treatment of all its current and potential employees in accordance with legislation applicable to the territories within which it operates, together with relevant guidance on good practice where applicable. Due to the diverse nature of the Group’s activities, businesses are required to manage their employment matters on a decentralised basis; therefore, responsibility for the adoption of employment policies and practices sits at a local business unit level. This position ensures that rigorous and targeted policies and procedures are implemented that meet both site and local regulatory requirements, taking into account the size and nature of the businesses.

As part of this decentralised approach, each business is responsible for setting and measuring its own employment and employee-related KPIs and, as such, these vary throughout the Group. However, such measurements will generally include absenteeism, punctuality, headcount and employee relations issues.

Any concerns or adverse trends are responded to in a timely manner. Further, as a Group-wide policy and so far as particular disabilities permit, the Company and each of its businesses will give employees disabled during their period of employment continued employment in the same job or, if this is not practicable, a suitable alternative job, together with appropriate training and/or re-training.

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

Applications for employment by disabled persons are always fully and fairly considered by the Group and are considered on merit, with regard only to the job-specific requirements and the relevant applicant’s aptitude and ability to carry out the role, and where reasonable to do so, arrangements to enable disabled persons to carry out a specific role will be made. It is the policy of the Group that in recruitment, training, career development and promotion, the treatment of disabled persons should, as far as possible, be identical to that of other employees.

"In March 2013, Bridon established the 'Bridon Academy', a virtual framework for all the learning and development that takes place worldwide across its business."

The Group regards employee training and advancement as an essential element of industrial relations. Disputes and days lost through strike action are negligible.

Employee involvement, consultation and development
The Group attaches great importance to good labour relations, employee engagement and employee development. The diverse nature of the Group's activities places the responsibility for the implementation and management of employment practices with local management, in a manner appropriate to each business.

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

Extensive training is available to all staff and is actively encouraged to ensure a high standard of skill is maintained across the Group. Cross-training programmes are also in place at a number of the Group's businesses. The importance of training extends beyond on-the-job training and also focuses on enhancing personal development. Apprenticeship programmes are in place, which help to assist with succession planning in locations where there is an ageing workforce. Employees are encouraged to think in an innovative manner across the Group and have regard for both financial and economic factors affecting the Group.

Employee initiatives
During 2013, the Group's businesses implemented a range of employee-related initiatives. Some of these are listed below:

- Within Bridon over 1,400 employees, which represents 85% of its global workforce, completed the second Bridon Employee Opinion Survey in March 2013. The survey was designed to highlight areas for improvement but the results for 2013 also confirmed that positive progress in engaging the workforce has been made since the first survey in 2011. For instance, employees reported a better understanding of the link between the Bridon strategy and their personal objectives and daily work activities. It was also acknowledged that there were better opportunities to learn new skills and that management coaching and feedback had improved.
- In March 2013, Bridon established the "Bridon Academy", a virtual framework for all the learning and development that takes place worldwide across its business. The Academy offers learning solutions in the areas of Management and Leadership, Personal Effectiveness, Technical Skills and Ethical Compliance and has adopted the 70/20/10 principle of learning – 70% on the job, 20% coaching and 10% formal training. Although the majority of training is delivered by internal experts and facilitators, external trainers are used in specialist areas. Participants are from a variety of functions including Sales, Technical, Finance, Supply Chain and Operations. Over 350 employees globally have benefitted so far from internal learning solutions, as part of the coaching and formal training elements of the Academy.
- The Brush Czech "Talent Academy" was officially launched in 2013. This is a four year training programme for selected employees with high potential and is divided into two parts. For the first three years, the courses focus on the development of managers' competences and leadership skills. The fourth year is focused on practice; the first six months in finance and sales training and the next six months in developing operational and technical skills. The training is provided by an external company.
- Within Elster Electricity there were various employee related initiatives in 2013, including an employee satisfaction survey in Brazil, a management 360 degree evaluation in Romania, health checks for employees in Russia and a series of "knowledge transfer" training sessions, including topics such as pensions and health insurance.
- The Elster Gas Leadership Conference was established in 2013 to introduce the new vision, goals and future strategy for the business and to align management and business priorities with this new strategy. Two conferences were held in 2013 and senior management team members, Managing Directors and other executives were invited from Elster Gas businesses in Europe, North America and Asia.

350+
employees globally have benefitted so far from elements of the Bridon Academy

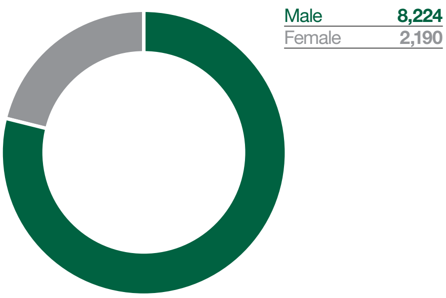
Corporate Social Responsibility continued

Gender diversity

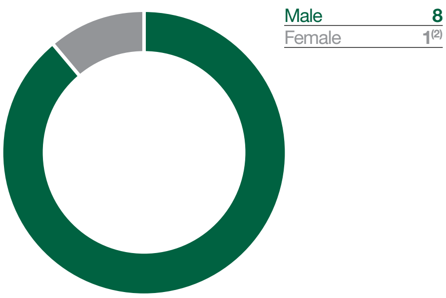
The chart below shows the total number of males and females working within the Group as at 31 December 2013.

The total number of women employed represents 21% of the Group's workforce.

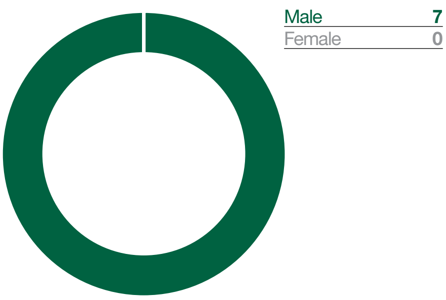
Total Group employees



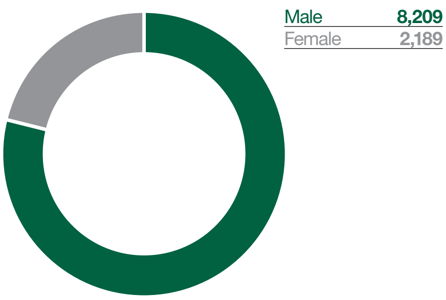
Melrose Industries PLC Board



Senior managers[1]



Other employees



(1) Defined as senior head office employees of Melrose Industries PLC, located in the London and Birmingham offices.
(2) Liz Hewitt was appointed to the Board of Melrose Industries PLC on 8 October 2013.

Health & safety

The Directors of the Company are committed to minimising the health and safety risks that each of the Group's employees are exposed to by promoting the effective use and management of business specific policies and procedures.

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

Each business is responsible for setting its own detailed arrangements concerning health and safety policies and procedures, in accordance with local health and safety legislation. As a general rule, businesses strive to achieve best practice, in terms of what is suitable and practical for the size and nature of their operations. The use of defined and business specific health and safety key performance indicators are also used within the Group's businesses, which are specific to the exact nature of their businesses and allow for focus, analysis and improvement at local levels, often on a location by location basis.

Many manufacturing locations within the Group hold ISO 18001 certification, the internationally recognised assessment standard for occupational health and safety management systems. This certification includes several of the major manufacturing locations within the Group.

Divisional managers within each business unit have responsibility to ensure that health and safety remains a key focus and to ensure that active procedures and monitoring systems are in place to provide substance to written procedures. Detailed health and safety plans are set by businesses each year to determine annual targets and improvement initiatives.

All businesses have Health and Safety Committees ("H&S Committees"), which meet on a regular basis and are made up of representatives from both management and shop floor level personnel. Each of the H&S Committees has wide-ranging responsibilities which vary from business to business and include the review of reported incidents and the monitoring of incident trends. These H&S Committees are also responsible for ensuring that corrective measures are implemented when accidents occur and that all incidents, whether or not they are deemed reportable under local legislation, are given due attention.

One of the key responsibilities for these H&S Committees is to carry out regular tours of the premises in which they work, in order to ensure compliance with local policies and procedures. These tours also identify potential hazards, for which counter-measures can be identified to prevent accidents from happening. Each H&S Committee recommendation is followed up at the next Board meeting to ensure that issues are resolved. Additionally, operations are audited by the H&S Committee at least annually and reports of performance and recommended improvements are prepared and circulated to the divisional senior management teams. Divisional managers are provided with detailed health and safety reports on a frequent basis to ensure that such matters are given high visibility and that improvements are authorised and implemented quickly.

Health and safety initiatives
During 2013, many of the Group's businesses implemented a range of health and safety initiatives. Some of these are listed below:

- Within Elster Water, a global occupational Health & Safety audit was carried out in 2013. All sites with assembly and/or test activities were reviewed by independent professional auditors for compliance with national, Elster and best practice standards. The intention is to provide safe and secure work environments for all employees worldwide and to motivate employees and management to maintain these standards. The audit focused on workplace regulations, provision and use of work equipment, machine safety, lifting operation and lifting equipment regulations, manual handling operations and personal protective equipment regulations. The implementation of identified improvement opportunities was initiated immediately. No significant shortfall for immediate attention was highlighted by the auditors.
- In 2013, Brush Czech focused on working at height, which represents a serious potential workplace risk. New measures were introduced which improved safety and additionally helped to ensure compliance with ISO 18001 standards.
- Elster Electricity carried out numerous Health & Safety training courses in 2013, including the prevention of accidents and occupational diseases in Argentina, training on firefighting equipment and fire safety in China, working at height in Russia and electricity safety and new hazardous communication standardisation training in the US.
- In 2013, a new work process was introduced at the Bridon site in Doncaster, known as a Mission Directed Work stream, for Safety, Health and the Environment; this aims to assist shift managers, team leaders and their teams in creating a work environment that is safe, healthy and where environmental risks are managed. The objectives include enabling employees to understand and apply health, safety and environmental policies and procedures, to set up and use visual controls, to identify and control hazards, to develop and implement a health, safety and environmental audit and to continually improve risk management in the work place. This has been implemented in all areas of the Doncaster site and assessment takes place on a monthly basis to ensure continual improvement.

"Divisional managers within each business unit have responsibility to ensure that health and safety remains a key focus."

Corporate Social Responsibility
continued

The environment
The Directors of the Company fully understand the importance of the Group's environmental responsibilities. Each of the Company's businesses is committed to ensuring that their operations have a minimum adverse effect on the environment and that ongoing reductions in both energy usage and CO_2 emissions are achieved, wherever practicable.

Although there are no standardised environmental KPIs currently used within the Group, each business understands the importance of monitoring the impact of its operations on the environment. A range of KPIs are used as environmental measures, including energy consumption, CO_2 emissions, water consumption, water contamination, waste disposal, solid and liquid waste generation, recycling and volatile organic compound emissions. Environmental performance is measured via the use of KPIs in order that each of the businesses can plan for ongoing reductions.

A number of the Group's businesses have achieved, or are currently in the process of achieving, the high standards required to obtain ISO 14001 Environmental Management Systems certification.

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

Environmental initiatives
During 2013, many of the Group's businesses implemented a range of environmental improvement initiatives. Some of these are listed below:

- Investment in state-of-the-art energy efficient production and test equipment for water meters continues to reduce carbon emissions during the production process of the meters. Elster Water introduced two further rapid test rigs in Luton and Brussels. These rigs, which are specifically designed for volumetric meters, reduce test time and required water volume significantly compared to standard test rigs for other product lines. This reduces energy and water consumption considerably.
- At Bridon Hangzhou, China, the Maintenance Department suggested ways to save water, following an inspection of the cooling water circulation system and monitoring the water usage in the wire drawing and extrusion processes. By reusing cooling water wherever possible and introducing a water cooling system, the site was able to save 24,500 tons of water in 2013.
- At the Brush Czech facility, heating and lighting consumption is the major source of CO_2 emissions and represents a substantial production cost. In order to decrease this cost, the company is renovating a different part of the building insulation each year, in particular windows and doors. They are also using sophisticated heating software which allows them to monitor and regulate the interior temperature during the colder times of the year. The temperature is also monitored daily and evaluated and adapted to current requirements of individual workplaces. In 2013, the heating temperature in the production buildings was optimised, which reduced the heating consumption by 17%.
- In 2013, a 74% saving was made in water usage at the Brush Loughborough, UK, site. The main water saving across the site came from the introduction of a new urinal outlet system called Ureco. This accounted for a 97% saving in 2013 on water consumption for all of the mains water-fed urinals throughout the Brush UK site.
- At Elster Electricity in Mexico, a "Green Day" was held in 2013 to promote the care of the environment, which included workshops on recycling, reforestation and water saving. This was attended by both employees and their families.
- The three largest facilities in Elster Gas North America – Nebraska City, Nebraska, Perfection in Geneva, Ohio, and Hauck Manufacturing in Lebanon, Pennsylvania – completed their first ever registration with ISO 14001, Environmental Management Systems and attained certification in 2013. The two facilities in Germany at Mainz and Lotte of Elster GmbH are not yet registered with ISO 14001 but certification is expected to be obtained during 2015.

Greenhouse gas emissions
This greenhouse gas ("GHG") report has been prepared for the reporting period of 1 January 2013 to 31 December 2013.

The data has been prepared in accordance with the principles and requirements of the Greenhouse Gas Protocol, Revised Edition, ISO 14064 Part 1 and the UK Government's Department for Environment, Food and Rural Affairs (DEFRA) guidance on how to measure and report on Greenhouse gas emissions 2013.

The Group has reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 43 (see Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 paragraph 18).

The Group does not have responsibility for any emission sources that are not included in the consolidated statement. The Group has used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered in accordance with the GHG reporting procedure and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2014.

The financial reporting year of 2013 is the first year in which the Company has been required to disclose its GHG emissions data within the Annual Report. Therefore, the 2013 data represents the baseline against which reduction targets will be set.

The reported emissions cover all entities over which the organisation had financial control as at 31 December 2013. Emissions from entities acquired or disposed of during the reporting period (i.e. disposed on or before 31 December 2013 or acquired after 1 January 2013) are not accounted for in the report. Therefore, data from Crosby, Acco, Truth, Marelli and Harris businesses has not been included within the reported GHG data, as these businesses were divested during 2013. No businesses were acquired during the reporting period.

Global GHG Emissions data for period 1 January 2013 – 31 December 2013

Emissions sources:	Tonnes CO_2e(1)
Combustion of fuel & operation of facilities	41,182
Electricity, heat and steam purchased for own use	29,678
Overseas electricity(2)	46,158
Company's chosen intensity measurement: Emissions reported above normalised to tonnes per £1,000 turnover	0.068

(1) CO_2e – carbon dioxide equivalent, this figure includes greenhouse gases in addition to carbon dioxide.

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

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

Supply chain assurance
Owing to the geographical and operational diversity of the Group's businesses, and therefore its supplier base, there is no single over-arching Group policy currently in use in relation to suppliers. However, the security, assurance and ethical compliance of business supply chains is very important to Melrose. Responsibility for the implementation and management of all supplier-related policies rests with local management in each business. Such policies are used in a manner appropriate to the size and complexity of each business and also take into account the nature and geographical representation of key suppliers. A supplier approval process exists within the businesses, which is linked to specific and tailored supplier assessments and due diligence requirements.

Human rights and ethical standards
As is stated within the employee policies and supply chain assurance sections above, the decentralised nature of the Group means there is no single over-arching policy currently in place with regard to human rights. However, sound business ethics and integrity are core to the Group's values and each business places a high importance on its dealings with all employees, customers, suppliers and other stakeholders and is committed to good practice in respect of human rights. Employees within each Group business are required, at all times, to exhibit the highest levels of integrity and to maintain the highest ethical standards in business affairs.

Each of the Group's businesses will have their own code of ethics in dealing with matters such as human rights, with all employee policies also being set locally within each business in order to ensure compliance with local laws and standards as a minimum. Responsibility for the communication and implementation of such policies rests with the relevant senior divisional managers.

The Strategic Report, as set out on pages 2 to 53, has been approved by the Board.

On behalf of the Board

Simon A Peckham

Simon Peckham
Chief Executive
5 March 2014

Governance overview

Introduction from the Chairman
Christopher Miller

Dear Shareholder
The Board remains committed to maintaining the high standards of corporate governance required to ensure that the Company can continue to deliver on its strategic goals and to achieve long-term success for the benefit of its shareholders. As part of this approach, the Board supports, applies and complies with the Main Principles, the Supporting Principles and the respective related provisions of corporate governance contained in the 2012 UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council and available to view on the Financial Reporting Council's website at: **www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx.**

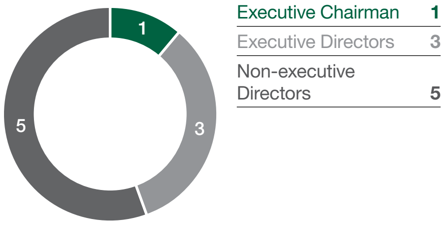
In support of this commitment, the Board carried out a number of actions during 2013 designed to ensure that the Company remains compliant with the provisions of the UK Code and also to enable continuous improvement in line with best practice corporate governance guidelines.

An externally facilitated Board evaluation process was completed towards the end of 2013. This is the first time that an external evaluation has been carried out in relation to the Melrose Board. This evaluation focused on the composition and performance of the Board and its Committees and the performance of the Chairman and the Senior non-executive Director. This evaluation process proved to be a valuable exercise from both a corporate governance and wider business perspective. Further details on this evaluation process can be found on pages 63 and 64 of this Corporate Governance report.

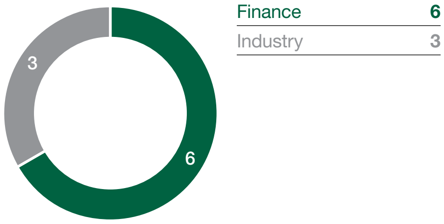
A number of changes are planned for the Melrose Board during 2014. As we have previously announced, Miles Templeman will be retiring from his role as Senior non-executive Director at the conclusion of this year's Annual General Meeting ("AGM"), to be held on 13 May 2014. Miles Templeman has held a non-executive position on the Melrose Board since the original flotation in 2003. His advice and experience have been invaluable to Melrose over the last 10 years; he has contributed in many ways to the Company's success over this period and we wish him all the very best for the future. Miles will be replaced as the Senior non-executive Director by Perry Crosthwaite, who will simultaneously relinquish his position as Chairman of the Remuneration Committee, a role that will be filled by Justin Dowley, following the conclusion of this year's AGM. Liz Hewitt, who joined the Melrose Board on 8 October 2013, will chair the Nomination Committee with effect from the end of the 2014 AGM. Liz has already made a significant contribution since joining the Board and we are confident that her long-established and pertinent experience will be of considerable benefit to Melrose as we continue to grow the business.

Christopher Miller
Executive Chairman
5 March 2014

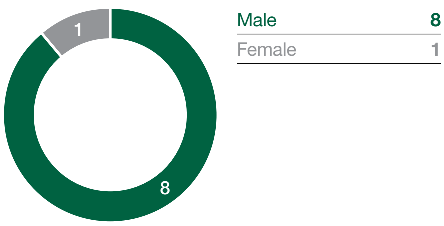
Board composition



Industry background



Board diversity



Strategic Report
Governance
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Shareholder information

Board structure

The Board

Christopher Miller – Executive Chairman
David Roper – Executive Vice-Chairman
Simon Peckham – Chief Executive
Geoffrey Martin – Group Finance Director
Miles Templeman[1] – Senior non-executive Director
Perry Crosthwaite[2] – Non-executive Director
Justin Dowley – Non-executive Director
John Grant – Non-executive Director
Liz Hewitt[3] – Non-executive Director

Audit Committee

John Grant – Chairman
Perry Crosthwaite
Justin Dowley
Miles Templeman[1]
Liz Hewitt[3]

Remuneration Committee

Perry Crosthwaite – Chairman[4]
Justin Dowley[4]
John Grant
Miles Templeman[1]
Liz Hewitt[3]

Nomination Committee

Miles Templeman[1] – Chairman
Perry Crosthwaite
Justin Dowley
John Grant
Liz Hewitt[3, 5]
Christopher Miller

(1) Miles Templeman will be retiring from the Board at the conclusion of the 2014 AGM.
(2) Perry Crosthwaite will assume the position of Senior non-executive Director at the conclusion of the 2014 AGM.
(3) Liz Hewitt was appointed to the Board on 8 October 2013 and shortly after also joined each of the Board Committees.
(4) Perry Crosthwaite will be replaced by Justin Dowley as Chairman of the Remuneration Committee at the conclusion of the 2014 AGM.
(5) Liz Hewitt will become the Chair of the Nomination Committee at the conclusion of the 2014 AGM.

The main responsibilities:

- effectively manage and control the Company via a formal schedule of matters reserved for its decision;
- determine and review Company strategy and policy;
- consider acquisitions, disposals and asset requests for major capital expenditure;
- review trading performance;
- ensure that adequate funding and personnel are in place;
- maintain sound internal control systems;
- report to shareholders and give consideration to all other significant financial matters;
- agree Board succession plans and consider the evaluation of the Board's performance over the preceding year;
- review the Group's risk management and internal control systems; and
- agree the Group's governance framework and approve the Standards of Business Conduct and other Group policies.


p.66
Audit Committee report


p.69
Nomination Committee report


p.70
Directors' remuneration report

Board of Directors

				
Name and title	**Christopher Miller** Executive Chairman	**David Roper** Executive Vice-Chairman	**Simon Peckham** Chief Executive	**Geoffrey Martin** Group Finance Director
Year appointed	Appointed as Executive Chairman of Melrose on 29 May 2003.	Appointed as Chief Executive on 29 May 2003 and as Executive Vice-Chairman on 9 May 2012.	Appointed as Chief Operating Officer on 29 May 2003 and then as Chief Executive on 9 May 2012.	Appointed as Group Finance Director on 7 July 2005.
Skills and experience	Qualified as a chartered accountant with Coopers & Lybrand, following which he was an Associate Director of Hanson plc. In September 1988 he joined the board of Wassall PLC as its Chief Executive. Between October 2000 and May 2003 he was involved in private investment activities.	Qualified as a chartered accountant with Peat Marwick Mitchell, following which he worked in the corporate finance divisions of S.G. Warburg & Co. Limited, BZW and Dillon Read. In September 1988 he was appointed to the board of Wassall PLC and became its deputy Chief Executive in 1993. Between October 2000 and May 2003 he was involved in private investment activities and served as a non-executive Director on the boards of two companies.	Qualified as a solicitor in 1986. In 1990, he joined Wassall PLC and became an executive Director in 1999. From October 2000 until May 2003 he worked for the equity finance division of The Royal Bank of Scotland and was also involved in several high profile transactions.	Qualified as a chartered accountant with Coopers & Lybrand where he worked within the corporate finance and audit departments. In 1996, he joined Royal Doulton PLC and was Group Finance Director from October 2000 until June 2005, which was a period of significant restructuring for the company.
Board meetings attended	4/4	4/4	4/4	4/4
Other appointments				
Committee membership	Nomination Committee			
Independent	Not applicable	Not applicable	Not applicable	Not applicable

(1) Miles Templeman will be retiring from the Board at the conclusion of the 2014 AGM.
(2) Perry Crosthwaite will assume the position of Senior non-executive Director at the conclusion of the 2014 AGM and will resign as Chairman of the Remuneration Committee.
(3) Liz Hewitt was appointed to the Board on 8 October 2013 and shortly after also joined each of the Board Committees.

				
Miles Templeman[1] **Senior non-executive Director**	**Perry Crosthwaite[2]** **Non-executive Director**	**John Grant** **Non-executive Director**	**Justin Dowley** **Non-executive Director**	**Liz Hewitt[3]** **Non-executive Director**
Appointed as a non-executive Director on 8 October 2003.	Appointed as a non-executive Director on 26 July 2005.	Appointed as a non-executive Director on 1 August 2006.	Appointed as a non-executive Director on 1 September 2011.	Appointed as a non-executive Director of Melrose on 8 October 2013.
Previously a director of several consumer goods and retailing companies. He was Managing Director of Threshers Off-Licences between 1985 and 1988 and Managing Director of Whitbread Beer Company between 1990 and 2001. Mr Templeman was Chief Executive Officer of HP Bulmer Holdings PLC from January 2003 to July 2003 and non-executive Chairman of restaurant chain YO! Sushi between 2003 and 2008. He has also held a number of other non-executive directorships. Between October 2004 and October 2011 Mr Templeman also occupied the position of Director General of the Institute of Directors.	Over 30 years' experience as a Director in the City of London. Perry was a founding Director of Henderson Crosthwaite Institutional Brokers Limited, serving on the board until its acquisition by Investec Bank in 1998. He became a Director of Investec Bank (UK) Limited and Chairman of the Investment Banking division until his retirement in 2004.	Executive career in a variety of senior international roles within the automotive industry and other engineering businesses. John was Chief Executive of Ascot Plc between 1997 and 2000. Prior to that, he was Group Finance Director of Lucas Industries Plc (subsequently LucasVarity Plc) between 1992 and 1996. He also previously held several senior strategy and finance positions with Ford Motor Company in Europe and the US.	Qualified as a chartered accountant with Price Waterhouse. Extensive experience within the banking, investment and asset management sector and was latterly Vice Chairman of EMEA Investment Banking, a division of Nomura International plc. Justin was also a founder partner of Tricorn Partners, Head of Investment Banking at Merrill Lynch Europe and a Director of Morgan Grenfell.	Qualified as a chartered accountant with Arthur Andersen & Co, following which she held a variety of senior positions within Gartmore Investment Management, CVC and 3i Group plc. Between 2004 and 2011 Ms Hewitt was Group Director of Corporate Affairs for Smith & Nephew plc, following a secondment to the Department for Business, Innovation and Skills and HM Treasury, where she worked to establish The Enterprise Capital Fund. Ms Hewitt was a Trustee of Cancer Research from 2005 to 2011.
4/4	4/4	4/4	3/4	1/1
Non-executive Chairman of Shepherd Neame Chairman of Aspria Non-executive Director of the Rugby Football Union	Chairman of Jupiter Green Investment Trust Plc Non-executive Director of Investec Limited and Investec Plc	Non-executive Director of MHP S.A. Non-executive Director of Pace Plc Non-executive Director of Wolfson Microelectronics Plc Chairman of British Racing Drivers Club Ltd	Chairman of Intermediate Capital Group plc (a specialist investment and asset management company) Non-executive Director of a number of private companies including Ascot Authority (Holdings) Limited Non-executive Director of the National Crime Agency	Non-executive Director of Novo Nordisk A/S and Synergy Health plc
Audit Committee[1] Remuneration Committee[1] Nomination Committee (Chairman)[1, 4]	Audit Committee Remuneration Committee (Chairman)[2, 5] Nomination Committee	Audit Committee (Chairman) Remuneration Committee Nomination Committee	Audit Committee Remuneration Committee[5] Nomination Committee	Audit Committee[3] Remuneration Committee[3] Nomination Committee[3, 4]
Yes	Yes	Yes	Yes	Yes

(4) Liz Hewitt will become Chairman of the Nomination Committee at the conclusion of the 2014 AGM.
(5) Justin Dowley will become Chairman of the Remuneration Committee at the conclusion of the 2014 AGM.

Directors' report

The Directors of Melrose Industries PLC (the "Company") present their Annual Report and audited financial statements of the Group for the year ended 31 December 2013.

The Corporate Governance report set out on pages 62 to 65, the Finance Director's review on pages 40 to 47 and the Corporate Social Responsibility section of the Strategic Report on pages 48 to 53, are each incorporated by reference into this Directors' report. Disclosures elsewhere in the Annual Report are cross-referenced where appropriate; taken together, they fulfil the combined requirements of the Companies Act 2006 (the "Act") and of the Disclosure and Transparency Rules and the Listing Rules of the Financial Conduct Authority.

Details of significant events since the Balance Sheet date are contained in note 29 to the financial statements. An indication of likely future developments in Group businesses is included within the Strategic Report.

Directors

The Directors of the Company as at the date of this report, together with their biographical details, are given on pages 56 and 57. There were no other persons who, at any time during the year ended 31 December 2013, were Directors of the Company.

Changes to the Board during the year are set out in the Corporate Governance report on pages 62 to 65. Details of Directors' service contracts are set out in the Directors' remuneration report on page 83.

The Statement of Directors' responsibilities in relation to the consolidated financial statements is set out on page 85.

Appointment and removal of Directors and their powers

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

With effect from the 2012 Annual General Meeting ("AGM"), the Board determined that all Directors of the Company should stand for re-election on an annual basis, in compliance with the provisions of the UK Corporate Governance Code and this requirement is now contained in the Articles. Therefore, all Directors will offer themselves for election or re-election at the AGM to be held on 13 May 2014.

The Company's Senior non-executive Director, Miles Templeman, has confirmed that he will retire from the Board at the conclusion of the 2014 AGM and so will not stand for re-election. Miles will be replaced in the position of Senior non-executive Director by Perry Crosthwaite.

The Directors are responsible for managing the business of the Company and exercise their powers in accordance with the Articles, directions given by special resolution and any relevant statutes and regulations. Specific powers relating to the allotment and issuance of shares and the ability of the Company to purchase its own shares are also included within the Articles and such authorities are submitted for approval by the shareholders at the AGM each year.

Pursuant to sections 693 and 701 of the Act and a special resolution passed at the AGM in 2013, the Company was authorised to purchase its own shares, limited to an aggregate maximum number equal to 10% of the issued share capital of the Company. Following the Share Capital Consolidation (defined below), this authority ceased to be valid. The Company did not purchase any Ordinary Shares pursuant to this authority. The resolutions being proposed at this year's AGM include a resolution to renew this authority.

Insurance and indemnities

The Directors have the benefit of an indemnity from the Company in respect of its liabilities incurred as a result of their office. This indemnity is provided under the Company's Articles and satisfies the indemnity provisions of the Act.

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

AGM

The AGM of the Company will be held at Barber-Surgeons' Hall, Monkwell Square, Wood Street, London, EC2Y 5BL at 11.00am on 13 May 2014. The notice convening the meeting is shown on pages 146 to 151 and includes full details of the resolutions to be proposed, together with explanatory notes in relation to such resolutions.

Post Balance Sheet events

In the second half of the year ended 31 December 2013, the Company completed the disposals of five of its "FKI" businesses, namely Crosby, Acco, Marelli, Truth and Harris, for a total consideration of approximately £950 million (see note 9 to the financial statements for further details). In accordance with its strategy, the Board decided to use part of the net proceeds of the disposals to return approximately £600 million in cash to shareholders (the "Return of Capital"). At the time of such decision, this return was equivalent to 47 pence per existing Ordinary Share of 0.1 pence nominal value each in the capital of the Company in issue at that time (the "Existing Ordinary Shares").

The Return of Capital was approved by shareholders at a general meeting of the Company held on 7 February 2014, using a redeemable share scheme (in this case involving B Shares and/or C Shares) and was structured with the objective of enabling shareholders, subject to restrictions in respect of certain overseas shareholders, to elect to receive their cash proceeds of 47 pence per Existing Ordinary Share as:

- an immediate income payment (the ''Income Option''); or
- an immediate capital payment (the ''Immediate Capital Option''); or
- a capital payment deferred until after 6 April 2014 (the ''Deferred Capital Option''), (collectively the "Share Alternatives").

Shareholders were also offered a mix and match facility, such that they could choose to receive the cash proceeds through any combination of the Share Alternatives.

Only shareholders who were on the register of members at 5.00 p.m. on 7 February 2014 (the "B/C Share Record Date") were entitled to participate in the Return of Capital and the deadline for shareholders making their elections in respect of the Share Alternatives was 4.30 p.m. on 14 February 2014.

Further details of the Share Alternatives are listed in the table below, together with details of the number of Existing Ordinary Shares in respect of which each Share Alternative was chosen by shareholders.

Share Alternative	Details of Share Alternative	Number of Existing Ordinary Shares in respect of which Share Alternative chosen(1)
Income Option	Relevant shareholders received one C Share, with a nominal value of 0.00001 pence, for every Existing Ordinary Share held at the B/C Share Record Date and a single C Share dividend of 47 pence per C Share held. The single C Share dividend became due and payable on 17 February 2014 and, thereafter, the C Shares were automatically converted into C Deferred Shares with a nominal value of 0.00001 pence each. Proceeds in respect of the Income Option were paid to relevant shareholders on 28 February 2014 and the C Deferred Shares will be redeemed by the Company on 30 April 2014 (or such other date as the Directors may determine) for an aggregate consideration of one penny.	757,503,886
Immediate Capital Option	Relevant shareholders received one B Share, with a nominal value of 47 pence, for every Existing Ordinary Share held at the B/C Share Record Date and have such B Share(s) redeemed by the Company on 17 February 2014. Proceeds in respect of the Immediate Capital Option were paid to relevant shareholders on 28 February 2014.	493,363,270
Deferred Capital Option	Relevant shareholders received one B Share, with a nominal value of 47 pence, for every Existing Ordinary Share held at the B/C Share Record Date and have such B Share(s) redeemed by the Company on 30 April 2014 (or such other date as the Directors may determine). Proceeds in respect of the Deferred Capital Option will be paid to relevant shareholders on 7 May 2014 (or such other date as the Directors may determine).	15,759,880

(1) Neither the Immediate Capital Option, nor the Deferred Capital Option, were made available to any shareholders with a registered address in, or who were resident or located in, Australia, Canada, Japan, New Zealand, the Republic of South Africa, United States and any other territory where the invitation to participate in the Return of Capital proposals and any election for either the Immediate Capital Option and/or the Deferred Capital Option in respect of all or some of such shareholder's entitlement to the Return of Capital would violate the laws of that jurisdiction or would require the registration of the B Shares, C Shares and/or C Deferred Shares and all such shareholders were automatically deemed to have elected for the Income Option.

Associated with the Return of Capital, a one-off Ordinary Share capital consolidation was approved by shareholders at the general meeting of the Company held on 7 February 2014, in the ratio of 11 for 13 (the "Share Capital Consolidation") and the record date for the Share Capital Consolidation was 6.00pm on the same day (the "Share Capital Consolidation Record Date").

The aim of the Share Capital Consolidation was to ensure, so far as possible, that the market price of an Ordinary Share remained approximately the same before and after the Return of Capital and, so far as possible, to maintain comparability of historical and future per share data.

The Share Capital Consolidation was effected by the sub-division of every Existing Ordinary Share into 11 shares of 1/110 pence each in the capital of the Company and, forthwith upon such sub-division, the consolidation of every 13 shares of 1/110 pence each in the capital of the Company resulting from such sub-division into one new ordinary share of 13/110 pence in the capital of the Company (the "New Ordinary Shares").

Details of the structure of the Company's share capital both before and after the Share Capital Consolidation, together with the rights attached to each of the share classes in issue as at 31 December 2012, 31 December 2013 and immediately following the Share Capital Consolidation on 7 February 2014, are set out within the following sections. Shareholders continued to own approximately the same proportion of the Company after the Share Capital Consolidation as they did before, subject to fractional entitlements.

Capital structure

The table below shows details of the Company's issued share capital as at 31 December 2012, 31 December 2013 and immediately following the Share Capital Consolidation becoming effective on 10 February 2014.

Share class	31 December 2012	31 December 2013	10 February 2014 (post the Share Capital Consolidation)
Existing Ordinary Shares of 0.1 pence each	1,266,627,036	1,266,627,036	Nil
New Ordinary Shares of 13/110 pence each	Nil	Nil	1,071,761,339(1)

(1) Fractional entitlements resulting from the Share Capital Consolidation were aggregated and sold in the market on shareholders' behalf. In order to ensure that the aggregate of all fractional entitlements to be sold in the market added up to a whole number of New Ordinary Shares, between the B/C Share Record Date and the Share Capital Consolidation Record Date, one Ordinary Share was allotted fully paid up for cash to Investec at a price which was equal to the closing middle-market price of an Existing Ordinary Share on 7 February 2014, less 47 pence. This Ordinary Share was not entitled to participate in the Return of Capital, but was subject to the Share Capital Consolidation.

Only the New Ordinary Shares are traded on the London Stock Exchange.

The Company is not aware of any agreements between shareholders that restrict the transfer of New Ordinary Shares or that restrict voting rights attached to the New Ordinary Shares.

Details of the 2012 Incentive Share Plan are set out on pages 70 to 84 of the Directors' remuneration report and note 22 to the financial statements.

Directors' report
continued

Shareholders' voting rights
Only the New Ordinary Shares have voting rights attached. In a general meeting of the Company, subject to the provisions of the current Articles and to any special rights or restrictions as to voting attached to any other class of shares in the Company from time to time:

- on a show of hands, every member who is present (in person or by proxy) shall have one vote; and
- on a poll, every member who is present (in person or by proxy) shall have one vote for every share of which he is the holder.

If any call or other sum payable by a holder of New Ordinary Shares remains unpaid, they shall not be entitled to vote at a general meeting or class meeting in respect of any shares held by them. Currently, all New Ordinary Shares are fully paid.

Articles of association
The Company's Articles were amended pursuant to a special resolution approved at the general meeting of the Company held on 7 February 2014, in order to reflect the rights and restrictions attaching to the B Shares, the C Shares and the C Deferred Shares and certain other changes required in relation to the Share Capital Consolidation. The rights and restrictions attaching to the New Ordinary Shares following the Share Capital Consolidation remained exactly the same as those attaching to the Existing Ordinary Shares immediately prior to the Share Capital Consolidation.

Substantial shareholdings
As at 31 December 2013 and 4 March 2014, the Company has been advised of the following substantial interests in the New Ordinary Share capital of Melrose Industries PLC:

Shareholder	Holding as at 31 December 2013	%	Holding as at 4 March 2014	%
BlackRock Inc.	164,027,614	12.95	137,308,187	12.81
Schroders plc	104,406,194	8.24	87,730,453	8.19
Threadneedle Asset Management Ltd	74,255,412	5.86	62,152,083	5.80
Legal & General Investment Management Ltd	59,863,410	4.73	50,519,233	4.71
Aviva Investors	57,576,569	4.55	48,543,369	4.53
Scottish Widows Investment Partnership	52,321,407	4.13	48,755,878	4.55

Shareholder dividend
The Directors are pleased to recommend the payment of a final dividend of 5.0p per share (2012: 5.0p) on 15 May 2014 to Ordinary shareholders on the register of members of the Company at the close of business on 22 April 2014. This dividend recommendation will be put to shareholders at the forthcoming AGM of the Company, to be held on 13 May 2014. Subject to shareholder approval being obtained at the AGM for the final dividend, this will mean a full year 2013 dividend of 7.75p per share (2012: 7.6p).

In the second half of the year ended 31 December 2013, the Company completed the disposals of five of its "FKI" businesses, namely Crosby, Acco, Marelli, Truth and Harris, for a total consideration of approximately £950 million (see note 9 to the financial statements for further details). In accordance with its strategy, the Board decided to use part of the net proceeds of the disposals to return approximately £600 million in cash to shareholders, by way of the Return of Capital proposals described earlier in this Directors' report. The Return of Capital was approved by shareholders at the general meeting of the Company held on 7 February 2014. This return to shareholders is not included in the full year dividend figure stated above.

It is the intention of the Board to continue to pursue a progressive dividend policy, where appropriate.

The Company offers a Dividend Reinvestment Plan ("DRIP") which gives shareholders the opportunity to use their dividend payments to purchase further Ordinary Shares in Melrose Industries PLC. Further details about the DRIP and its terms and conditions can be found within the Investors section on the Company's website at **www.melroseplc.net**. To the extent that shareholders chose the Income Option in respect of all or some of their entitlement to the Return of Capital, the DRIP could not be used in relation to the single C Share dividend paid to such shareholders in respect of their holdings of such C Shares.

Financial instruments
The disclosures required in relation to the use of financial instruments by the Company, including the financial risk management objectives and policies of the Company and the exposure of the Company to liquidity risk, exchange rate risk, contract and warranty risk and commodity cost risk, can be found in the Finance Director's review on pages 40 to 47, which is incorporated by reference into this Directors' report and in note 24 to the financial statements.

Research and development activities
Melrose Group businesses are encouraged to focus on research and development and to ensure that new and innovative product lines continue to be developed. During 2013, investment continued and several new product launches were either realised during 2013, or planned for 2014. This Group strategy helps to ensure that each business can remain at the forefront of technological advances within defined market sectors and be able to meet specific customer demands. Some examples of the types of new products being launched within the various markets are discussed within the Chief Executive's business reviews on pages 22 to 31 of the Strategic Report.

Employees

Further details in relation to employment policies, employee involvement, consultation and development, together with details of some of the human resource improvement initiatives implemented during 2013 are shown on pages 48 and 49 of the Corporate Social Responsibility section of the Strategic Report, which is incorporated by reference into this Directors' report.

Environmental

The Directors of the Company fully understand the importance of the Group's environmental responsibilities. Each of the Company's businesses is committed to ensuring that their operations have a minimum adverse effect on the environment and that ongoing reductions in both energy usage and CO_2 emissions are achieved, wherever practicable.

Further details in relation to the various environmental initiatives that are ongoing within some of the Group's businesses and statistics showing greenhouse gas emissions data are shown on pages 52 and 53 of the Corporate Social Responsibility section of the Strategic Report, which is incorporated by reference into this Directors' report.

Political donations

The Company's policy is not to make any political donations and there were no political donations made during the year ended 31 December 2013 (2012: nil).

Significant agreements and change of control

With the exception of the Group's banking facilities, the 2012 Incentive Plan (including the options over 2012 Incentive Shares) and the divisional management long-term incentive plans, there are no other agreements that would have a significant effect upon a change of control of Melrose Industries PLC as at 5 March 2014.

In June 2012, as part of the process to acquire Elster, the Group agreed a £1.5 billion five year multi-currency, committed bank facility, which states that in the event of a change of control of the Company following a takeover bid, the Company and lenders under this facility are obliged to enter into negotiations to determine whether and, if so, how to continue with the facility. There is no obligation for the lenders to continue to make the facility available for more than 30 days beyond any change of control. Failure to reach agreement with parties on revised terms could require an acquirer to put in place replacement facilities.

In the event of a takeover of the Company, options over the 2012 Incentive Shares would be exercised and any 2012 Incentive Shares resulting from such exercise, or that have previously been issued, would convert into Ordinary Shares of 13/110 pence or an entitlement to a dividend paid in cash, the rate of conversion being based upon the offer price of the Company's Ordinary Shares as calculated on the date of the change of control of the Company. If part or the entire offer price is not in cash, the Remuneration Committee will determine the value of the non-cash element, having been advised by an investment bank of repute that such valuation is fair and reasonable.

Auditor

So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all the steps which they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the Board, the Audit Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external auditor, Deloitte LLP, for the year ended 31 December 2013 and concluded that the external auditor was in all respects effective. Deloitte LLP has expressed its willingness to continue in office as auditor. Accordingly, resolutions will be proposed at the AGM of the Company to reappoint Deloitte LLP as auditor of the Company and to authorise the Directors to determine their remuneration.

Approved by the Board of Directors and signed on its behalf by:

Adam Westley
Company Secretary
5 March 2014

Corporate Governance report

Statement of compliance

The Company is required to make certain statements relating to the way it is governed as laid down in the UK Code. The remainder of this Corporate Governance report describes the way in which the Company has applied and complied with the Main Principles, the Supporting Principles and the respective related provisions of governance set out in the UK Code.

The Board is accountable to the Company's shareholders for good governance. Throughout the year ended 31 December 2013, the Company applied and complied with the Main Principles, the Supporting Principles and the respective related provisions of the UK Code, with the exception of a specific element of Schedule A, which recommends that grants under executive share options and long-term incentive plans should normally be phased, rather than awarded in one block. Under the 2012 Incentive Plan, details of which are provided on pages 70 to 84 of the Directors' remuneration report, entitlements to executive Directors were awarded in one block, rather than phased. The 2012 Incentive Plan was recommended as being in the best interests of shareholders as a whole by the Board of Directors and was approved by shareholders at a General Meeting held on 11 April 2012. With regard to all other aspects of executive Directors' remuneration, the Company's policies fully comply with the provisions of Schedule A of the UK Code.

The Audit Committee report, Nomination Committee report and Directors' remuneration report also form part of this Corporate Governance report.

Main Principle A: Leadership

The Board

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

Board responsibilities are discharged in conjunction with senior management, who in turn are responsible for the day-to-day conduct of the Group's operations and for reporting to the Board on items of significance and progress against objectives. The Board meets regularly during the year as well as on an ad-hoc basis as required by time-critical business needs.

There were four, formally scheduled Board meetings held during the year and the attendance of each Director at these meetings is shown on page 64. In addition, a number of unscheduled Board meetings were held during the year in connection with corporate transactions, for example, business divestments and, more recently, the return of capital to shareholders and associated share capital consolidation.

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

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

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

In addition, Business Review meetings are held between scheduled Board meetings. These meetings are critical to providing the Directors with a comprehensive understanding of the current performance and the key issues affecting Group businesses, without the formality or rigidity of a Board meeting. Chief executives and other senior management from the Melrose businesses are periodically invited to attend and present to these meetings, providing the Directors with an opportunity to meet and engage with existing and emerging talent from across the organisation.

In accordance with its Articles and in compliance with the Companies Act 2006, the Company has granted a qualifying third party indemnity to each Director. The Company also maintains Directors' and Officers' liability insurance.

Chairman, Vice-Chairman and Chief Executive

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

The Chairman, with the assistance of the Vice-Chairman, is responsible for leadership of the Board. The Chairman sets the Board agenda and ensures that adequate time is given to the discussion of issues, particularly those of a strategic nature. Responsibility for ensuring effective communications with shareholders rests with the Chairman, Vice-Chairman and the two other executive Directors.

During 2013, the non-executive Directors, led by the current Senior non-executive Director, Miles Templeman, held meetings to discuss and appraise the performance of the Chairman.

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

Main Principle B : Effectiveness

Board composition

As at 5 March 2014, the Board was comprised of an executive Chairman, three other executive Directors and five non-executive Directors, all of whom the Board considers to be independent. The Board believes that the Directors possess diverse business experience in areas complementary to the activities of the Company. Biographies of the Directors are shown on pages 56 and 57 and on the Company's corporate website at **www.melroseplc.net**. These biographies identify any other appointments held by the non-executive Directors. None of the executive Directors hold non-executive positions outside the Company.

Non-executive Director independence

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

Miles Templeman, currently the Board's Senior non-executive Director, will retire from his position at the conclusion of the 2014 Annual General Meeting, having been a non-executive Director of Melrose for the past 10 years. As part of the Board's succession planning processes, Liz Hewitt was appointed as a non-executive Director on 8 October 2013. The Board is of the opinion that Ms Hewitt's long-established and highly pertinent experience will be of significant benefit to Melrose as the business continues to grow, and that Ms Hewitt's appointment will help to further strengthen the independence of the Board. In accordance with the Company's Articles, Ms Hewitt will stand for election at the 2014 AGM.

The Board notes that Perry Crosthwaite has served as a non-executive Director on the Melrose Board since July 2005 and, as a result, he will have served in this position for more than nine years during the course of 2014. The Board is of the opinion that, due to his invaluable experience in financial and other corporate matters, Mr Crosthwaite continues to maintain both his effectiveness and his independence. The Board will continue to monitor this position but feels at the present time that Mr Crosthwaite continues to make an important contribution to the Company.

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

Board induction, training and support

A full and formal induction programme tailored to the needs of individual Directors is provided for new Directors joining the Board. The primary aim of the induction programme is to introduce new Directors to, and educate new Directors about, the Group's businesses, its operations and its governance arrangements. In the case of Liz Hewitt, the induction process included meetings with senior management and external advisers, a thorough briefing on the businesses of the Company and site visits to the Company's various business operations. Individual induction requirements are monitored by the Chairman and the Company Secretary to ensure that new Directors gain sufficient knowledge to enable them to contribute to the Board's deliberations as quickly as possible.

One of the outputs from the 2013 Board evaluation exercise was a desire for the Board as a whole to gain greater visibility of and connection with the Group's business operations. Following this feedback, a visit is being organised to the Elster Gas operations at Osnabrück in Germany. This visit will provide the Board with an opportunity to meet with senior management and staff at Elster Gas and to receive presentations and updates on developments and other changes occurring in that business segment.

Board evaluation

Evaluation approach and process

During 2013, the Chairman held meetings with each of the Directors individually, including the Senior non-executive Director, Miles Templeman, to discuss the performance of individual executive Directors and the Board as a whole. In accordance with the provisions of the UK Code, during 2013 the Board engaged Lintstock Limited to undertake an independent evaluation of Board and Board Committee performance and to identify areas where performance and procedures might be further improved. Lintstock Limited is a specialist corporate governance consultancy and has no commercial dealings or other connection with the Melrose Group.

The first stage of the evaluation involved Lintstock engaging with the Chairman and the Company Secretary to discuss and agree the scope of the proposed evaluation and to develop a series of comprehensive questionnaires tailored to the specific circumstances of Melrose.

All respondents were then requested to complete online questionnaires addressing the composition and performance of the Board and its Committees, and the performance of the Chairman and the Senior non-executive Director. The anonymity of all respondents was ensured throughout the process in order to promote the open and frank exchange of views.

Lintstock subsequently produced a report which addressed the following areas:

- the composition of the Board and the Board's understanding of the views of the Company's major investors, stakeholders and of the markets in which the Company operates;
- the involvement of the non-executive Directors in the affairs of the Company outside of Board and Committee meetings, the dynamics between the Board members and between the Board and senior management and the atmosphere in the Board room;
- the Board's time management and the annual time commitment required of Directors, together with the Board's annual cycle of work and the support afforded to the Board;
- the Board's oversight of strategy, and the Board members' views over the principal strategic challenges and opportunities facing the Company;
- the risk appetite of the Board and the Board's management of the principal risks and uncertainties to the Group;
- the succession planning for executive Directors and for senior management at the level below the Board, and the Board's visibility of potential successors for key positions from within the business; and
- the composition and performance of the Board and its Committees and the performance of the Chairman and the Senior non-executive Director.

At a dedicated Board session, a report of the findings of the evaluation and its recommendations were discussed and specific actions agreed.

Corporate Governance report continued

Outputs of the evaluation

The Board recognises the benefits of a thorough Board and Committee evaluation process. Overall, the evaluation demonstrated that the composition and performance of the Board and its Committees and the performance of the Chairman and the Senior non-executive Director were very effective.

As a result of the review, amongst other things, the Board agreed:

- to incorporate into the Board schedule visits to major operating businesses and periodic sessions with senior management from those business units;
- that there was a need to increase the frequency of management presentations to the Board;
- that further Board time should be devoted to discussions concerning talent management and executive and non-executive succession planning; and
- that there was a need to further enhance the Board's understanding of risk identification and management.

In accordance with the provisions of the UK Code, it is anticipated that externally facilitated Board evaluations will be carried out every three years. In years when an external evaluation is not carried out, the Board will continue to complete internal performance-based questionnaires, with the process managed by the Company Secretary. The scope for each subsequent evaluation will be designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the evaluations are implemented and that year-on-year progress is measured and reported upon.

Annual re-election of Directors

In accordance with the provisions of the UK Code, all of the Directors stood for re-election at the 2013 Annual General Meeting. The articles of association of the Company require the Directors to stand for annual re-election, thus ensuring continued compliance with the UK Code. As such, all Directors will offer themselves for election or re-election (as the case may be) at the 2014 Annual General Meeting, to be held on 13 May 2014, with the exception of Miles Templeman who is retiring at the conclusion of the Annual General Meeting.

Following the formal performance evaluations of each of the Directors and having carefully considered the commitments required and the contribution made by each Director, the Chairman is of the opinion that each Director's performance continues to be effective and continues to demonstrate commitment to the role.

Attendance of Directors at meetings

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

Attendance of Directors

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

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

(2) Geoffrey Martin attends by invitation.

(3) Liz Hewitt was appointed to the Board on 8 October 2013. Since her appointment Ms Hewitt attended each of the remaining Board and Committee meetings through to year end.

Main Principle C: Accountability

Objectives and policy

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

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

The Board is committed to satisfying the internal control guidance for Directors set out in the revised version of the Turnbull Guidance on Internal Control. In accordance with this guidance, there is an ongoing process, regularly reviewed by the Directors, for identifying, evaluating, managing and mitigating (where possible) the significant risks faced by the Group. This process for reviewing the Group's internal controls is consistent with prior years and has been in place throughout the 2013 financial year and up to the date of approval of this Annual Report.

A separate Audit Committee report is set out on pages 66 to 68 and provides details of the role and activities of the Committee and its relationship with the internal and external auditors.

Managing and controlling risk

The Group has policies and internal control frameworks which address a number of key business risks, including strategic, operational, compliance, ethical and financial risks. A summary of the Principal risks and uncertainties that could impact upon the Group's performance is set out on pages 36 to 39.

The Group's financial risk management objectives and policies are also described in the Finance Director's review on pages 40 to 47.

The Group operates on a de-centralised basis and the Board has established an organisational structure with clear reporting procedures, lines of responsibility and delegated authority. Divisional senior management, operational managers and financial controllers have been delegated responsibility by the Board for the establishment and implementation of detailed control systems as appropriate for their business.

An established programme of regular review is in place at the businesses and a culture of continuous improvement is encouraged by the Board through regular meetings with senior management, review of operating performance and progress against business plans. The ongoing process of review provides assurance that the control environment is operating as intended.

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

Following the acquisition of Elster in August 2012, the Company has been working hard to ensure the successful integration of this business into Melrose reporting and governance frameworks, in order to ensure a consistent approach is maintained throughout the Group.

Internal financial controls and reporting

The Group has a comprehensive system for assessing the effectiveness of the Group's internal controls, including strategic business planning and regular monitoring and reporting of financial performance. A detailed annual budget is prepared by senior management and thereafter is reviewed and formally adopted by the Board. The budget and other targets are regularly updated via a rolling forecast process and regular business review meetings are held involving senior management to assess performance. The results of these reviews are in turn reported to and discussed by the Board at each meeting. As discussed in the Audit Committee report on pages 66 to 68, BM Howarth is the Group's internal auditor; they also assumed internal audit responsibility for the Elster businesses from acquisition in August 2012 onwards.

A total of 42 internal audit visits, covering 45.9% of Group turnover, were completed during 2013. These visits include 27 Elster reporting units which, combined with the planned visits for 2014, will ensure that 98% of the Elster units will have been visited by internal audit within two years of acquisition. The Directors are pleased to report that there were no material deficiencies; the majority of the recommendations presented in the internal audit reports have now been, or are in the process of being implemented. Of the 42 sites visited in 2013, three sites have been chosen for "re-visits" in 2014 to ensure that the agreed improvements to systems and processes have been implemented.

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

Whistleblowing, anti-bribery and corruption policies

The Company takes very seriously its responsibilities under the Bribery Act 2010 and has in place appropriate measures to ensure compliance. Policies in place within each business apply to all Directors, employees (whether permanent, fixed-term, or temporary), pension trustees, consultants and other business advisers, contractors, trainees, volunteers, business agents, distributors, joint venture partners, or any other person working for or performing a service on behalf of the Company, its subsidiaries and associated companies in which it has a majority interest.

The Company is currently in the process of updating its compliance policies and this is expected to be finalised during 2014. As part of these ongoing improvements, it is expected that an independent and externally facilitated whistleblowing hotline will be made available to all employees within the Group. This facility is currently only available to Elster employees.

Main Principle D: Remuneration

Following changes to the Companies Act 2006 and in line with new regulations which came into effect on 1 October 2013, details around Directors' remuneration, both generally and as it relates to the UK Code, are set out in the Directors' remuneration report and are now presented in the following three sections:

- the annual statement from the Chairman of the Remuneration Committee, which can be found on pages 70 and 71;
- the annual report on remuneration, which can be found on pages 72 to 77; and
- the Directors' remuneration policy, which can be found on pages 77 to 84.

Main Principle E: Relations with shareholders

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

The Board welcomes the attendance of shareholders at the Annual General Meeting. The results of the voting on each of the resolutions proposed will be announced shortly after the Annual General Meeting has concluded, via the Melrose corporate website at **www.melroseplc.net**.

Audit Committee report

John Grant
Audit Committee Chairman

The Board has delegated to the Audit Committee responsibility for overseeing the financial reporting and internal control review and reporting and for making recommendations to the Board in relation to the appointment of the Company's internal and external auditors.

Member	No. of meetings
John Grant (Chairman)	3/3
Perry Crosthwaite	3/3
Justin Dowley	3/3
Liz Hewitt(1)	1/1
Miles Templeman	3/3

(1) Following her appointment to the Board on 8 October 2013.

Role and responsibilities
The Audit Committee's (the "Committee") role and responsibilities are set out in its terms of reference. These are available on the Company's website and from the Company Secretary at the Registered Office. In discharging its duties, the Committee embraces its role of protecting the interests of shareholders with respect to the integrity of financial information published by the Company and the effectiveness of the audit. Specifically, the Committee is responsible for:

- reviewing and monitoring the integrity of the financial statements of the Group, including the Annual Report and interim report;
- keeping under review the effectiveness of the Group's financial reporting, internal audit and controls, risk management systems and compliance controls;
- focusing and challenging the consistency of accounting policies, methods used to account for significant or unusual transactions and compliance with accounting standards;
- reviewing the Group's arrangements for its employees to raise concerns in confidence about possible wrongdoing in financial reporting, in accordance with the Company's whistleblowing policy;
- developing, implementing and monitoring the Group's policy on external audit and for overseeing the objectivity and effectiveness of the auditor; and
- reviewing and considering the Annual Report and financial statements to ensure that it is fair, balanced and understandable and advising the Board that the statement can be made by the Board that this is the case.

Composition
Each member of the Committee is deemed to be independent by the Company and brings recent and relevant financial experience from senior executive and non-executive positions as described in their biographies on pages 56 and 57. Given her financial qualifications and relevant experience, the Board concluded that Liz Hewitt should be invited to join the Committee.

The Company Secretary acts as secretary to the Committee.

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

Summary of meetings in the year
The Committee is expected to meet not less than three times a year. In 2013, the Committee met in March, August and November. The scheduling of these meetings is designed to be aligned with the financial reporting timetable thereby enabling the Committee to review the Annual Report and financial statements, the interim financial report and the audit plan ahead of the year end audit and maintaining a view of the internal controls and processes throughout the year.

The attendance of its members at these meetings is shown above.

Significant issues related to the financial statements
In discharging its duties under its terms of reference, the Committee undertook the following recurring activities that receive annual scrutiny:

- reviewed the Annual Report and financial statements and interim financial report. As part of this review the Committee received a report from the external auditor on their audit of the Annual Report and the financial statements and review of the interim report;
- considered the processes in place to generate forecasts of cash flows and accounting valuation information, including the reasonableness and consistent use of assumptions;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and financial statements on this matter;
- considered the Annual Report and financial statements in the context of being fair, balanced and understandable and reviewed the content of a paper prepared by management with regard to this principle in relation to the 2013 Annual Report and financial statements. Advised the Board that in its view, the 2013 Annual Report and financial statements when taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- reviewed and agreed the scope of the audit work to be undertaken by the auditor.

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

The Audit Committee's activities during 2013

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
Provisions for legal and environmental claims and other provisions The level of provisioning for legal and environmental claims and other provisions require significant judgement. Although provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided. (Refer to notes 3 and 20)	The Committee considered management's proposed provisioning in respect of these legal and environmental claims and other provisions including the key judgements made and relevant legal advice. The external auditor also reported on all material provisions to the Committee. Having considered the matter and sought guidance from the external auditor, the Committee concluded that management's proposed provisioning and the associated disclosures in the Annual Report were appropriate.
Classification of exceptional items The reporting, classification and consistency of exceptional items, specifically restructuring and fair value releases, were an area of focus for the Committee. (Refer to note 6)	The Committee considered the nature, classification and consistency of exceptional items. These items were detailed in the external auditor's paper to the Committee. The Committee considered this issue and concluded that these exceptional items were appropriately captured and disclosed.
Taxation risks and recognition of deferred tax assets Judgement is required in determining the Group's provision for income taxes including estimating tax provisions where additional current tax may become payable in the future following the audit by the tax authorities of previously filed tax returns. Judgement is also required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. (Refer to notes 3, 8 and 21)	Management's taxation judgements, accounting treatment and the appropriateness of tax disclosures have been reviewed by the Committee. The Committee considered whether, from an accounting perspective, an update was required to the tax provisions previously recorded in respect of specific exposures identified. In addition the Committee reviewed the tax implications of corporate transactions undertaken during the year. The Committee debated whether additional deferred tax assets should be brought onto the Balance Sheet as a consequence of, for example, the expected timing of future corporate transactions. Having taken input from the external auditor, the Committee agreed with management's proposed treatment of tax risks and deferred tax assets.
Impairment of goodwill, intangible assets and other fixed assets The judgements in relation to goodwill impairment testing relate to the assumptions applied in calculating the value in use of the cash-generating units being tested for impairment. The key assumptions applied in the calculation relate to the future performance expectations of the cash-generating units. The Committee has also considered the related disclosures within the financial statements. (Refer to notes 3 and 12)	Business plans prepared by management supporting future performance expectations used in the calculation were approved by the Board. The Committee received a detailed report on the outcome of the impairment review performed by management. The impairment review was also an area of focus for the external auditor, who reported their findings to the Committee. The Committee considered management's approach, the assumptions applied in relation to the impairment of goodwill, intangible assets and other fixed assets and related disclosures and, having taken input from the external auditor, agreed with management's assessment that there were no indicators of impairment for any of the Group's business units during the year.
Valuation of pension liabilities The calculation of the accounting position at the year end of the Group's pension liabilities is based on material judgemental estimates. (Refer to notes 3 and 23)	The Committee has considered the appropriateness of the actuarial assumptions applied by management to the valuation of the Group's retirement plans at the year end. These assumptions were reviewed with the external auditor, with input and assistance from employee benefit experts. The Committee supported the assumptions and judgements applied by management.

Audit Committee report
continued

External audit

Appointment, re-appointment and assessment of effectiveness

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

The external auditor is required to rotate the audit signing partner every five years. The Group's audit signing partner changed as part of that rotation process in 2010 and therefore partner rotation is due in the financial year ending 31 December 2015.

The Committee has reviewed the external auditor's performance and effectiveness taking into account input from management together with feedback from the Public Report on the Audit Quality Inspection of Deloitte LLP, issued by the Financial Reporting Council in May 2013. In making its assessment, the Committee focused on the robustness of the audit, the quality of delivery of audit services and the quality of the auditor's staff. Based on this information, the Committee concluded that the external audit process is operating effectively and Deloitte LLP continues to prove effective in its role as external auditor. As detailed below, the Committee regularly monitors the objectivity and independence of the external auditor.

Deloitte LLP was appointed in 2003 when the Company commenced trading and the external audit has not been formally tendered since then. The Committee is satisfied that the effectiveness and independence of the external auditors is not impaired in any way. There are no legal or contractual obligations that restrict the Group's capacity to recommend a particular firm for appointment as auditor and therefore a resolution proposing the reappointment of Deloitte LLP as external auditors will be put to the shareholders at the 2014 Annual General Meeting.

Audit tendering

The Committee is mindful of the recommendations of the UK Corporate Governance Code that the external audit should be put out to tender every 10 years. The Company will comply with the Competition Commission Order relating to the statutory audit market for FTSE350 companies, which is expected to come into effect from 1 October 2014. Under the proposed transitional arrangements, the Committee expects a formal tender process to be held no later than two years from the end of the current audit engagement partner rotation period which is due in the year ending 31 December 2015. This matter will be kept under review.

Non-audit services

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

During 2013, the main non-audit services provided by Deloitte LLP were in relation to taxation advisory, compliance and planning services.

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

Auditor objectivity and independence

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

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

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

Internal audit

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

The internal auditor's remit includes assessment of the effectiveness of internal control systems, compliance with the Group's Policies and Procedures Manual and a review of the businesses' Balance Sheets. A report of key findings and recommendations is presented to the Group Finance Director, the Head of Financial Reporting and the Group Operations Controller, followed by a meeting to discuss these key findings and to agree on resulting actions.

BM Howarth present their key findings to the Committee twice during the year. These presentations include details of the site coverage for the previous year and an outline of the planned visits for the current year. A review of the internal audit process and scope of work covered by the internal auditor is the responsibility of the Committee, to ensure their objectives, level of authority and resources are appropriate for the nature of the businesses under review. The Committee also reviews BM Howarth's performance against the agreed internal audit programme. A report of significant findings is presented by the internal auditor to the Committee at each meeting and implementation of recommendations by the Board is followed up at the subsequent Committee meeting.

John Grant
Chairman, Audit Committee
5 March 2014

Nomination Committee report

Miles Templeman
Nomination Committee Chairman

The Nomination Committee has overall responsibility for ensuring that the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

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

(1) Following her appointment to the Board on 8 October 2013.

Committee responsibilities
The Nomination Committee (the "Committee") discharges these responsibilities through:

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

The Committee is expected to meet not less than twice a year and during 2013 the Committee met twice. The attendance of its members at these Committee meetings is shown above.

The Committee's full terms of reference are available to view on the Company's website at: **www.melroseplc.net/about-us/governance/nomination-committee**

Further details regarding the composition, diversity policy and the 2013 activities of the Committee are shown below.

Composition
In compliance with the UK Corporate Governance Code, the majority of the members of the Committee were independent non-executive Directors throughout 2013. During the year, the Committee was chaired by Miles Templeman, with Perry Crosthwaite, John Grant and Justin Dowley also serving throughout the year. Liz Hewitt became a member of the Committee upon her appointment to the Board on 8 October 2013 (see "Succession planning" and "What the Committee did in 2013", below, for further details). Christopher Miller, Executive Chairman of the Board, was also a member of the Committee throughout the year.

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

Whilst the Committee will endeavour to pursue diversity, including gender diversity throughout the Melrose Group and concurs with the recommendations of Lord Davies' review, "Women on Boards", the Committee does not think it appropriate to have, nor will it be committing to, any specific diversity targets in relation to the composition of the Board, or the wider businesses within the Group.

Succession planning
In line with the succession planning responsibilities of the Committee, the decision was taken in early 2013 to recruit another non-executive Director to the Board, in order to take account of the impending retirement of Miles Templeman from the position of Senior non-executive Director, at the conclusion of the 2014 AGM. It was also felt by the Committee that an additional non-executive Director serving on the Melrose Board would further complement the skill set of the Board.

The Committee undertook a formal and rigorous recruitment exercise to find a suitable non-executive Director to join the Melrose Board (see "What the Committee did in 2013", below, for further details). Following this process, the Committee recommended to the Board the appointment of Liz Hewitt, on 8 October 2013. In accordance with the Articles, Ms Hewitt will stand for election as a Director of the Company at the 2014 AGM.

At the conclusion of the 2014 AGM, Liz Hewitt will replace Miles Templeman as Chairman of the Committee.

What the Committee did in 2013
The main focus of the Committee during 2013, as described above, was the recruitment of a new non-executive Director to the Board.

After the discussion of alternatives, the Committee decided to use the services of Stonehaven Executive Search, an external recruitment firm who have no other connection with the Company, to conduct an extensive search exercise.

Following a formal and rigorous recruitment process, the Committee recommended to the Board that Ms Hewitt's long-established and highly pertinent experience would be of significant benefit to Melrose as the business continues to grow. As such, Ms Hewitt was appointed to the Board on 8 October 2013 and subsequently also became a member of the Audit, Remuneration and Nomination Committees.

Miles Templeman
Chairman, Nomination Committee
5 March 2014

Directors' remuneration report

Perry Crosthwaite
Remuneration Committee Chairman

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

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

(1) Following her appointment to the Board on 8 October 2013.

Dear Shareholder,
On behalf of the Board, I am pleased to present our report on Directors' remuneration at the end of yet another highly successful year. The Directors' remuneration report sets out the amounts earned in respect of the year ended 31 December 2013 and the remuneration policy for the Directors of Melrose.

New regulations have come into effect which impact the presentation and disclosure of Directors' remuneration and the lay-out of this report reflects those new regulations. This report is, therefore, presented in two sections: the Annual Report on Remuneration and the Directors' remuneration policy. The Annual Report on Remuneration provides details on the amounts earned in respect of the year ended 31 December 2013 and will be subject to an advisory vote at the AGM. The Directors' remuneration policy sets out the forward-looking remuneration policy that will be subject to a binding vote at the AGM and shall take binding effect from the conclusion of that meeting.

Since flotation in 2003 Melrose has always obtained special resolution support (requiring 75% shareholder approval, rather than the simple majority approval required for an ordinary resolution) for its Directors' long-term incentive arrangements from shareholders, including in respect of the 2012 Incentive Plan (the **"**LTIP**"**) that was established in 2012. Your Board understands that these arrangements are fundamental to achieving the strong returns for shareholders since flotation and closely align the interests of Directors and senior employees to those of shareholders. Base salaries and annual bonuses are deliberately set at or below the lower end of a market competitive range compared to companies of similar size and complexity to ensure a clear focus on generation of long-term value through the LTIP. The level of reward earned by Directors and senior management under the LTIP will be dependent upon shareholder value created.

Performance in 2013
2013 was a strong year for Melrose and marked another milestone in our "buy, improve, sell" strategy:

- We crystallised more than three times the original shareholder value in five of the "FKI" businesses acquired in 2008.
- These five disposals yielded a total consideration of approximately £950 million, together more than tripling shareholder value in respect of these businesses during five years of Melrose ownership.
- In accordance with our strategy, the Board has returned approximately £600 million in cash to shareholders, equivalent to 47.0 pence per existing ordinary share. The balance of the net proceeds has been used to pay down existing borrowings of the Company.
- The Elster improvement plan is ahead of schedule, with operating margin increased by 5* percentage points to 17.4% and operating profit up 37%*.
- Headline diluted earnings per share from continuing operations of 12.8p (2012: 9.4p*), an increase of 36%.
- Group revenue for continuing operations during the year was £1,732.8m (2012: £1,051.1m).
- Group headline profit for continuing operations before tax was £226.1m (2012: £117.9m).
- Full year dividend of 7.75p per share (2012: 7.6p per share).

It is with this in mind and in line with Melrose's remuneration philosophy of pay for performance, that the Remuneration Committee has taken its decisions in respect of executive Directors' remuneration arrangements for 2013 and 2014.

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

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

- Base salary: Base salaries for all executive Directors are deliberately set at or below the lower end of a market competitive range compared to companies of similar size and complexity. Since flotation in 2003 all current executive Directors have received the same annual increases to base salary; in the last five years these increases have averaged 3%.
- Pension: Pension contributions/salary supplements for executive Directors are payable at the level of 15% of base salary, which is considered modest for a business of the size and complexity of Melrose. No executive Director participates in, or has ever participated in, any Melrose defined benefit pension scheme.

* assuming a full year's ownership of Elster in 2012, as explained in the Finance Director's review.

- Annual bonus: The maximum bonus payable is set at 100% of base salary. All Directors who participate in the annual bonus scheme receive the same percentage bonus. In the last five years, the average percentage of base salary payable has been 84%. The maximum opportunity is deliberately positioned below the median maximum opportunity for FTSE 100 companies.
- Long-term incentives: The only long-term incentive arrangement in which the executive Directors participate is the 2012 Incentive Plan which was approved by shareholders by special resolution in a General Meeting held on 11 April 2012. Entitlements under the 2012 Incentive Plan, details of which are provided on page 74, were awarded in April 2012. Any payment made will be dependent upon shareholder value generated over a five year time period.

The Remuneration Committee strongly believes that this simple and transparent incentive framework is aligned with the Company's strategy for growth. We believe that this remuneration strategy has also directly driven historical out-performance, supported the Company's success and has clearly led to increased shareholder value. In this regard, our remuneration arrangements are tailored to the culture and strategy of the Company, take account of the current and forecast economic climate and provide a strong platform for the ongoing long-term success of the Company.

The remuneration policy has also enabled the executive Directors to build up and retain significant shareholdings in the Company. Further detail is given on page 74; however, the table below shows the number of Ordinary Shares held by the executive Directors as at 31 December 2013 and the value of each executive Director's shareholding at that date as a multiple of his 2013 base salary.

Executive Director	Number of shares held at 31 December 2013	Value of shares held at 31 December 2013[1]	Value of shares held at 31 December 2013 as a multiple of 2013 base salary
Christopher Miller	17,300,343[2]	£52,887,149	125
David Roper	9,584,633	£29,300,223	69
Simon Peckham	9,664,068	£29,543,056	69
Geoffrey Martin	4,758,797	£14,547,642	43

(1) For these purposes, the value of a share is 305.7 pence, being the closing mid-market price on 31 December 2013.

(2) As at 31 December 2013, the interest of Christopher Miller included 6,760,000 Ordinary Shares held by Harris & Sheldon Investments Limited, a company which is connected with Christopher Miller within the meaning of section 252 of the Companies Act 2006.

2013 key decisions and incentive pay-outs

The Remuneration Committee remains committed to a responsible approach to executive pay. As described in the business review section of this Annual Report and highlighted above, the Company delivered strong financial and operational results in 2013. The executive Directors' remuneration rewards that performance.

Annual bonuses for executive Directors are based on diluted earnings per share growth and a discretionary element based on the achievement of a range of operational deliverables. Bonuses of 100% of maximum were awarded to the executive Directors in respect of 2013.

In line with increases in previous years, an inflationary increase of 3% was made to the executive Directors' salaries with effect from 1 January 2013, the same as for other head office employees.

Awards under the 2012 Incentive Plan were made in April 2012 and are due to crystallise in May 2017; accordingly no executive Director received any pay-out under a long-term incentive plan in 2013. Any payment made will be dependent upon shareholder value created by May 2017. While potential value attributable to the 2012 Incentive Plan is included in the charts on page 81, this is included for illustrative purposes only. The value ultimately delivered under this plan will be determined by reference to the value delivered to shareholders over the period to crystallisation, such that the value shown in those charts is unlikely to reflect the value ultimately delivered.

Remuneration policy for 2014

The remuneration policy is set out for shareholder approval in the policy report on pages 77 to 84. Details of how the policy will be applied in practice for 2014 are set out in the Annual Report on Remuneration on page 76. Executive Directors' base salaries have been increased by 3% with effect from January 2014, the same as for other head office employees. Non-executive Directors' basic fees increased by 3% with effect from January 2014. The additional fees payable to the Committee Chairmen and Senior Independent Director (which have been unchanged since 2006) have been reviewed. The additional fees were considered to be below the market competitive range and have, therefore, been increased, with effect from the 2014 AGM, to bring them more in line with the market; the previous and new fee levels are set out in the table on page 76. No other changes have been made to the structure of our executive Director remuneration for the coming year.

Shareholder engagement

We remain committed to maintaining an open and transparent engagement with our investors. We believe that a key objective of the Directors' remuneration report is to communicate clearly how much our executive Directors are earning and how this is clearly linked to performance. I trust that you will find the new style report informative.

Perry Crosthwaite
Chairman of the Remuneration Committee
5 March 2014

Directors' remuneration report continued

Annual report on remuneration

Single total figure of remuneration (audited information)

In accordance with the new regulations governing the reporting of Directors' remuneration, the total figure of remuneration set out in the tables adjacent includes the value of long-term incentive vesting in respect of the financial year.

As set out on page 74, the executive Directors' entitlements under the 2012 Incentive Plan were granted in April 2012 and deliver to participants part of the growth in value of the Company over the five year period from March 2012 until May 2017 (or an earlier trigger date determined in accordance with the arrangements). This means that for the year ended 31 December 2013, no long-term incentive vested in respect of the financial year.

The value of long-term incentives shown for the year ended 31 December 2012, relates to the crystallisation of the 2009 Incentive Share Plan on 11 April 2012. It should be noted that this value was earned over a period of approximately five years from 18 July 2007 and no other long-term incentive plan vested in favour of any executive Director in this period. As disclosed in the Directors' remuneration report for the year ended 31 December 2012, during the term of the 2009 Incentive Share Plan the Directors and senior management team were successful in generating real returns for shareholders: market capitalisation just prior to the maturity date of the 2009 Incentive Share Plan was £1.65 billion against a net shareholder investment of approximately £14 million and approximately £1.5 billion of shareholder value was created; headline EPS increased by 120%; dividends to shareholders increased by 93%; and total shareholder return was 197% against a return of 15% for the FTSE 350.

Year ended 31 December 2013

	Total salary and fees £	Taxable benefits £	Annual bonus £	Long-term incentives(1), (6) £	Pension related benefits(2) £	Total £
Christopher Miller	422,100	19,293	–	–(6)	63,315	**504,708**
David Roper	422,100	18,893	–	–(6)	63,315	**504,308**
Simon Peckham	422,100	19,761	422,100	–(6)	63,315	**927,276**
Geoffrey Martin	337,800	55,891	337,800	–(6)	50,653	**782,144**
Miles Templeman	60,100	–	–	–	–	**60,100**
Perry Crosthwaite(3)	65,100	–	–	–	–	**65,100**
John Grant(4)	65,100	–	–	–	–	**65,100**
Justin Dowley	60,100	–	–	–	–	**60,100**
Liz Hewitt(5)	14,177	–	–	–	–	**14,177**
Total	**1,868,677**	**113,838**	**759,900**	**–**	**240,598**	**2,983,013**

(1) The Company's long-term incentive arrangement for Directors is the 2012 Incentive Plan. This five year plan is scheduled to crystallise in 2017 and, accordingly, no value vested to participants in respect of the year to 31 December 2013.

(2) Of the £240,598 attributable to pension contributions, £159,298 was paid as a supplement to base salary in lieu of pension arrangements. The balance of £81,300 was paid into the individual Directors' nominated private pension plans.

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

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

(5) Liz Hewitt was appointed as a non-executive Director of the Company on 8 October 2013.

(6) Under the new regulations the Company is required to only include sums that are vested under the 2012 Incentive Share Plan as at 31 December 2013. However, for the sake of transparency, the Company has set out in this footnote an indicative value attributable to the 2012 Incentive Share Plan. Note 22 on page 128 of this Annual Report illustrates that using the Black Scholes option pricing model, the estimated value of the 2012 Incentive Share Plan as at 31 December 2013 was £73.0 million. One fifth (representing one year of the intended five year life of this plan) of each of Messrs Miller's, Roper's, Peckham's and Martin's pro-rata share of this value would be £2,482,000. It is important to note that the valuation is purely indicative and is likely to vary given that the value delivered under the plan is entirely determined by reference to the value delivered to shareholders over the period to crystallisation.

Year ended 31 December 2012

	Total salary and fees £	Taxable benefits £	Annual cash bonus £	Long-term incentives(6) £	Pension related benefits(5) £	Total £
Christopher Miller	409,800	19,454	–	30,448,018	61,470	**30,938,742**
David Roper	409,800	19,060	87,424(1)	30,448,018	61,470	**31,025,772**
Simon Peckham	409,800	19,338	262,272	30,448,018	61,470	**31,200,898**
Geoffrey Martin	327,900	51,069	209,856	19,030,011	49,185	**19,668,021**
Miles Templeman(2)	59,235	–	–	–	–	**59,235**
Perry Crosthwaite(3)	63,350	–	–	–	–	**63,350**
John Grant(4)	62,465	–	–	–	–	**62,465**
Justin Dowley	58,350	–	–	–	–	**58,350**
Total	**1,800,700**	**108,921**	**559,552**	**110,374,065**	**233,595**	**113,076,833**

(1) David Roper's cash bonus for 2012 was paid on a pro-rata basis reflecting the period for which he held the office of Chief Executive Officer. No cash bonus was paid for the period from 9 May 2012, which is the date on which he became Executive Vice-Chairman.

(2) Miles Templeman was Chairman of the Audit Committee up to 6 March 2012 but was then replaced by John Grant. Mr Templeman received an amount of £885 in recognition of Chairmanship of the Audit Committee from 1 January 2012 to 6 March 2012.

(3) Includes £5,000 in recognition of Chairmanship of the Remuneration Committee.

(4) John Grant became Chairman of the Audit Committee on 6 March 2012, in place of Miles Templeman. In recognition of Mr Grant's Chairmanship of this Committee from 6 March 2012 to 31 December 2012 an amount of £4,115 was paid.

(5) Of the £233,595 attributable to pension related benefits, £152,295 was paid as a supplement to base salary in lieu of pension arrangements. The balance of £81,300 was paid into the individual Directors' nominated private pension plans.

(6) The figures quoted within the long-term incentive column above represent the total market value of the Ordinary Shares awarded to each of the executive Directors following crystallisation of the 2009 Incentive Share Plan on 11 April 2012. These amounts were earned in respect of the circa five year period from July 2007 to April 2012. Under the new regulations a payment in respect of a five year period has to be recorded as paid in the year of vesting, rather than apportioned over the period it was earned. The market value of each Ordinary Share on this date was 406 pence. The total number of Ordinary Shares obtained by the executive Directors following crystallisation was 27,185,731. This value and the numbers of shares are stated before the rights issue that took place in August 2012.

Base salary

Salaries are fixed at a level which is at or below the lower end of a market competitive range compared to companies of similar size and complexity, to reflect participation in the 2012 Incentive Plan. Each executive Director received an inflationary increase in base salary of approximately 3% effective from January 2013.

Benefits

The range of benefits provided to Directors has not changed in the last three years and there is no intention to widen the range of benefits Directors may receive. All of the executive Directors received other taxable benefits during 2013, being a company car allowance, private fuel allowance and private medical insurance. Mr Martin also received paid train travel to and from London and accommodation whilst working in London.

Bonus

The maximum bonus opportunity is set below the maximum median annual bonus opportunity for FTSE 100 companies to reflect the participation of the executive Directors in the 2012 Incentive Plan. For the year ended 31 December 2013, Simon Peckham's and Geoffrey Martin's (being the only executive Directors participating in the annual bonus plan) bonus opportunity was equal to 100% of base salary and bonuses earned were equal to 100% of base salary.

Scheme interests awarded during the year

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

Payments to past Directors

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

Payments for loss of office

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

Executive Director	Performance measure	Weighting	Target	Performance	Level of award
Simon Peckham **Geoffrey Martin** (each of these executive Directors participated in the annual bonus plan on the same basis)	Growth in diluted earnings per share. For these purposes earnings per share is adjusted for the impact of transactions.	80%	The percentage of this element of the bonus which is earned is calculated by reference to EPS growth and subject to a five x multiple (capped at 80% of salary).	For 2013, growth in earnings per share (as adjusted, for the purposes of the annual bonus, for the impact of transactions) was 26%. Applying the multiple of 5 results in a figure of 130%. Accordingly, 80% of salary was earned for this element.	80% of salary (100% of the maximum for this element of the bonus).
	Discretionary element.	20%	Determined to the extent assessed by the Remuneration Committee between 0% and 20% of salary based on a range of financial and non-financial metrics.	The factors taken into account for the purposes of the 2013 bonus include: • corporate actions and disposals including the disposal of five Group businesses; • working capital management; • Group structural reorganisations, for example Elster Water; • liability management; • the settlement of US and UK litigation; • accounting/finance initiatives, for example the completion of the fair value process and replacement of existing financial reporting systems; and • changes implemented to the 2014 medical plans yielding significant year-on-year savings. The Remuneration Committee determined that a bonus equal to 20% of salary for this element should be paid.	20% of salary (100% of the maximum for this element of the bonus).

Directors' remuneration report continued

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

As disclosed at the time of the crystallisation of the 2009 Incentive Share Plan, the executive Directors considered it appropriate that they, together with their immediate families, would hold at least half of the shares acquired pursuant to that crystallisation (after making adequate provision for any tax liability arising in connection with that crystallisation) for the foreseeable future. Accordingly, the Remuneration Committee has adopted the following guidelines in relation to the holding of Ordinary Shares by executive Directors who participated in the 2009 Incentive Share Plan and who participate in the 2012 Incentive Plan, reinforcing the executive Directors' long-term stewardship of the Company and long-term investment in the Company's shares. No executive Director may dispose of any such Ordinary Shares without the consent of the Remuneration Committee, which will not normally be withheld provided the executive Director holds at least the "minimum number of Ordinary Shares" referred to below.

Executive Director	Minimum number of Ordinary Shares to be held by the executive Directors	Number of Ordinary Shares held as at 31 December 2013	Value of Ordinary Shares held as at 31 December 2013 as a multiple of salary for the year ended 31 December 2013[2]
Christopher Miller	1,749,756	17,300,343[1]	125
David Roper	1,649,756	9,584,633	69
Simon Peckham	1,874,878	9,664,068	69
Geoffrey Martin	1,054,619	4,758,797	43

(1) As at 31 December 2013, the interest of Christopher Miller included 6,760,000 Ordinary Shares held by Harris & Sheldon Investments Limited, a company which is connected with Christopher Miller within the meaning of section 252 of the Companies Act 2006.

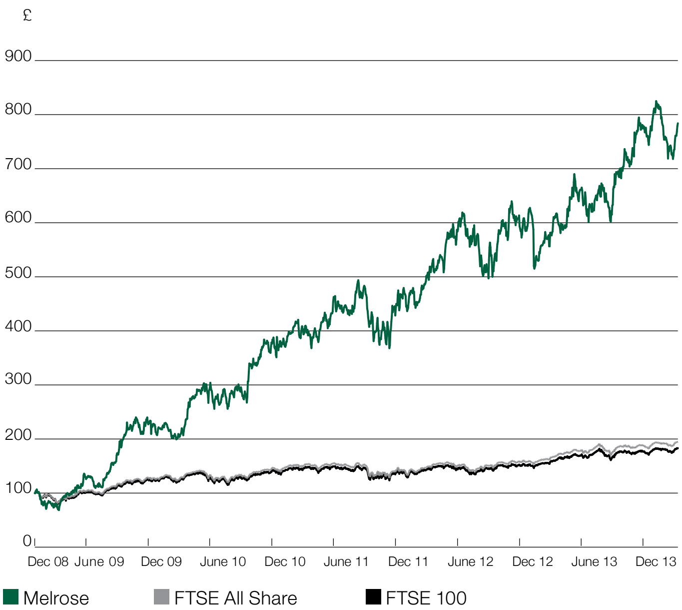
(2) For these purposes, the value of an Ordinary Share is 305.7 pence, being the closing mid-market price on 31 December 2013.

As at 31 December 2013, each executive Director held significantly more than the minimum number of Ordinary Shares and so satisfied the guideline.

Performance graph

The total shareholder return graph below shows the value as at 31 December 2013 of £100 invested in the Company on 31 December 2008, compared with £100 invested in the FTSE 100 Index or the FTSE All Share Index. The Remuneration Committee considers the FTSE 100 Index and the FTSE All Share Index to be appropriate indices for the purposes of this comparison because of the comparable size of the companies which comprise the FTSE 100 Index and the broad nature of companies which comprise the FTSE All Share Index. The source data for the graph below assumes that all cash returns to shareholders made by the Company during this period are reinvested in Ordinary Shares.

Performance graph



Director	Type	Ordinary Shares held as at 31 December 2013[1]	Vested interests under share schemes	Unvested interests under share schemes: Subject to performance conditions	Unvested interests under share schemes: Not subject to performance conditions
Christopher Miller	Ordinary Shares	17,300,343[2]	N/A	N/A	N/A
	Option[3]	N/A	N/A	8,500	N/A
David Roper	Ordinary Shares	9,584,633	N/A	N/A	N/A
	Option[3]	N/A	N/A	8,500	N/A
Simon Peckham	Ordinary Shares	9,664,068	N/A	N/A	N/A
	Option[3]	N/A	N/A	8,500	N/A
Geoffrey Martin	Ordinary Shares	4,758,797	N/A	N/A	N/A
	Option[3]	N/A	N/A	8,500	N/A
Miles Templeman	Ordinary Shares	692,343	N/A	N/A	N/A
Perry Crosthwaite	Ordinary Shares	222,377	N/A	N/A	N/A
John Grant	Ordinary Shares	295,817	N/A	N/A	N/A
Justin Dowley	Ordinary Shares	425,867	N/A	N/A	N/A
Liz Hewitt	Ordinary Shares	6,550	N/A	N/A	N/A

(1) The Directors' holdings in Ordinary Shares were adjusted in the share consolidation in February 2014 in the same manner as other shareholders. Accordingly, following the consolidation: Christopher Miller held 14,638,751 Ordinary Shares (including 5,720,000 Ordinary Shares held by Harris & Sheldon Investments Limited, a company which is connected with Christopher Miller within the meaning of section 252 of the Companies Act 2006), David Roper held 8,110,074 Ordinary Shares, Simon Peckham held 8,177,288 Ordinary Shares, Geoffrey Martin held 4,026,674 Ordinary Shares, Miles Templeman held 585,828 Ordinary Shares, Perry Crosthwaite held 188,165 Ordinary Shares, John Grant held 250,306 Ordinary Shares, Justin Dowley held 360,349 Ordinary Shares and Liz Hewitt held 5,542 Ordinary Shares.

(2) As at 31 December 2013, the interest of Christopher Miller included 6,760,000 Ordinary Shares held by Harris & Sheldon Investments Limited, a company which is connected with Christopher Miller within the meaning of section 252 of the Companies Act 2006.

(3) Each of these options is over 2012 Incentive Shares. Although the option can be exercised at any time, the value which may be derived from the shares acquired on exercise will be determined at the relevant "trigger date" as discussed on page 79. 2012 Incentive Shares acquired on or before the trigger date may be forfeited in accordance with the Company's articles of association. The option exercise price is £1 per share, which is equal to the nominal value of those shares.

Chief Executive Officer's remuneration for previous five years

In accordance with the new regulations governing the reporting of Directors' remuneration the total figure of remuneration set out in the table below includes the value of long-term incentive vesting in respect of the financial year. This means that the full value of the crystallisation of the 2009 Incentive Share Plan on 11 April 2012 is shown for the year ending 31 December 2012 and no value will be reflected in the total figure of remuneration for the 2012 Incentive Plan until the trigger date (which will be May 2017 or an earlier trigger date determined in accordance with the arrangements).

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

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

Financial year	Chief Executive Officer	Total remuneration	Total remuneration excluding the long-term incentive value	Annual bonus as a percentage of maximum opportunity	Long-term incentives as a percentage of maximum opportunity
Year ended 31 December 2013	Simon Peckham	927,276	927,276	100%	–
Year ended 31 December 2012[1]	Simon Peckham	20,280,584[3]	489,372	64%	N/A[2]
	David Roper	10,915,846[3]	259,040	64%	N/A[2]
Year ended 31 December 2011	David Roper	811,152	811,152	84%	–
Year ended 31 December 2010	David Roper	849,341	849,341	100%	–
Year ended 31 December 2009	David Roper	712,372	712,372	70%	–

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

(i) the "Total remuneration" figure shows, in respect of David Roper, his total remuneration in respect of his service in the period 1 January 2012 to 9 May 2012 and in respect of Simon Peckham his total remuneration in respect of his service in the period from 9 May 2012 to 31 December 2012. Included in this figure for each of David Roper and Simon Peckham is the value of the long-term incentives vesting in the year pro-rated to reflect the portion of the year for which he was Chief Executive Officer; and

(ii) the "Total remuneration excluding the long-term incentive value" shows in respect of each of David Roper and Simon Peckham total remuneration in respect of the period for which he was Chief Executive Officer excluding any value received on the maturity in April 2012 of the 2009 Share Incentive Plan.

(2) On the crystallisation in April 2012 of the 2009 Incentive Shares awarded in 2009, participants in the 2009 Incentive Share Plan as a whole were entitled to 10% of the increase in shareholder value from 18 July 2007 to 23 March 2012. As the value derived on the crystallisation of the 2009 Incentive Shares depended upon the shareholder value created over the relevant period, it is not possible to express the value derived as a percentage of the maximum opportunity. The crystallisation of the 2009 Incentive Shares was satisfied by the conversion of those shares into Ordinary Shares.

(3) The value derived in 2012 from the 2009 Incentive Shares represents the Chief Executive's share, determined in accordance with the terms of those shares, of the shareholder value created over a period of circa five years.

Directors' remuneration report continued

Percentage change in Chief Executive Officer's remuneration

The table below sets out, in relation to salary, taxable benefits and annual bonus, the percentage increase in pay for the Company's Chief Executive Officer compared to the average increase for a group consisting of the Company's senior head office employees, Managing Directors and Finance Directors of Group businesses and direct senior reports of those Managing Directors and Finance Directors. The percentages shown below relate to the financial year ended 2013 as a percentage comparison to the financial year ended 2012. This group of senior management was considered an appropriate comparator group because of their level of seniority and the structure of their remuneration package. The spread of the Company's operations across various countries and industries means that remuneration policies vary to take account of geography and industry such that the Remuneration Committee considers that selecting a wider group of employees would not provide a meaningful comparison.

Element of remuneration	Chief Executive Officer percentage change[(1)]	Company's senior head office employees, Managing Directors and Chief Financial Directors of Group businesses and direct senior reports of those Managing Directors and Chief Financial Directors – average percentage change
Basic salary	+3%	+9%
Benefits	+2.7%	-8.9%
Annual bonus	+63.7%	+57.2%

(1) In the year ending 31 December 2012, David Roper was Chief Executive Officer for the period from 1 January 2012 until 9 May 2012 and Simon Peckham was Chief Executive Officer for the period from 9 May 2012, onwards. In the table above, the changes in the Chief Executive Officer's basic salary, benefits and bonus are calculated by reference to the amounts earned by David Roper and Simon Peckham in the period for which each was Chief Executive Officer.

Relative importance of spend on pay

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

Expenditure	Year ended 31 December 2012	Year ended 31 December 2013	Percentage change
Remuneration paid to all employees	£359.8 million[(1)]	£471.4 million[(1)]	31%
Distributions to shareholders by way of dividend and share buy back	£65.7 million	£98.1 million[(2)]	49.3%

(1) The figure for the year ended 31 December 2012 is the restated year end 31 December 2012 total staff costs as stated in note 7 on page 113 of the 2013 Annual Report and financial statements and the figure for the year ended 31 December 2013 is the year end 31 December 2013 total staff costs as stated in note 7 on page 113 of the 2013 Annual Report and financial statements. In light of the Company's business model of buy, improve, sell and return of capital to shareholders your Board does not consider that the table is meaningful in the context of the Group's remuneration structure which provides a strong alignment with shareholder interests.

(2) The figure for year ended 2013 does not include the return of capital to shareholders in February 2014.

Implementation of Directors' remuneration policy for the financial year commencing on 1 January 2014

The Remuneration Committee strongly believes that its remuneration framework is aligned with the Company's strategy for growth and no structural changes to the Directors' remuneration arrangements are proposed for 2014. Executive Directors' salaries have increased by 3% with effect from January 2014. Non-executive Directors' basic fees increased by 3% with effect from January 2014. The additional fees payable to the Committee Chairmen and Senior non-executive Director (which have been unchanged since 2006) have been reviewed. The additional fees were considered to be below the market competitive range and have, therefore, been increased, with effect from the 2014 AGM, to bring them more in line with the market. The previous and new fee levels are set out in the table below.

Fee element	Previous fee	New fee
Basic non-executive Director fee	£60,100	£61,900 (with effect from January 2014)
Additional fee for holding the Chairmanship of the Remuneration Committee	£5,000	£10,000 (with effect from the 2014 AGM)
Additional fee for holding the Chairmanship of the Audit Committee	£5,000	£10,000 (with effect from the 2014 AGM)
Additional fee for holding the Chairmanship of the Nomination Committee	£0	£2,500 (with effect from the 2014 AGM)
Additional fee for holding the position of Senior non-executive Director	£0	£5,000 (with effect from the 2014 AGM)

Consideration by the Directors of matters relating to Directors' remuneration

The responsibilities of the Remuneration Committee

The Remuneration Committee is responsible for:

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

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

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

The members of the Remuneration Committee

The members of the Remuneration Committee during the year were Perry Crosthwaite (Committee Chairman), Justin Dowley, John Grant and Miles Templeman. Liz Hewitt also became a member of the Remuneration Committee on 8 October 2013, following her appointment to the Board. The Company regards all members of the Remuneration Committee as independent non-executive Directors; the composition of the Remuneration Committee is therefore in accordance with the UK Corporate Governance Code. During the year, the Remuneration Committee met twice. Miles Templeman did not attend one of the meetings and Liz Hewitt did not attend the meeting which took place before her appointment; other than in these two cases all members were in attendance.

Advisers to the Remuneration Committee

During the year, the Remuneration Committee received advice on the new remuneration reporting regulations from Deloitte LLP. Deloitte LLP was appointed by the Company Secretary on behalf of the Remuneration Committee. Deloitte LLP's fees for this advice were £16,500, which were charged on a time/cost basis. Deloitte LLP is external auditor to the Company and provides certain other services (as described on page 68 of the Annual Report and financial statements).

The Remuneration Committee is satisfied that the advice provided by Deloitte LLP in relation to the new remuneration reporting regulations is objective and independent.

Statement of voting at general meeting

The Company remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the resolution to approve the Directors' remuneration report at the Company's Annual General Meeting on 8 May 2013:

	Votes for the resolution	Percentage of votes cast for the resolution	Votes against the resolution	Percentage of votes cast against the resolution	Total votes cast	Votes withheld
Resolution to approve the Directors' remuneration report for the year ended 31 December 2012	760,449,382	84.53%	139,210,403	15.47%	899,659,785	37,794,324

Directors' remuneration policy

This part of the report sets out the Company's Directors' remuneration policy, which, subject to shareholder approval at the 2014 Annual General Meeting, shall take binding effect from the conclusion of that meeting.

Executive Directors

Component of remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base Salary	Core element of fixed remuneration, reflecting the size and scope of the role. Purpose is to attract and retain Directors of the calibre required for the business.	Normally reviewed annually and usually fixed for 12 months from 1 January, although salaries may be reviewed more frequently or at different times of the year if the Remuneration Committee determines this is appropriate. Salary is paid in cash and levels are determined by the Remuneration Committee taking into account a range of factors including: • role, experience and performance; • prevailing market conditions; • external benchmarks for similar roles at comparable companies; and • salary increases awarded for other employees in the Group.	To avoid setting expectations of executive Directors and other employees, no maximum has been set under the remuneration policy. Increases may be made to salary levels in certain circumstances as required, for example to reflect: • increase in scope of role or responsibility; and • performance in role. Salary increases will take into account the average increase awarded to other employees in the worldwide Group.	Not applicable, although the individual's contribution and overall performance is one of the considerations in determining the level of any salary increase.

Directors' remuneration report continued

Executive Directors

Component of remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual Bonus	Rewards performance against annual targets which support the strategic direction of the Company.	Financial targets are set annually and pay-out is determined by the Remuneration Committee after the year-end based on performance against those targets. The Remuneration Committee has discretion to vary the bonus pay-out (upwards or downwards) should any formulaic output not produce a fair result for either the individual executive Director or the Company, taking account of overall business performance. The treatment of a "leaver's" bonus participation is described on page 84.	For executive Directors participating in the Company's 2012 Incentive Plan, the maximum annual bonus opportunity is 100% of base salary.	The Remuneration Committee will have regard to various performance metrics (which will be determined by the Remuneration Committee) measured over the relevant financial year, when determining bonuses. At least 50% of the award will be based on financial measures and the balance of the award will be determined at the discretion of the Remuneration Committee. **Financial metrics** The element of the bonus subject to a financial metric will be determined between 0% and 100% for performance between "threshold" performance (the minimum level of performance that results in any level of pay-out) and "maximum" performance. **Discretionary element** The discretionary element of an award will be determined to the extent assessed by the Remuneration Committee between 0% and 100% based on the Remuneration Committee's assessment of a range of financial and non-financial metrics.
Benefits	Ensures the overall package is competitive. Purpose is to recruit and retain Directors of the calibre required for the business.	Executive Directors receive benefits in line with market practice and these include a company car allowance, fuel allowance, private medical insurance, life insurance and group income protection. Other benefits may be provided based on individual circumstances, such benefits may include (but are not limited to) travel costs to and from London and accommodation in London for executive Directors who are not based in London but who are required to work there and relocation allowances.	Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits executive Directors may receive, the value of benefits is set at a level which the Remuneration Committee considers appropriate against the market and to support the ongoing strategy of the Company.	Not applicable.

Executive Directors

Component of remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
2012 Incentive Plan	Incentivises executive Directors over the longer-term and aligns their interests with those of shareholders by linking the level of reward to the value delivered to shareholders. This plan was approved by a special resolution of shareholders on 11 April 2012 and has been unchanged since.	Options are granted over a separate class of shares known as the "2012 Incentive Shares". The options have an exercise price per share equal to the nominal value of a 2012 Incentive Share. The rights attaching to the 2012 Incentive Shares are set out in the Company's articles of association. Options may be exercised at any time up to 31 May 2017 (the "trigger date") and will be automatically exercised prior to the trigger date if not already exercised. In the event of a change of control or winding up of the Company, the trigger date may be a date before 31 May 2017. On the trigger date, the holders of the 2012 Incentive Shares shall be entitled to 7.5% of the increase in value of the Company from and including 22 March 2012 to the trigger date. This value may be delivered in the form of a dividend and/or the conversion of the 2012 Incentive Shares into an appropriate number of Ordinary Shares or in certain other ways permitted under the Company's articles of association. The calculation of the growth in value of the Company shall be determined in accordance with the formula set out in the Company's articles of association. The treatment of an executive Director's participation in the 2012 Incentive Plan if he becomes a "leaver" is described on page 84.	The value that may be delivered under the 2012 Incentive Plan is linked to the shareholder value created over the period from and including 22 March 2012 to crystallisation; accordingly, it is not possible to express the maximum opportunity as a multiple of salary. Options may be granted over, in aggregate, 50,000 2012 Incentive Shares. The options held by the executive Directors over 2012 Incentive Shares as at 31 December 2013 are set out on page 74. The maximum aggregate value that may be realised under the 2012 Incentive Shares shall be 7.5% of the increase in shareholder value from and including 22 March 2012 to and including the trigger date (as determined in accordance with the Company's articles of association). The maximum number of new Ordinary Shares in the Company that may be issued is 5% of the aggregate number of Ordinary Shares in Melrose PLC in issue on 22 March 2012 plus 5% of any additional Ordinary Shares issued or created by Melrose PLC after that date and prior to 27 November 2012 or by the Company after 27 November 2012.	The value that may be delivered under the 2012 Incentive Plan will be determined by reference to the growth in value of the Company, from and including 22 March 2012 to and including the trigger date calculated in accordance with the Company's articles of association.
Retirement Benefits	Purpose is to recruit and retain Directors of the calibre required for the business. Provides market competitive post-employment benefits (or cash equivalent).	Directors may elect to receive a Company contribution to an individual defined contribution pension arrangement or a supplement to base salary in lieu of a pension arrangement.	For participants in the 2012 Incentive Plan, 15% of base salary.	Not applicable.

Although neither clawback nor malus applies to any element of the remuneration package, the Company's articles of association give the Remuneration Committee discretion to adjust the calculation of the amount to which holders of 2012 Incentive Shares and of options over such shares shall be entitled in certain circumstances, as referred to on page 84.

Non-executive Directors

Component of remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Non-executive Director fees	Set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and expertise.	Fees are reviewed periodically and amended to reflect market positioning and any change in responsibilities. Fees for non-executive Directors are determined by the executive Directors.	Fees are based on the level of fees paid to non-executive Directors serving on boards of similar-sized UK-listed companies and the time commitment and contribution expected for the role. Non-executive Directors receive a basic fee and a further fee for the Chairmanship of a Board Committee or for holding the office of Senior non-execuitve Director. Non-executive Directors may be eligible to benefits such as use of secretarial support, reimbursement of travel costs and other benefits that may be appropriate.	Not applicable.

Explanation of performance metrics chosen

Performance measures are chosen which are aligned to the Company's strategy.

Annual bonus

Stretching performance targets are set each year for the annual bonus, to reflect the key financial and strategic objectives of the Company and reward for delivery against these targets. When setting the targets, the Remuneration Committee will take into account a number of different reference points including its plans and strategy and the market environment.

2012 Incentive Plan

Value delivered under the 2012 Incentive Plan is determined by reference to the growth in the value of the Company, such that the performance metric is the level of such growth that is delivered to shareholders. This arrangement was considered appropriate by the Remuneration Committee which considers that the previous and similar Incentive Share arrangements, introduced in 2009 and which crystallised in 2012, have been very effective in incentivising management to deliver real value to shareholders over the applicable performance period.

The Company's articles of association provide that the Remuneration Committee may make adjustments to the calculation of the amount to which the holders of the 2012 Incentive Shares shall be entitled in certain circumstances. These circumstances include, but are not limited to, the Company's articles of association or a change in the capital structure of the Company otherwise producing an anomalous result. Any such adjustment shall be such as the Remuneration Committee considers fair and reasonable and as an investment bank shall have confirmed is fair and reasonable so far as the ordinary shareholders are concerned.

Differences between the Company's policy on Directors' remuneration and its policy on remuneration for other employees

Remuneration arrangements throughout the Group are determined based on the same principle that reward should be sufficient as is necessary to attract and retain high calibre talent, without paying more than is necessary and should be achieved for delivery of the Company's strategy.

The Company has operations in various countries and across various industries, with Group employees of differing levels of seniority. Accordingly, though based on the overarching principle above, reward policies vary to take account of these factors.

On the introduction of the 2012 Incentive Plan, the Remuneration Committee considered it appropriate to recognise the required growth of the senior management team beyond the executive Directors necessary to further develop the business and participation includes certain non-director employees.

The Company has also implemented divisional long-term incentive plans for senior managers of certain businesses within the Group to incentivise them to create value for the Company and its shareholders.

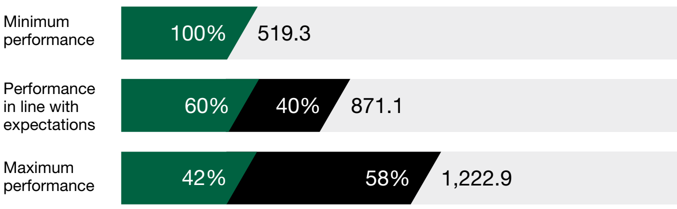
Illustration of the application of Directors' remuneration policy

In illustrating the potential reward the following assumptions have been made:

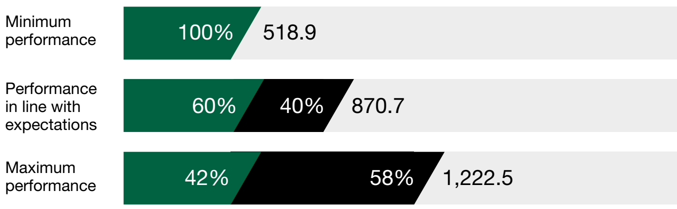
- **Minimum performance:** fixed elements of remuneration only (base salary effective from 1 January 2014, benefits as set out in the single figure table for the year ended 31 December 2013 on page 72 and pension).
- **Performance in line with expectations:** fixed elements of remuneration as above, plus bonus of 50% of salary (other than in the case of Christopher Miller and David Roper who do not participate in the annual bonus arrangements), plus an amount in relation to the executive Directors' entitlements under the 2012 Incentive Plan, as described opposite.
- **Maximum performance:** fixed elements of remuneration as above, plus bonus of 100% of salary (other than in the case of Christopher Miller and David Roper who do not participate in the annual bonus arrangements), plus an amount in relation to the executive Directors' entitlements under the 2012 Incentive Plan, as described opposite.

The executive Directors' entitlements under the 2012 Incentive Plan were granted in April 2012 and deliver to participants part of the growth in value of the Company from March 2012 until May 2017 (or an earlier trigger date determined in accordance with the arrangements). Accordingly, the value of participation in the 2012 Incentive Plan depends on shareholder value created and cannot be expressed as a multiple of salary. While the Company is not required to show the potential reward from that plan in these charts (because they were granted in 2012 prior to the policy coming into effect and were granted in one block rather than being granted annually) it has done so for the sake of transparency. Therefore, for illustrative purposes, in the charts below, the value attributable to the 2012 Incentive Plan is each executive Director's pro-rata share of the Black Scholes option pricing model value of the plan as at grant (£20.693 million). For performance "in line with expectations", one fifth (representing one year of the intended five year life) of 50% of this value is shown. For "maximum performance", one-fifth (representing one year of the intended five year life) of 100% of this value is shown. As the value delivered under the 2012 Incentive Plan is entirely determined by reference to the value delivered to shareholders over the period to crystallisation, the value shown in the charts is unlikely to reflect the value ultimately delivered to participants.

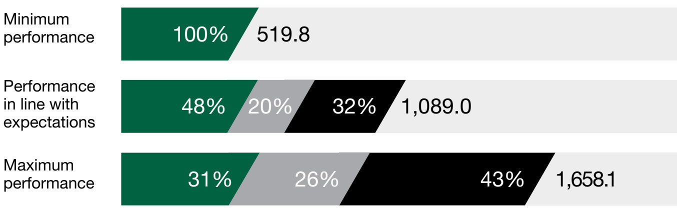
Total remuneration: Christopher Miller
(£'000)



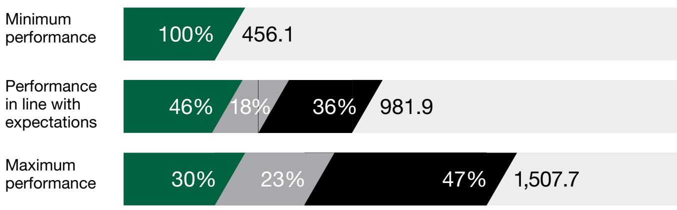
Total remuneration: David Roper
(£'000)



Total remuneration: Simon Peckham
(£'000)



Total remuneration: Geoffrey Martin
(£'000)



- Base salary, benefits and pension
- Annual bonus
- 2012 Incentive Plan

Directors' remuneration report continued

Recruitment remuneration policy

When agreeing a remuneration package for the appointment of a new executive Director, the Remuneration Committee will apply the following principles:

- the package will be sufficient to attract the calibre of Director required to deliver the Company's strategy;
- the Remuneration Committee will seek to ensure that no more is paid than is necessary; and
- in the next annual report on remuneration after an appointment, the Remuneration Committee will explain to shareholders the rationale for the arrangements implemented.

In addition to the policy elements set out in the table on pages 77 to 80, the Remuneration Committee retains discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances of the recruitment, including discretion to include any other remuneration component or award. The Remuneration Committee does not intend to use this discretion to make a non-performance related incentive payment (for example a "golden hello"). In this regard, elements that the Remuneration Committee may consider for the purposes of a remuneration package for the recruitment of a new executive Director include but are not limited to the following.

Element	Approach
Incentive remuneration opportunity	The Remuneration Committee's intention is that a new executive Director's incentive remuneration opportunity will consist of: • an annual bonus up to a maximum of 100% of salary (i.e. as applies for existing executive Directors); and • an award of options over 2012 Incentive Shares, with the number of such shares awarded being equal to the number of such shares over which an existing executive Director was granted an option in April 2012, as reduced to take into account the proportion of the 2012 Incentive Plan's life that has elapsed at the time of the new executive Director's appointment. The Remuneration Committee's intention is that a new executive Director would only participate in the 2012 Incentive Plan on this basis if he/she had a similar level of experience and responsibility as the existing executive Directors. If a new executive Director did not participate in the 2012 Incentive Plan, the Remuneration Committee may award a maximum annual bonus opportunity of up to 300% of salary until such time as a new long-term incentive arrangement is put in place for the executive Directors in which that new executive Director could participate.
Compensation for forfeited remuneration arrangements	Whilst considered unlikely, the Remuneration Committee may make awards on hiring an external candidate to buy out remuneration arrangements forfeited on leaving a previous employer. In doing so, the Remuneration Committee will have regard to relevant factors, including any performance conditions attached to such arrangements, the form of those awards (e.g. cash or shares) and the timeframe of such awards. While such awards are excluded from the maximum level of variable remuneration referred to below, the Remuneration Committee's intention is that the value awarded (as determined by the Remuneration Committee on a fair and reasonable basis) would be no higher than the expected value of the forfeited arrangements. Where considered appropriate, buy-out awards will be subject to forfeiture or clawback on early departure.
Notice period	The notice period will be the same as the Company's ordinary policy of 12 months.
Relocation costs	Where necessary, the Company will pay appropriate relocation costs. The Remuneration Committee will seek to ensure that no more is paid than is necessary.
Retirement benefits	The maximum contribution of 15% of salary referred to in the policy table on page 79 will apply to any new executive Director. However, the Remuneration Committee reserves the right to pay the contribution into any pension arrangement or to pay the amount as a supplement to base salary in lieu of a pension arrangement.

Under the new reporting regulations, the Company is required to set out the maximum level of variable remuneration that may be granted when agreeing the components of a remuneration package for the appointment of Directors, excluding any remuneration constituting compensation for the forfeiture of any variable remuneration award with a previous employer. In order to provide sufficient flexibility in recruitment scenarios and to reflect the fact that the value of participation in the 2012 Incentive Plan depends on shareholder value created and so cannot be expressed as a multiple of salary, the Remuneration Committee has set this level as maximum variable remuneration of:

- If the Director participates in the 2012 Incentive Plan:
  - one times salary; plus
  - an award of options over a number of 2012 Incentive Shares equal to the number of such shares over which an existing executive Director was granted an option in April 2012, as reduced to take into account the proportion of the 2012 Incentive Plan's life that has elapsed at the time of the new executive Director's appointment; and
- If the Director does not participate in the 2012 Incentive Plan, three times salary.

While long-term incentive awards and "buy-out" awards may be granted under the 2012 Incentive Plan, if necessary and subject, where relevant, to the limits referred to above, awards may be granted outside this plan as permitted under the Listing Rules, which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of a Director.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to their subsisting terms.

The remuneration package for a newly appointed non-executive Director would normally be in line with the structure set out in the policy table for non-executive Directors.

Service contracts and policy on payment for loss of office

The Company's policy is for executive Directors to be employed on the terms of service agreements, which may be terminated by either the Director or the Company on the giving of not less than 12 months' written notice (subject to certain exceptions).

Each of the executive Directors had entered into a service agreement with Melrose PLC which was novated on exactly the same terms to the Company with effect from 27 November 2012 when the Company became the new parent company of the Group. Details of the executive Directors' original appointment dates and notice periods are set out below.

Executive Directors	Date of original appointment as an executive Director of Melrose PLC	Date of appointment as an executive Director of the Company	Notice period
Christopher Miller	29 May 2003(1)	8 October 2012	12 months
David Roper	29 May 2003(1)	8 October 2012	12 months
Simon Peckham	29 May 2003	8 October 2012	12 months
Geoffrey Martin	7 July 2005	8 October 2012	12 months

(1) Both of Christopher Miller and David Roper resigned as directors of Melrose PLC on 27 November 2012.

Each of the non-executive Directors (other than Liz Hewitt) entered into new letters of appointment with the Company with effect from 8 October 2012. Liz Hewitt entered into a letter of appointment with the Company with effect from 8 October 2013. Details of the non-executive Directors' appointment dates and duration are shown below.

Non-executive Directors	Date of original appointment as a non-executive Director of Melrose PLC	Date of appointment as a non-executive Director of the Company	End of appointment period
Miles Templeman	8 October 2003	8 October 2012	Conclusion of the 2015 AGM unless extended or renewed(1)
Perry Crosthwaite	26 July 2005	8 October 2012	Conclusion of the 2015 AGM unless extended or renewed(1)
John Grant	1 August 2006	8 October 2012	Conclusion of the 2015 AGM unless extended or renewed(1)
Justin Dowley	1 September 2011	8 October 2012	Conclusion of the 2015 AGM unless extended or renewed(1)
Liz Hewitt	N/A	8 October 2013	Conclusion of the 2016 AGM unless extended or renewed(2)

(1) Assuming re-election at the 2014 AGM.

(2) Assuming election at the 2014 AGM and re-election at the 2015 AGM.

Directors' remuneration report continued

The principles on which the determination of payments for loss of office will be approached are summarised below:

Provision	Treatment upon loss of office
Payment in lieu of notice	If the Company terminates an executive Director's employment with immediate effect, a payment in lieu of notice may be made. This may include base salary, pension contributions and benefits.
Annual bonus	This will be at the discretion of the Remuneration Committee on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of the executive Director's departure and their contribution to the business during the bonus period in question. Typically, bonus amounts will be pro-rated for time in service to termination.
2012 Incentive Plan	If an executive Director holding 2012 Incentive Shares ceases employment in circumstances in which he is a "good leaver", the Remuneration Committee may (other than if he is a good leaver as a result of his resignation in connection with a change of control of the Company) require that he transfer some or all of the "unvested proportion" of his 2012 Incentive Shares for their nominal value. An executive Director who is a good leaver will be entitled to retain any 2012 Incentive Shares which he is not required to transfer. For these purposes the "unvested proportion" shall be the proportion of his 2012 Incentive Shares equal to the unexpired proportion of the period from 11 April 2012 to 31 May 2017 calculated on a full month basis. If an executive Director holding an option over 2012 Incentive Shares ceases employment in circumstances in which he is a "good leaver", at the discretion of the Remuneration Committee some or all of his unexercised options shall lapse. The number of options which shall lapse shall not exceed the number equal to the "unvested portion" of the executive Director's 2012 Incentive Shares had the executive Director's options been exercised immediately before the executive Director became a good leaver. The executive Director will be entitled to retain any options which do not lapse. For these purposes, an executive Director shall be a "good leaver" if he leaves because of death, permanent ill health, permanent disability, resignation in connection with a change of control or termination by the Company without cause.
Other payments	The Remuneration Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment. In appropriate circumstances, payments may also be made in respect of legal fees. The overall amount of any payment made in respect of a loss of office will not exceed the aggregate of any payment in lieu of notice and any payment made in respect of annual bonus, as referred to above. Entitlements under the 2012 Incentive Plan will be dealt with in accordance with the terms of that plan and were the Company to make an award on recruitment of an executive Director to buy out remuneration arrangements forfeited on leaving a previous employer then the leaver provisions for that award would be determined at the time of grant.

On a change of control or winding-up of the Company the 2012 Incentive Shares will crystallise early. In the event of a change of control, the date of the change of control shall be the "trigger date" for the purposes of determining the number of Ordinary Shares into which the 2012 Incentive Shares shall convert or the dividend amount to be paid. In the event of a winding up, the 2012 Incentive Shares shall be treated as if they had converted into Ordinary Shares immediately prior to the winding-up and the holders of the 2012 Incentive Shares shall be entitled to a sum equal to the amount to which they would have been entitled on a return of capital on a winding-up if they had held those Ordinary Shares.

Statement of consideration of employment conditions elsewhere in the Company

Salary, benefits and performance-related rewards provided to employees are taken into account when setting policy for executive Directors' remuneration. There is no consultation with employees on Directors' remuneration.

Statement of consideration of shareholder views

The Company is committed to ongoing engagement and seeks the views of major shareholders in advance of amending its remuneration policies. The policies are set to reflect the Company's commercial strategy and the 2012 Incentive Plan was approved by shareholders in 2012.

Payments outside the policy in this report

The Remuneration Committee retains discretion to make any remuneration payments and payments for loss of office outside the policy in this report:

- where the terms of the payment were agreed before the policy came into effect;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration of the individual becoming a Director of the Company; or
- to satisfy contractual commitments under legacy remuneration arrangements.

For these purposes, "payments" includes the satisfaction of awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

This report was approved by the Board on 5 March 2014 and signed on its behalf by:

PKO Crosthwaite.

Perry Crosthwaite
Chairman, Remuneration Committee
5 March 2014

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement
We confirm that to the best of our knowledge:

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

By order of the Board

Geoffrey Martin
Group Finance Director
5 March 2014

Simon Peckham
Chief Executive
5 March 2014

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

Opinion on financial statements of Melrose Industries PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's Profit and the parent Company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and the Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the related notes 1 to 30 to the consolidated financial statements and the related notes 1 to 9 to the Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the Directors' statement on page 47 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

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

Risk	How the scope of our audit responded to the risk
Provisions The judgement involved in the recognition and valuation of the expected outcome of legal, environmental, restructuring and warranty provisions which require the exercise of management judgement and the use of estimates giving rise to inherent subjectivity in the amounts recorded in the financial statements.	We challenged the assumptions underlying the recognition and valuation of provisions through checking and verifying the inputs used to calculate the provisions, including review of the nature and timings of formal restructuring plans, review of third party correspondence, discussion with the Group's lawyers and review of agreements. Further we assessed the level of historical warranty claims and obtained the specific warranty terms and conditions provided in order to ascertain whether the warranty provisions held were sufficient to cover all obligations in existence at the year-end in light of known claims and standard warranty periods provided. We also considered the adequacy of disclosures made in Note 20 to the financial statements.
Exceptional Items The presentation and consistency of costs and income within exceptional items is a key determinant in the assessment of the quality of the Group's underlying earnings.	A sample of exceptional items (including all material items) has been agreed to source documentation and evaluated by the local and Group audit teams as to their nature in order to assess whether they are in line with the Group's accounting policy and also to ensure consistency of management's application of the policy with previous accounting periods. In particular we ensure the reversal of any items originally booked as exceptional and the reversal of any fair value items recorded on acquisition are appropriately classified as exceptional items. We also assessed whether the disclosures within the financial statements in Note 6 provide sufficient detail for the reader to understand the nature of these items.

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

Risk	How the scope of our audit responded to the risk
Goodwill and Intangibles The key assumptions used in the assessment of the carrying value of goodwill and intangible assets are determined with reference to judgemental factors such as future projected cash flows and the appropriate discount rate.	We assessed the assumptions used in the impairment model for goodwill and intangible assets, described in Note 12, specifically including the cash flow projections, discount rates, perpetuity growth rates and the sensitivities applied. Our procedures included reviewing forecast cash flows with reference to historical trading performance, consulting with our valuation specialists and benchmarking assumptions such as the perpetual growth rate and discount rate to external macro-economic and market data. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired by performing sensitivity analysis on the key assumptions, we considered the likelihood of such a movement in those assumptions arising and the adequacy of the disclosures made in Note 12 to the financial statements.
Recognition of deferred tax assets and accounting for uncertain tax positions Recognition of deferred tax assets is based on management's judgements of the availability of future taxable profits. The value of the tax provisions recorded in respect of a number of uncertain tax positions which require judgements in respect of the likely outcome of negotiations with and enquiries from various tax authorities.	We tested the appropriateness of the assumptions and estimates in relation to the likelihood of generating future taxable profits to support the recognition of deferred tax assets as described in Note 21 to the financial statements. We considered those assumptions (including the expected timing of disposals) and supporting forecasts and estimates as well as the appropriateness of the tax disclosures. We worked with our tax audit specialists in relation to the recognition of deferred tax assets and to appraise the likely outcome of technical tax treatments, including the review of correspondence with the revenue authorities to assess the reasonableness of the provisions made.

The Audit Committee's consideration of these risks is set out on page 67.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

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

We determined planning materiality for the Group to be £13 million, which is approximately 5.7% of headline profit before tax, and less than 1% of equity. We use headline profit before tax to provide a stable basis for materiality that reflects the focus of the users of the financial statements. This excludes the effect of separately disclosed exceptional items, as these can be volatile, and the amortisation of acquired intangibles, as excluding the relatively high amortisation charge, given the acquisitive nature of the Group, provides a more comparable measure with similar organisations and is consistent with the profit measure most relevant to analysts and investors.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £250,000, as well as differences below that threshold that, in our view, warranted reporting to them on qualitative grounds.

We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit
The Group's 72 locations are organised into the five continuing divisions described in the Divisional Review on pages 22 to 31 of this Annual Report. Our Group audit scope focused primarily on audit work at 25 locations. 18 of these were subject to a full audit, whilst the remaining seven were subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and on the materiality of the Group's business operations at those locations. The 18 locations subject to full audit represent business units within the each of the Group's continuing reportable segments and accounted for 63% of the continuing Group's revenue, 70% of the total operating segments' continuing headline operating profit (i.e. before central costs). The seven locations subject to specified audit procedures account for 24% of the continuing Group's revenue and 21% of the continuing Group's headline operating profit. Full audit or audit procedures undertaken at the 25 locations or performed centrally by the Group audit team accounted for 94% of the Group's net assets. The locations subject to full audit or specified audit procedures were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Our audit work and specified audit procedures at the 25 locations were executed at levels of materiality applicable to each individual entity which were much lower than Group materiality and appropriate to the relative scale of the business concerned.

The senior statutory auditor or other senior members of the Group audit team visited 12 of the largest locations for the audit, which include some locations where specified audit procedures were performed. The Group audit team met with the Management teams including Managing Directors and Finance Directors of all the continuing businesses during the year end audit. The senior statutory auditor also held audit close meetings with all of the five continuing businesses, which cover all locations. In years when we do not visit a component within our Group Audit scope; we will include the component audit team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work.

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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

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

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

Scope of the audit of the financial statements

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

Nigel Mercer

Nigel Mercer, ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

5 March 2014

Consolidated Income Statement

	Notes	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Continuing operations			
Revenue	4,5	**1,732.8**	1,051.1
Cost of sales		**(1,125.5)**	(720.1)
Gross profit		**607.3**	331.0
Headline[2] operating expenses		**(335.2)**	(182.5)
Share of headline[2] results of joint ventures	14	**2.8**	0.8
Intangible asset amortisation		**(64.6)**	(31.5)
Exceptional operating costs	6	**(19.3)**	(70.8)
Exceptional operating income	6	**28.9**	7.0
Total net operating expenses	7	**(387.4)**	(277.0)
Operating profit		**219.9**	54.0
Headline[2] operating profit	5	**274.9**	149.3
Headline[2] finance costs	7	**(70.5)**	(42.3)
Exceptional finance costs	6,7	**–**	(16.3)
Total finance costs	7	**(70.5)**	(58.6)
Finance income	7	**21.7**	10.9
Profit before tax		**171.1**	6.3
Headline[2] profit before tax		**226.1**	117.9
Headline[2] tax		**(60.0)**	(31.5)
Exceptional tax[3]		**10.8**	18.3
Total tax	8	**(49.2)**	(13.2)
Profit/(loss) for the year from continuing operations		**121.9**	(6.9)
Headline[2] profit for the year from continuing operations		**166.1**	86.4
Discontinued operations			
Profit for the year from discontinued operations	9	**442.7**	47.7
Profit for the year		**564.6**	40.8
Attributable to:			
Owners of the parent		**562.7**	39.1
Non-controlling interests		**1.9**	1.7
		564.6	40.8
Earnings per share			
From continuing operations			
– Basic	11	**9.5**	(0.9)
– Diluted	11	**9.3**	(0.9)
– Headline[2] diluted	11	**12.8**	8.8[4]
From continuing and discontinued operations			
– Basic	11	**44.4**	4.1
– Diluted	11	**43.7**	4.1

(1) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): "Employee benefits" (note 1).
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Includes exceptional tax and tax on exceptional items and intangible asset amortisation.
(4) 8.8p is the restated 2012 headline[2] diluted earnings per share from continuing operations. The Board believe that 9.4p is a more appropriate measure to use for 2012 to compare against 2013 performance, being the headline[2] diluted earnings per share from continuing operations assuming Elster was owned for the full year in 2012 (unaudited), with an allowance for the finance costs of the acquisition for the period Elster was not owned and using a consistent number of shares in both years, at constant currency.

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Profit for the year		**564.6**	40.8
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement gain/(loss) on retirement benefit obligations	23	**20.1**	(59.0)
Income tax (charge)/credit relating to items that will not be reclassified	8	**(0.6)**	3.5
		19.5	(55.5)
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		**(25.9)**	(1.2)
Currency translation on non-controlling interests		**(0.3)**	0.2
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	9	**(12.1)**	–
Gains/(losses) on cash flow hedges		**10.0**	(6.2)
Transfer to Income Statement on cash flow hedges		**3.0**	11.9
Income tax credit/(charge) relating to items that may be reclassified	8	**0.6**	(2.2)
		(24.7)	2.5
Other comprehensive expense after tax		**(5.2)**	(53.0)
Total comprehensive income/(expense) for the year		**559.4**	(12.2)
Attributable to:			
Owners of the parent		**557.8**	(14.1)
Non-controlling interests		**1.6**	1.9
		559.4	(12.2)

[1] Restated for the adoption of IAS 19 (revised): "Employee benefits" and IAS 1 (amended): "Presentation of items of other comprehensive income" (note 1).

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2013 £m	Restated[(1)] year ended 31 December 2012 £m
Net cash from/(used in) operating activities from continuing operations	26	**91.2**	(40.6)
Net cash from operating activities from discontinued operations	26	**44.8**	57.9
Net cash from operating activities		**136.0**	17.3
Investing activities			
Disposal of businesses	9	**950.4**	30.7
Disposal costs	9	**(25.0)**	(2.4)
Net cash disposed	9	**(37.2)**	(1.2)
Purchase of property, plant and equipment		**(47.0)**	(36.5)
Proceeds from disposal of property, plant and equipment		**6.2**	1.1
Purchase of computer software		**(3.8)**	(1.9)
Dividends received from joint ventures	14	**2.7**	0.3
Interest received		**21.7**	10.9
Acquisition of subsidiaries and non-controlling interests		**(12.8)**	(1,500.4)
Cash acquired on acquisition of Elster	12	**–**	105.6
Dividends paid to non-controlling interests		**(6.3)**	(0.1)
Net cash from/(used in) investing activities from continuing operations		**848.9**	(1,393.9)
Net cash used in investing activities from discontinued operations	26	**(11.6)**	(17.3)
Net cash from/(used in) investing activities		**837.3**	(1,411.2)
Financing activities			
Return of capital		**–**	(1.1)
Repayment of borrowings		**(834.0)**	(1,176.9)
Net proceeds from Rights Issue		**–**	1,168.1
New bank loans raised		**–**	1,467.1
Costs of raising and settling finance		**–**	(33.1)
Dividends paid	10	**(98.1)**	(65.7)
Net cash (used in)/from financing activities from continuing operations		**(932.1)**	1,358.4
Net cash used in financing activities from discontinued operations	26	**–**	–
Net cash (used in)/from financing activities		**(932.1)**	1,358.4
Net increase/(decrease) in cash and cash equivalents		**41.2**	(35.5)
Cash and cash equivalents at the beginning of the year	26	**156.5**	195.6
Effect of foreign exchange rate changes	26	**2.7**	(3.6)
Cash and cash equivalents at the end of the year	17,26	**200.4**	156.5

(1) Restated to include the cash flows of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

As at 31 December 2013, the Group's net debt was £140.8 million (31 December 2012: £997.7 million). A reconciliation of the movement in net debt is shown in note 26. The decrease in net debt is primarily as a result of proceeds received from business disposals in the year.

Consolidated Balance Sheet

	Notes	31 December 2013 £m	Restated[1] 31 December 2012 £m
Non-current assets			
Goodwill and other intangible assets	12	**2,612.0**	3,048.8
Property, plant and equipment	13	**241.2**	318.8
Interests in joint ventures	14	**12.6**	12.4
Deferred tax assets	21	**70.3**	150.3
Derivative financial assets	24	**8.1**	–
Trade and other receivables	16	**0.3**	0.3
		2,944.5	3,530.6
Current assets			
Inventories	15	**234.5**	375.5
Trade and other receivables	16	**292.8**	384.1
Derivative financial assets	24	**5.1**	3.3
Cash and cash equivalents	17	**200.4**	156.5
		732.8	919.4
Total assets	5	**3,677.3**	4,450.0
Current liabilities			
Trade and other payables	18	**399.2**	540.3
Interest-bearing loans and borrowings	19	**–**	6.2
Derivative financial liabilities	24	**7.2**	7.0
Current tax liabilities		**43.6**	41.0
Provisions	20	**74.4**	101.8
		524.4	696.3
Net current assets		**208.4**	223.1
Non-current liabilities			
Trade and other payables	18	**1.5**	2.6
Interest-bearing loans and borrowings	19	**341.2**	1,148.0
Derivative financial liabilities	24	**–**	3.5
Deferred tax liabilities	21	**299.6**	411.2
Retirement benefit obligations	23	**219.3**	261.3
Provisions	20	**103.4**	185.4
		965.0	2,012.0
Total liabilities	5	**1,489.4**	2,708.3
Net assets		**2,187.9**	1,741.7
Equity			
Issued share capital	25	**1.3**	1.3
Merger reserve		**1,190.6**	1,190.6
Other reserves		**(757.1)**	(757.1)
Hedging reserve		**5.8**	(7.7)
Translation reserve		**(29.9)**	8.0
Retained earnings		**1,775.3**	1,299.5
Equity attributable to owners of the parent		**2,186.0**	1,734.6
Non-controlling interests		**1.9**	7.1
Total equity		**2,187.9**	1,741.7

[1] Restated to reflect the completion of the acquisition accounting for Elster (note 12).

The financial statements were approved and authorised for issue by the Board of Directors on 5 March 2014 and were signed on its behalf by:

Geoffrey Martin

Simon A Peckham

Geoffrey Martin
Group Finance Director

Simon Peckham
Chief Executive

Consolidated Statement of Changes in Equity

	Issued share capital £m	Merger reserve £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2012	494.9	1,190.6	(874.4)	(26.8)	(11.9)	9.3	(133.4)	648.3	0.1	648.4
Profit for the year[1]	–	–	–	–	–	–	39.1	39.1	1.7	40.8
Other comprehensive income/(expense)[1]	–	–	–	–	4.2	(1.3)	(56.1)	(53.2)	0.2	(53.0)
Total comprehensive income/(expense)	–	–	–	–	4.2	(1.3)	(17.0)	(14.1)	1.9	(12.2)
Preference C shares redeemed	(25.7)	–	–	26.8	–	–	(1.1)	–	–	–
Dividends paid	–	–	–	–	–	–	(65.7)	(65.7)	(0.1)	(65.8)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	3.5	3.5	–	3.5
Issue of new shares	1,050.8	–	117.3	–	–	–	–	1,168.1	–	1,168.1
Acquisition of Elster	–	–	–	–	–	–	–	–	6.1	6.1
Purchase of non-controlling interests	–	–	–	–	–	–	(5.5)	(5.5)	(0.9)	(6.4)
Capital reduction	(1,518.7)	–	–	–	–	–	1,518.7	–	–	–
At 31 December 2012	1.3	1,190.6	(757.1)	–	(7.7)	8.0	1,299.5	1,734.6	7.1	1,741.7
Profit for the year	–	–	–	–	–	–	562.7	562.7	1.9	564.6
Other comprehensive income/(expense)	–	–	–	–	13.5	(37.9)	19.5	(4.9)	(0.3)	(5.2)
Total comprehensive income/(expense)	–	–	–	–	13.5	(37.9)	582.2	557.8	1.6	559.4
Dividends paid	–	–	–	–	–	–	(98.1)	(98.1)	(6.3)	(104.4)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	4.0	4.0	–	4.0
Purchase of non-controlling interests	–	–	–	–	–	–	(12.3)	(12.3)	(0.5)	(12.8)
At 31 December 2013	**1.3**	**1,190.6**	**(757.1)**	**–**	**5.8**	**(29.9)**	**1,775.3**	**2,186.0**	**1.9**	**2,187.9**

[1] Restated for the adoption of IAS 19 (revised): "Employee benefits" (note 1).

Notes to the financial statements

1. Corporate information

Melrose Industries PLC ("the Company") is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 152. The nature of the Group's operations and its principal activities are set out in note 5 and in the Business review sections on pages 22 to 31.

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorised in accordance with a resolution of the Directors of Melrose Industries PLC on 5 March 2014.

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

The comparative information for the year ended 31 December 2012 in these financial statements has been restated to include the results and cash flows of Truth, Marelli, Crosby, Acco and Harris within discontinued operations and exclude them from continuing operations. Truth and Harris were previously disclosed within the Other Industrial segment, Marelli within the Energy segment and Crosby and Acco within the Lifting segment. The comparative information has also been restated in accordance with the adoption of IAS 19 (revised): "Employee benefits". The Balance Sheet at 31 December 2012 has been restated to reflect the completion of the acquisition accounting of Elster.

1.1 New Standards and Interpretations affecting amounts, presentation or disclosure reported in the current period
In the current financial year, the Group has adopted the amendments to IAS 1 (amended): "Presentation of items of other comprehensive income", IAS 19 (revised): "Employee benefits" and IFRS 13: "Fair value measurement".

The amendments to IAS 1 require items of other comprehensive income to be grouped by those items that may be reclassified subsequently to the Income Statement and those that will not be reclassified to the Income Statement, together with their associated income tax. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change. The effect of these changes is evident from the Consolidated Statement of Comprehensive Income.

The adoption of IAS 19 (revised): "Employee benefits" impacts the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures but not the total obligation itself. The impact on the current year in adopting the revised standard has been to increase headline operating expenses by £2.8 million and finance costs by £5.1 million whilst reducing taxation expense by £2.1 million and increasing other comprehensive income by £5.8 million. In accordance with IAS 19 (revised): "Employee benefits", the comparative periods have been restated as if the new standard had been effective from 1 January 2012. The impact has been to increase headline operating expenses in 2012 by £2.1 million, increase finance costs in 2012 by £2.7 million whilst reducing taxation expense by £1.4 million and increasing other comprehensive income in 2012 by £3.4 million.

The adoption of IFRS 13: "Fair value measurement" has introduced new disclosures, as set out in note 24.

The Annual Improvements to IFRSs 2009-2011 Cycle incorporated necessary, but non-urgent, amendments to five International Financial Reporting Standards. The amendments most relevant to the Group are:

IAS 1: "Presentation of financial statements"
The amendments clarify the requirement for additional comparative information and have not had a material impact on these financial statements.

IAS 34: "Interim financial reporting"
The amendments clarify the disclosure requirements for segment information and fair value of financial instruments. The interim financial statements as at 30 June 2013 reflected these amendments, where applicable.

The remaining three amendments in the Improvements to IFRSs 2009-2011 Cycle do not currently impact these financial statements.

1.2 New Standards and Interpretations adopted with no significant effect on financial statements
The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements, but may impact the accounting for future transactions and arrangements.

1. Corporate information continued

Early adoption of IAS 36 (amended): Impairment of assets
The amendment to IAS 36 removes a requirement to disclose the recoverable amount of a cash-generating unit whether or not an impairment loss has been recognised in respect of that unit in the current period. The amendment instead requires the disclosure of the determined recoverable amount only where an impairment loss has been recognised during the reporting period. The Group has elected to early adopt this amendment for the current year.

IFRS 7 (amended): Disclosures – Offsetting financial assets and financial liabilities

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

IAS 32 (amended): Offsetting financial assets and financial liabilities
IAS 27 (revised): Separate financial statements
IAS 28 (revised): Investments in associates and joint ventures
IFRS 10, IFRS 12 and IAS 27 (amended): Investment entities
IFRS 9: Financial instruments
IFRS 10: Consolidated financial statements
IFRS 11: Joint arrangements
IFRS 12: Disclosure of interest in other entities
Transition guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
IAS 36 (amended): Recoverable amount disclosures for non-financial assets
IAS 39 (amended): Novation of derivatives and continuation of hedge accounting
IAS 19 (amended): Employee contributions
Annual Improvements to IFRSs: 2010-12 Cycle
Annual Improvements to IFRSs: 2011-13 Cycle

The Directors do not anticipate that the adoption of these Standards and Interpretations will have a material impact on the Group's financial statements in the period of initial application.

2. Summary of significant accounting policies

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

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

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

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

Going concern
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained on page 47 of the Finance Director's review.

Business combinations and goodwill

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

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

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

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

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

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

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

Joint ventures

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

Revenue

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

- 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 service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete.
- aftermarket activities generally relate to the provision of spare parts, repairs and the rebuild of equipment. Revenue on the provision of parts is recognised in accordance with the policy on the sale of goods and revenue for repairs and rebuild is recognised upon completion of the activity.

2. Summary of significant accounting policies continued

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

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

Sale of goods

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

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

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

Provision of services

As noted above, because revenue from the rendering of services is usually insignificant in relation to the total contract value and is generally provided on a short-term or one-off basis, revenue is usually recognised when the service is complete.

Construction contracts

As noted above, customer contracts usually contain discrete elements separately transferring 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.

Where such discrete elements are not in place, revenue from significant contracts is recognised in proportion to the stage of completion of the contract by reference to the specific contract terms and the costs incurred on the contract at the Balance Sheet date in comparison to the total forecast costs of the contract. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

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

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

Interest income

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

Exceptional costs/income

Exceptional costs/income are those costs/income of a significant and non-recurring nature or those associated with significant restructuring programmes, acquisitions or disposals, which warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group.

Operating profit

Operating profit is stated after exceptional operating costs and income, intangible asset amortisation and the Group's share of results of joint ventures, but before finance income and finance costs.

Borrowing costs

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

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

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

Issue costs of loans

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

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets

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

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

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

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

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

Customer relationships	20 years or less
Brand names	20 years or less
Computer software	5 years or less
Development costs	5 years or less

2. Summary of significant accounting policies continued

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

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

Research and development costs
Research costs are expensed as incurred.

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

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

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

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

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

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

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

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

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

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

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

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

Other financial liabilities

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

Derivative financial instruments and hedging

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

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

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

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

Hedge accounting

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

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

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

Fair value hedge

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

Cash flow hedge

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

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

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

2. Summary of significant accounting policies continued

Hedges of net investments in foreign operations

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

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

Provisions

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

Restructurings

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

Warranties

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

Onerous contracts

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

Environmental liabilities

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

Employee 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 Group. The accounting policy for pensions and other retirement benefits is described below.

The Group also operates long term incentive plans (LTIPs) for Directors and certain employees. The expected settlement costs of these plans are expensed on a straight-line basis over the life of the plans.

Pensions and other retirement benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

Share-based payments

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

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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants relating to property, plant and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

Non-current assets and businesses held for sale

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies as set out in note 2, management have made critical accounting judgements. These include the completion of the quantification of the fair value of assets and liabilities following the acquisition of Elster in 2012. In addition, the impairment of non-current assets, the quantification of provisions, the valuation of retirement benefit obligations and taxation require management judgements. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes may differ from those assumptions and estimates. An analysis of the key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year is provided below.

Fair values at acquisition
As a result of the acquisition of Elster, management made judgements in the 2012 Annual Report regarding the fair value of assets and liabilities acquired particularly in relation to provisions and intangible assets. In 2013, in accordance with IFRS 3: "Business combinations", this extensive review of assets and liabilities was completed by the half year and fair values have been restated from the provisional values recorded as at 31 December 2012. The measurement period is now closed. The finalised fair value of assets and liabilities acquired are shown in note 12.

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

To determine whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and other intangible assets have 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 judgement relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium-term business plans. Management draw upon experience as well as external resources in making these judgements.

The carrying amount of goodwill and other intangible assets (including computer software and development costs) at the Balance Sheet date was £2,612.0 million (31 December 2012: £3,048.8 million). At 31 December 2013 and 2012, the Group recognised no impairment loss in respect of these assets.

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

Retirement benefit obligations
Retirement benefits are accounted for under IAS 19 (revised): "Employee benefits". For defined benefit plans, obligations are measured at the discounted present value whilst plan assets are recorded at fair value. Because of changing market and economic conditions, the expenses and liabilities actually arising under the plans in the future may differ materially from the estimates made on the basis of these actuarial assumptions. Therefore, declining returns on equity markets and markets for fixed-income instruments could necessitate additional contributions to the plans in order to cover future pension obligations. Also, higher or lower withdrawal rates or longer or shorter life of participants may have an impact on the amount of pension income or expense recorded in the future.

The discount rate used to discount retirement benefit obligations to present value is derived from the yields of senior, high-quality corporate bonds at the Balance Sheet date. These generally include AA-rated securities. The discount rate is based on the market yield of a portfolio of bonds whose weighted residual maturities approximately correspond to the duration necessary to cover the entire benefit obligation.

Pension and other retirement benefits are inherently long-term and future experience may differ from the actuarial assumptions used to determine the net charge for retirement benefit obligations. Note 23 to these consolidated financial statements describes the principal discount rate, earnings increase and pension retirement benefit obligation assumptions that have been used to determine the net charge for retirement benefit obligations in accordance with IAS 19 (revised): "Employee benefits". The calculation of any charge relating to retirement benefit obligations is clearly dependent on the assumptions used, which reflects the exercise of judgement. The assumptions adopted are based on prior experience, market conditions and the advice of plan actuaries.

At 31 December 2013, the Group's retirement benefit obligation deficit was £219.3 million (31 December 2012: £261.3 million).

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

4. Revenue

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

	Notes	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Continuing operations			
Revenue from the sale of goods		**1,635.5**	981.0
Revenue recognised on long-term contracts		**6.5**	9.2
Revenue from the provision of services		**90.8**	60.9
Revenue	5	**1,732.8**	1,051.1
Finance income	7	**21.7**	10.9
Total revenue from continuing operations as defined by IAS 18		**1,754.5**	1,062.0
Discontinued operations			
Revenue from the sale of goods		**391.2**	533.6
Revenue from the provision of services		**1.6**	2.6
Revenue	5,9	**392.8**	536.2
Finance income		**0.1**	0.1
Total revenue from discontinued operations as defined by IAS 18		**392.9**	536.3
Total revenue as defined by IAS 18		**2,147.4**	1,598.3

[1] Restated to include the revenues of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

5. Segment information

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

FKI segments
- Energy
- Lifting

Elster segments
- Gas
- Electricity
- Water
- Elster central

The Energy segment consists of the Brush business, a specialist supplier of energy industrial products to the global market. The Lifting segment consists of the Bridon business, serving oil & gas production, mining, petrochemical, alternative energy and general construction markets. Elster comprises the Gas, Electricity and Water segments along with their associated central costs. These businesses serve residential and industrial metering and utilisation markets whilst providing related communications, networking and software solutions.

There are two central cost centres which are also separately reported to the Board:

- Central – corporate
- Central – LTIPs[1]

[1] Long Term Incentive Plans.

The Central corporate cost centre contains the Melrose Group head office costs. The Central LTIPs cost centre contains the costs associated with the new five year Melrose Incentive Plan (granted on 11 April 2012), the previous Melrose Incentive Plan which crystallised on 22 March 2012 and the divisional management LTIPs that are in operation across the Group.

Following the disposal of Truth and Harris, the Other Industrial segment has ceased to exist and the results of these businesses have been included within discontinued operations.

The discontinued segment comprises Truth, Marelli, Crosby, Acco and Harris in both years. The discontinued segment in 2012 also contains the MPC business.

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

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

The following tables present revenue, profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2013 and the comparative period. Note 6 gives details of exceptional costs and income.

Segment revenues and results

		Segment revenue from external customers	
	Notes	**Year ended 31 December 2013 £m**	Restated[(1)] year ended 31 December 2012 £m
Continuing operations			
Energy		**350.1**	371.6
Lifting		**266.4**	268.4
FKI total		**616.5**	640.0
Gas		**688.9**	236.9
Electricity		**247.5**	106.8
Water		**179.9**	67.4
Elster total		**1,116.3**	411.1
Total continuing operations	4	**1,732.8**	1,051.1
Discontinued operations	4,9	**392.8**	536.2
Total revenue		**2,125.6**	1,587.3

(1) Restated to include the revenues of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

		Segment result	
	Notes	**Year ended 31 December 2013 £m**	Restated[(1)] year ended 31 December 2012 £m
Continuing operations			
Energy		**73.1**	77.9
Lifting		**34.1**	35.8
FKI headline[(2)] operating profit		**107.2**	113.7
Gas		**152.4**	46.7
Electricity		**21.5**	12.6
Water		**23.0**	1.4
Elster central		**(2.7)**	(2.9)
Elster headline[(2)] operating profit		**194.2**	57.8
Central – corporate		**(13.5)**	(13.7)
Central – LTIPs[(3)]		**(13.0)**	(8.5)
Headline[(2)] operating profit		**274.9**	149.3
Intangible asset amortisation		**(64.6)**	(31.5)
Exceptional operating costs	6	**(19.3)**	(70.8)
Exceptional operating income	6	**28.9**	7.0
Operating profit		**219.9**	54.0
Finance costs – headline[(2)]	7	**(70.5)**	(42.3)
Finance costs – exceptional	6,7	**–**	(16.3)
Finance income	7	**21.7**	10.9
Profit before tax		**171.1**	6.3
Tax	8	**(49.2)**	(13.2)
Profit for the year from discontinued operations	9	**442.7**	47.7
Profit for the year		**564.6**	40.8

(1) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): "Employee benefits" (note 1).
(2) As defined on the Income Statement.
(3) Long Term Incentive Plans.

5. Segment information continued

	Total assets		Total liabilities	
	31 December 2013 £m	Restated[1] 31 December 2012 £m	**31 December 2013 £m**	Restated[1] 31 December 2012 £m
Energy	**497.7**	498.4	**146.5**	184.1
Lifting	**340.4**	348.5	**88.3**	129.7
FKI total	**838.1**	846.9	**234.8**	313.8
Gas	**2,038.7**	2,134.0	**470.3**	600.9
Electricity	**343.0**	345.7	**117.7**	128.2
Water	**201.6**	257.3	**92.6**	171.9
Elster central	**6.3**	25.0	**60.5**	47.8
Elster total	**2,589.6**	2,762.0	**741.1**	948.8
Central – corporate	**249.6**	185.4	**491.9**	1,271.9
Central – LTIPs[2]	**–**	–	**21.6**	20.3
Total continuing operations	**3,677.3**	3,794.3	**1,489.4**	2,554.8
Discontinued operations	**–**	655.7	**–**	153.5
Total	**3,677.3**	4,450.0	**1,489.4**	2,708.3

(1) Restated to reflect the completion of the acquisition accounting for Elster (note 12) and to include the total assets and total liabilities of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).
(2) Long Term Incentive Plans.

	Capital expenditure[1]		Depreciation[1]	
	Year ended 31 December 2013 £m	Restated[2] year ended 31 December 2012 £m	**Year ended 31 December 2013 £m**	Restated[2] year ended 31 December 2012 £m
Continuing operations				
Energy	**16.8**	8.7	**5.9**	5.1
Lifting	**8.6**	20.5	**7.5**	5.7
FKI total	**25.4**	29.2	**13.4**	10.8
Gas	**14.1**	5.5	**15.4**	5.1
Electricity	**6.9**	1.5	**6.7**	2.0
Water	**3.7**	2.0	**4.5**	2.0
Elster central	**0.3**	–	**–**	–
Elster total	**25.0**	9.0	**26.6**	9.1
Central – corporate	**0.6**	0.9	**0.7**	0.6
Total continuing operations	**51.0**	39.1	**40.7**	20.5
Discontinued operations	**10.3**	17.6	**7.7**	10.9
Total	**61.3**	56.7	**48.4**	31.4

(1) Including computer software and development costs.
(2) Restated to include the capital expenditure[1] and depreciation[1] of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

Geographical information

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

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

	Revenue[1] from external customers		Non-current assets	
	Year ended 31 December 2013 £m	Restated[2] year ended 31 December 2012 £m	**31 December 2013 £m**	Restated[2,3] 31 December 2012 £m
UK	**213.5**	126.2	**417.2**	400.9
Europe	**574.4**	332.9	**1,557.1**	1,637.2
North America	**540.5**	348.2	**761.9**	799.5
Other	**404.4**	243.8	**117.0**	86.9
Total continuing operations	**1,732.8**	1,051.1	**2,853.2**	2,924.5
Discontinued operations	**392.8**	536.2	**–**	443.1
Total	**2,125.6**	1,587.3	**2,853.2**	3,367.6

(1) Revenue is presented by destination.
(2) Restated to include the revenue and non-current assets of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).
(3) Restated to reflect the completion of the acquisition accounting for Elster (note 12).

6. Exceptional costs and income

Exceptional costs	**Year ended 31 December 2013 £m**	Restated[1] year ended 31 December 2012 £m
Continuing operations		
Restructuring costs	**(18.8)**	(51.3)
Acquisition, disposal and financing costs		
– operating	**(0.5)**	(19.5)
– financing	**–**	(16.3)
Total exceptional costs	**(19.3)**	(87.1)
Total exceptional costs – operating	**(19.3)**	(70.8)
Total exceptional costs – financing	**–**	(16.3)
Total exceptional costs	**(19.3)**	(87.1)

(1) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

During 2013, the continuing Group incurred £18.8 million (2012: £51.3 million) of costs relating to restructuring programmes. These costs include £14.1 million in relation to restructuring within the Elster segment and £4.7 million in relation to the FKI businesses, mainly within the Energy segment.

Restructuring costs incurred in 2012 included £9.1 million relating to the closure of the old Elster head office along with £27.9 million of other restructuring costs that occurred within several of the key Elster businesses. In addition, £11.1 million of surplus leasehold property costs were identified during 2012 and £3.2 million of restructuring costs were incurred in the FKI businesses.

The Group incurred £0.5 million of expenses on acquisition and disposal related activities during the year. In 2012, operating acquisition and disposal costs of £19.5 million related primarily to the costs incurred in acquiring Elster.

Financing exceptional costs in 2012 related to the debt refinancings performed, mainly in respect of the acquisition of Elster.

Exceptional income	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Continuing operations		
Release of items previously booked as fair value adjustments	**28.9**	–
Pension curtailment gain	**–**	7.0
Total exceptional income	**28.9**	7.0

Following the successful resolution of certain warranty and legal issues in the second half of the year, and therefore outside of the fair value window, £28.9 million of provisions, inherited with the acquisition of Elster, have been released during the year as exceptional income.

During 2012, a number of amendments were made to Elster retirement medical benefits and retirement life insurance benefits in the US. These removed £7.0 million of liabilities resulting in a curtailment gain on these plans.

7. Revenues and expenses

Net operating expenses comprise:	Continuing operations Year ended 31 December 2013 £m	Continuing operations Restated[1] year ended 31 December 2012 £m	Discontinued operations Year ended 31 December 2013 £m	Discontinued operations Restated[1] year ended 31 December 2012 £m	Total Year ended 31 December 2013 £m	Total Restated[1] year ended 31 December 2012 £m
Selling and distribution costs	**(148.3)**	(83.1)	**(22.8)**	(31.5)	**(171.1)**	(114.6)
Administration expenses	**(251.5)**	(130.9)	**(30.5)**	(39.3)	**(282.0)**	(170.2)
Share of headline[2] results of joint ventures (note 14)	**2.8**	0.8	**–**	–	**2.8**	0.8
Other operating costs – exceptional (note 6)	**(19.3)**	(70.8)	**(0.7)**	(3.1)	**(20.0)**	(73.9)
Other operating income – exceptional (note 6)	**28.9**	7.0	**–**	–	**28.9**	7.0
Total net operating expenses	**(387.4)**	(277.0)	**(54.0)**	(73.9)	**(441.4)**	(350.9)

(1) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): “Employee benefits” (note 1).
(2) As defined on the Income Statement.

Operating profit is stated after charging/(crediting):	Continuing operations Year ended 31 December 2013 £m	Continuing operations Restated[1] year ended 31 December 2012 £m	Discontinued operations Year ended 31 December 2013 £m	Discontinued operations Restated[1] year ended 31 December 2012 £m	Total Year ended 31 December 2013 £m	Total Restated[1] year ended 31 December 2012 £m
Depreciation and impairment	**37.8**	19.3	**7.9**	10.6	**45.7**	29.9
Cost of inventories	**1,125.5**	720.1	**266.3**	378.8	**1,391.8**	1,098.9
Amortisation of customer relationships and brand names (note 12)	**64.6**	31.5	**6.3**	7.6	**70.9**	39.1
Amortisation of computer software and development costs (note 12)	**5.3**	2.1	**0.2**	0.3	**5.5**	2.4
Operating lease expense	**11.3**	7.4	**2.5**	3.7	**13.8**	11.1
Staff costs[2]	**380.2**	232.5	**91.2**	127.3	**471.4**	359.8
Research and development costs[2]	**18.9**	7.4	**0.3**	0.2	**19.2**	7.6
(Profit)/loss on disposal of property, plant and equipment	**(1.1)**	0.2	**–**	(0.3)	**(1.1)**	(0.1)
Impairment recognised on trade receivables	**2.9**	0.4	**0.4**	0.4	**3.3**	0.8

(1) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): “Employee benefits” (note 1).
(2) Staff costs include £36.3 million (2012: £12.7 million) of research and development related costs in continuing operations.

The analysis of auditor’s remuneration is as follows:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Fees payable to the Company’s auditor for the audit of the Company’s annual accounts	**1.4**	1.3
Fees payable to the auditor for the audit of the Elster acquisition Balance Sheet	**–**	0.4
Fees payable to the previous auditor of Elster	**–**	0.2
Total fees payable for the audit of the Company’s annual accounts	**1.4**	1.9
Fees payable to the Company’s auditor and their associates for other audit services to the Group: – the audit of the Company’s subsidiaries pursuant to legislation	**1.4**	1.3
Total audit fees	**2.8**	3.2
Audit-related assurance services:		
Review of the half year interim statement	**0.2**	0.1
Non-statutory audit of certain of the Company’s businesses	**1.0**	–
Other audit-related assurance services	**–**	0.4
Total audit-related assurance services	**1.2**	0.5
Total audit and audit-related assurance services	**4.0**	3.7
Taxation compliance services	**0.1**	0.2
Other taxation advisory services	**0.9**	0.3
Corporate finance services	**–**	1.7
Other services	**0.3**	0.2
Total audit and non-audit fees	**5.3**	6.1

The other audit-related assurance services in 2012 related to investment circulars issued for the acquisition of Elster and the creation of the new parent company. Corporate finance services in 2012 include due diligence and other transaction related services.

Details of the Company's policy on the use of auditors for non-audit services and how auditor's independence and objectivity were safeguarded are set out in the Audit Committee report on page 68. No services were provided pursuant to contingent fee arrangements.

	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Staff costs during the year (including executive Directors):		
Wages and salaries	**293.5**	183.6
Social security costs	**58.1**	29.4
Pension costs		
– defined benefit plans	**3.4**	1.1
– defined contribution plans	**12.2**	9.9
LTIPs[2]	**13.0**	8.5
Total continuing staff costs	**380.2**	232.5
Discontinued staff costs[3]	**91.2**	127.3
Total staff costs	**471.4**	359.8

[1] Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).
[2] Long Term Incentive Plans.
[3] Includes £0.7 million (2012: £0.1 million) of defined benefit pension costs and £2.5 million (2012: £3.3 million) of defined contribution pension costs.

	Year ended 31 December 2013 Number	Restated[1] year ended 31 December 2012 Number
Average monthly number of persons employed (including executive Directors)		
Energy	**2,691**	2,724
Lifting	**1,696**	1,706
Gas	**3,827**	4,017
Electricity	**1,391**	1,530
Water	**1,104**	1,310
Central – corporate	**35**	33
Total continuing operations	**10,744**	11,320
Discontinued operations	**2,999**	3,453
Total average number of persons employed	**13,743**	14,773

[1] Restated to include the employees of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

	Notes	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Finance costs and income			
Interest on bank loans and overdrafts		**(56.1)**	(32.8)
Amortisation of costs of raising finance		**(4.7)**	(2.4)
Net interest cost on pensions		**(9.0)**	(6.2)
Unwind of discount on provisions	20	**(0.7)**	(0.9)
Headline[2] finance costs		**(70.5)**	(42.3)
Exceptional finance costs	6	**–**	(16.3)
Total finance costs		**(70.5)**	(58.6)
Finance income		**21.7**	10.9
Total continuing operations		**(48.8)**	(47.7)
Discontinued operations[3]	9	**(0.1)**	(0.1)
Total net finance costs		**(48.9)**	(47.8)

[1] Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): "Employee benefits" (note 1).
[2] As defined on the Income Statement.
[3] Includes £0.2 million (2012: £0.1 million) net interest cost in relation to pensions.

8. Tax

Analysis of charge/(credit) in year:	Continuing operations Year ended 31 December 2013 £m	Continuing operations Restated[1] year ended 31 December 2012 £m	Discontinued operations Year ended 31 December 2013 £m	Discontinued operations Restated[1] year ended 31 December 2012 £m	Total Year ended 31 December 2013 £m	Total Year ended 31 December 2012 £m
Current tax	**44.1**	17.9	**32.9**	26.0	**77.0**	43.9
Deferred tax (note 21)	**5.1**	(4.7)	**(2.5)**	9.1	**2.6**	4.4
Total income tax charge	**49.2**	13.2	**30.4**	35.1	**79.6**	48.3
Tax charge on headline[2] profit before tax	**60.0**	31.5	**32.5**	25.5	**92.5**	57.0
Exceptional tax charge	**8.1**	5.8	**–**	–	**8.1**	5.8
Tax charge/(credit) on net exceptional items	**3.7**	(13.1)	**–**	–	**3.7**	(13.1)
Tax (credit)/charge in respect of intangible asset amortisation	**(22.6)**	(11.0)	**(2.1)**	9.6	**(24.7)**	(1.4)
Total income tax charge	**49.2**	13.2	**30.4**	35.1	**79.6**	48.3

[1] Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): "Employee benefits" (note 1).
[2] As defined on the Income Statement.

The tax charge for the year ended 31 December 2013 includes an exceptional tax charge of £8.1 million relating to the tax costs arising on an internal reorganisation of the Water segment. Within the 2012 exceptional tax charge of £5.8 million, £4.2 million related to the tax impact of the holding company restructuring that took place during the year as certain deferred tax assets were no longer considered likely to be available and £1.6 million related to businesses previously disposed.

The charge for the year can be reconciled to the profit per the Income Statement as follows:

	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Profit on ordinary activities before tax:		
Continuing operations	**171.1**	6.3
Discontinued operations (note 9)	**72.4**	83.4
	243.5	89.7
Tax on profit on ordinary activities at weighted average rate 29.89% (2012: 28.33%)	**72.8**	25.4
Tax effect of:		
Net permanent differences/non-deductible items	**5.8**	6.9
Change to calculation of deferred tax liability on intangible asset	**–**	9.8
Effect of rate change on deferred tax liability on intangible asset	**(3.9)**	–
Temporary differences not recognised in deferred tax	**(2.2)**	4.4
Tax credits, withholding taxes and other rate differences	**1.4**	1.6
Prior year tax adjustments	**(2.4)**	(5.6)
Exceptional tax charge	**8.1**	5.8
Total tax charge for the year	**79.6**	48.3

[1] Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): "Employee benefits" (note 1).

The reconciliation has been performed at a blended Group tax rate of 29.89% (2012: 28.33%) which represents the weighted average of the tax rates applying to taxable profits in the jurisdictions in which those profits arose.

In addition to the amount charged to the Income Statement, a tax credit of £nil (2012: £1.3 million) has been recognised directly in the Consolidated Statement of Comprehensive Income. This represents a tax charge of £0.6 million (2012: £3.5 million credit) in respect of retirement benefit obligations, a tax credit of £0.6 million (2012: £1.6 million charge) in respect of movements on cash flow hedges and a tax charge of £nil (2012: £0.6 million) in respect of the use of losses on items taken directly to reserves in prior years.

9. Discontinued operations

Disposal of businesses

On 22 November 2013, the Group completed the disposal of Crosby and Acco, two businesses acquired as part of the FKI acquisition in 2008, for gross cash consideration of US $1,016.9 million (£632.6 million). The costs charged during the year associated with the disposal were £13.0 million. The profit on disposal in the year was £256.6 million after the recycling of cumulative translation differences of £6.6 million. The Crosby and Acco businesses were previously classified within the Lifting segment and are now shown within discontinued operations.

On 1 August 2013, the Group completed the disposal of Marelli (also acquired as part of FKI), for cash consideration of €207.2 million (£177.1 million). The costs charged during the year associated with the disposal were £7.3 million. The profit on disposal in the year was £70.4 million after the recycling of cumulative translation differences of £3.5 million. The Marelli business was previously classified within the Energy segment and is now shown within discontinued operations.

During the year, the Group also disposed of two other businesses; namely Truth disposed on 3 July 2013 and Harris disposed on 31 December 2013, both previously shown within the Other Industrial segment. The combined cash consideration received for these businesses was US $215.4 million (£140.7 million) and the costs incurred were £4.7 million. The combined profit on disposal of these businesses was £73.7 million after the recycling of cumulative translation differences of £2.0 million.

During the year, up until the date of disposal, these businesses contributed £392.8 million of revenue and £79.5 million of headline operating profit.

The comparative information for the year ended 31 December 2012 has been restated to exclude the results and cashflows of these businesses from continuing operations and include them as discontinued operations.

Discontinued operations in 2012 also contain the results and cashflows of the MPC business, which was disposed on 25 June 2012.

Financial performance of discontinued operations:

	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Revenue	**392.8**	536.2
Operating costs	**(313.3)**	(442.0)
Headline[2] operating profit	**79.5**	94.2
Intangible asset amortisation	**(6.3)**	(7.6)
Exceptional items	**(0.7)**	(3.1)
Net finance costs	**(0.1)**	(0.1)
Profit before tax	**72.4**	83.4
Headline[2] tax	**(32.5)**	(25.5)
Exceptional tax	**2.1**	(9.6)
Profit after tax	**42.0**	48.3
Cumulative translation differences recycled on disposals	**12.1**	–
Gain/(loss) on disposal of net assets of discontinued operations	**388.6**	(0.6)
Profit for the period from discontinued operations	**442.7**	47.7
Attributable to:		
Owners of the parent	**442.7**	47.7
Non-controlling interests	**–**	–
	442.7	47.7

(1) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations.
(2) As defined on the Income Statement.

9. Discontinued operations continued

The major classes of assets and liabilities, by segment, disposed within these businesses were as follows:

	Lifting £m	Energy £m	Other Industrial £m	Discontinued operations £m
Goodwill and other intangible assets	285.5	42.4	34.7	362.6
Property, plant and equipment	40.2	30.0	12.6	82.8
Inventories	54.2	33.3	18.6	106.1
Trade and other receivables	47.6	41.8	13.6	103.0
Cash and cash equivalents	25.3	6.6	5.3	37.2
Total assets	452.8	154.1	84.8	691.7
Trade and other payables	33.1	38.4	14.5	86.0
Retirement benefit obligations	6.1	4.1	–	10.2
Provisions	9.3	0.4	0.1	9.8
Tax and deferred tax	34.7	8.3	5.9	48.9
Total liabilities	83.2	51.2	20.5	154.9
Net assets	369.6	102.9	64.3	536.8
Cash consideration net of costs(1)	619.6	169.8	136.0	925.4
Cumulative translation differences recycled on disposals	6.6	3.5	2.0	12.1
Profit on disposal of businesses	**256.6**	**70.4**	**73.7**	**400.7**

(1) Net of £25.0 million of disposal costs.

10. Dividends

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Final dividend for the year ended 31 December 2011 paid of 8.4p (4.8p)(1)	**–**	32.8
Interim dividend for the year ended 31 December 2012 paid of 2.6p	**–**	32.9
Final dividend for the year ended 31 December 2012 paid of 5.0p	**63.3**	–
Interim dividend for the year ended 31 December 2013 paid of 2.75p	**34.8**	–
	98.1	65.7

(1) Adjusted to include the effects of the Rights Issue on 1 August 2012 (note 11).

Proposed final dividend for the year ended 31 December 2013 of 5.0p per share (2012: 5.0p per share) totalling £53.6 million (2012: £63.3 million).

The final dividend of 5.0p was proposed by the Board on 5 March 2014 and, in accordance with IAS 10: “Events after the reporting period”, has not been included as a liability in these financial statements.

11. Earnings per share

Earnings attributable to owners of the parent	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Profit for the purposes of earnings per share	**562.7**	39.1
Less: profit for the year from discontinued operations (note 9)	**(442.7)**	(47.7)
Earnings for basis of earnings per share from continuing operations	**120.0**	(8.6)
Continuing operations		
Intangible asset amortisation	**64.6**	31.5
Exceptional costs (note 6) – operating	**19.3**	70.8
Exceptional income (note 6) – operating	**(28.9)**	(7.0)
Exceptional costs (note 6) – financing	**–**	16.3
Exceptional tax[2]	**(10.8)**	(18.3)
Earnings for basis of headline[2] earnings per share from continuing operations	**164.2**	84.7
Discontinued operations (note 9)		
Profit for the period from discontinued operations	**442.7**	47.7
(Profit)/loss on disposal of businesses	**(400.7)**	0.6
Intangible asset amortisation	**6.3**	7.6
Exceptional items	**0.7**	3.1
Exceptional tax[2]	**(2.1)**	9.6
Earnings for basis of headline[2] earnings per share from continuing and discontinued operations	**211.1**	153.3

[1] Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): "Employee benefits" (note 1).
[2] As defined on the Income Statement.

	Number	Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share including, for 2012, the effects of the Rights Issue[1] (million)	**1,266.6**	945.4
Further shares for the purposes of diluted earnings per share[2] including, for 2012, the effects of the Rights Issue[1] (million)	**20.1**	15.3
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share (million)	**1,286.7**	960.7

[1] On 1 August 2012, a 2 for 1, fully underwritten, Rights Issue was completed by Melrose PLC and subsequently 844.4 million new Melrose Ordinary Shares were issued raising £1.2 billion to part fund the acquisition of Elster Group S.E.. In accordance with IAS 33: "Earnings per share", a bonus factor associated with the issue of the new share capital of 57% was applied to the number of Ordinary Shares for the purpose of earnings per share calculations for 2012.
[2] Relating to the 2012 Melrose Incentive Plan and the previous Melrose Incentive Plan which crystallised on 11 April 2012.

Earnings per share	Year ended 31 December 2013 pence	Restated[1] year ended 31 December 2012 pence
Basic earnings per share		
From continuing and discontinued operations	**44.4**	4.1
From continuing operations	**9.5**	(0.9)
From discontinued operations	**34.9**	5.0
Diluted earnings per share		
From continuing and discontinued operations	**43.7**	4.1
From continuing operations	**9.3**	(0.9)
From discontinued operations	**34.4**	5.0
Headline[2] basic earnings per share		
From continuing and discontinued operations	**16.7**	16.2
From continuing operations	**13.0**	9.0
Headline[2] diluted earnings per share		
From continuing and discontinued operations	**16.4**	16.0
From continuing operations	**12.8**	8.8

[1] Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): "Employee benefits" (note 1).
[2] As defined on the Income Statement.

12. Goodwill and other intangible assets

	Restated[1] goodwill £m	Customer relationships £m	Brand names £m	Computer software and development costs £m	Restated[1] total £m
Cost					
At 1 January 2012	568.5	59.7	358.6	3.1	989.9
Acquisitions	1,307.1	813.8	48.8	24.1	2,193.8
Additions	–	–	–	2.2	2.2
Disposal of businesses	(3.2)	–	–	(0.6)	(3.8)
Exchange adjustments	(6.2)	4.0	(8.1)	0.2	(10.1)
At 31 December 2012	1,866.2	877.5	399.3	29.0	3,172.0
Additions	–	–	–	3.9	3.9
Disposal of businesses	(259.1)	(9.0)	(134.4)	(3.8)	(406.3)
Exchange adjustments	(5.1)	(1.0)	3.2	(0.1)	(3.0)
At 31 December 2013	**1,602.0**	**867.5**	**268.1**	**29.0**	**2,766.6**
Amortisation					
At 1 January 2012	–	(20.7)	(62.8)	(0.3)	(83.8)
Charge for the period	–	(20.6)	(18.5)	(2.4)	(41.5)
Exchange adjustments	–	0.3	1.8	–	2.1
At 31 December 2012	–	(41.0)	(79.5)	(2.7)	(123.2)
Charge for the period	–	(51.4)	(19.5)	(5.5)	(76.4)
Disposal of businesses	–	4.4	36.0	3.3	43.7
Exchange adjustments	–	1.7	(0.4)	–	1.3
At 31 December 2013	**–**	**(86.3)**	**(63.4)**	**(4.9)**	**(154.6)**
Net book value					
At 31 December 2013	**1,602.0**	**781.2**	**204.7**	**24.1**	**2,612.0**
At 31 December 2012[1]	1,866.2	836.5	319.8	26.3	3,048.8
At 1 January 2012	568.5	39.0	295.8	2.8	906.1

[1] Restated to reflect the completion of the acquisition accounting for Elster.

Included within customer relationships is an element in relation to the Gas segment which has a carrying amount as at 31 December 2013 of £647.5 million (2012: £679.0 million) and a remaining amortisation period of 18 years and 8 months.

The goodwill generated as a result of acquisitions represents the premium paid in excess of the fair value of all assets, including intangible assets, identified at the point of acquisition and in the subsequent review period. This premium reflects the Directors' view, at the date of acquisition and before any turnaround processes have been applied, of the future growth potential of the businesses acquired at that date.

Furthermore, value is added to the businesses acquired through future improvements that are applied, achieved through a combination of revised strategic direction, operational improvements and investment. This is expected to result in improved profitability and cash flows of the acquired businesses during the period of ownership and is 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 result in the businesses being valued in excess of the fair value of all assets and goodwill acquired.

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

	31 December 2013 £m	Restated[1] 31 December 2012 £m
Energy	**207.4**	209.1
Lifting	**86.2**	86.3
FKI total	**293.6**	295.4
Gas	**1,072.0**	1,068.1
Electricity	**157.9**	163.9
Water	**78.5**	82.0
Elster total	**1,308.4**	1,314.0
Discontinued	**–**	256.8
	1,602.0	1,866.2

(1) Restated to reflect the completion of the acquisition accounting for Elster and to include the goodwill of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

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

31 December 2013

Group of CGUs	Basis of Valuation	Carrying value of Goodwill £m	Pre-tax discount rates[1]	Period of forecast	Key assumptions applied in the forecast cash flow projections[2]	Long-term growth rates[3]
Energy	Value in use	207.4	10.4%	4 years	Revenue growth, Operating margins	2.5%
Lifting	Value in use	86.2	9.8%	5 years	Revenue growth, Operating margins	3.2%
Gas	Value in use	1,072.0	9.8%	4 years	Revenue growth, Operating margins	2.5%
Electricity	Value in use	157.9	9.8%	4 years	Revenue growth, Operating margins	2.9%
Water	Value in use	78.5	10.0%	3 years	Revenue growth, Operating margins	2.5%

31 December 2012

Group of CGUs	Basis of Valuation	Carrying value of Goodwill £m	Pre-tax discount rates[1]	Period of forecast	Key assumptions applied in the forecast cash flow projections[2]	Long-term growth rates[3]
Energy	Value in use	209.1	7.9%	2 years	Revenue growth, Operating margins	2.5%
Lifting	Value in use	86.3	9.2%	2 years	Revenue growth, Operating margins	2.5%
Gas	Value in use	1,068.1	8.5%	3 years	Revenue growth, Operating margins	3.0%
Electricity	Value in use	163.9	8.7%	3 years	Revenue growth, Operating margins	3.0%
Water	Value in use	82.0	8.0%	3 years	Revenue growth, Operating margins	3.0%

(1) 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.

12. Goodwill and other intangible assets continued

(2) Assumptions applied in financial forecasts

The Group prepares cash flow forecasts derived from financial budgets and mid-term plans 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 likely rates of long-term growth by market sector. Underlying factors in determining the values assigned to each key assumption by CGU are shown below:

Revenue growth:
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 of each division's historical experience in the context of wider industry and economic conditions. Projected sales are built up with reference to markets and product categories. They incorporate past performance, historical growth rates, projections of developments in key markets, secured orders and orders likely to be achieved in the short to medium-term, given trends in the relevant market sector.

FKI
Bridon designs and manufactures lifting and stabilising solutions for applications in wire rope, fibre rope, steel wire and strand. The business services global customers in the oil & gas, mining, industrial, marine and infrastructure sectors. The key drivers for revenues are i) oil & gas drilling and rig count which in turn is dependent upon oil & natural gas prices and storage levels ii) global mining activity, both operating and capital expenditures from mining companies which in turn is dependent upon demand for coal and metals iii) commercial construction iv) trade through seaports and demand from crane OEMs. Independent forecasts of growth in these served end markets have been used to derive revenue growth assumptions.

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

Elster
Elster Gas designs and manufactures gas measurement, process heat control and gas safety control equipment. The key drivers for growth are i) global energy consumption and the growing share for natural gas ii) international legislation aimed at driving down emission levels and increasing efficiency which in turn stimulates demand for Smart meters and process heat applications. Independent forecasts of the growth in these end markets have been used to derive revenue growth assumptions as well as management's best estimates of the impact of residential Smart meter rollouts in the EU.

Elster Electricity is an international metering solution provider supplying both traditional and Smart meter equipment, including applications for residential, commercial, industrial, transmission and distribution markets. The key drivers for revenues are i) global demand for electricity metering requirements, both traditional and Smart ii) market developments in meter data software solutions. Independent forecasts of the growth in the meter hardware and related meter software end markets have been used to derive revenue growth assumptions as well as management's best estimates of the impact of residential Smart meter rollouts in the EU.

Elster Water designs and manufactures a comprehensive range of water metering solutions. The key driver for revenue growth is the global demand for water meters, both traditional and Smart. Revenue growth assumptions have been built up with reference to past performance, historical growth rates and projections of developments in key markets.

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

(3) Long-term growth rates

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

Sensitivity analysis
A reasonable possible change in the assumptions applied would not result in any impairment. Base case forecasts show significant headroom above the carrying value for each group of CGUs. Sensitivity analysis has been undertaken for each group of CGUs to assess the impact of any reasonable possible change in key assumptions. There is no reasonable possible change that would cause the carrying values to exceed recoverable amounts.

Acquisition of subsidiaries
During the year the non-controlling interest of a Gas subsidiary business was acquired for total consideration of £9.8 million.

In line with the Group's strategy to acquire good manufacturing businesses with potential for improvements, on 23 August 2012 the Group acquired 99.35% of the issued share capital and obtained control of Elster Group S.E. for cash consideration of £1,469.8 million. Subsequently a further 0.45% of the remaining 0.65% share capital was purchased on various dates in 2012 for total consideration of £6.4 million. The final 0.20% share capital was purchased during 2013 for total consideration of £3.0 million.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed on the acquisition of Elster were set out in the 2012 Annual Report. During the year, the Group has completed its review of the assets and liabilities acquired. As a result the Group recorded its final adjustments to the opening balance sheet of Elster at the half year. In accordance with IFRS 3: "Business combinations" the Balance Sheet at 31 December 2012 has been restated to reflect this. These adjustments increased provisions by £32.9 million, deferred tax assets by £5.2 million, other payables by £0.9 million and reduced inventory and property, plant and equipment by £0.6 million and £0.1 million respectively. The corresponding adjustment is to increase goodwill by £29.3 million. The measurement period was closed at 30 June 2013.

	Restated[1] fair value £m
Elster	
Property, plant and equipment	100.2
Intangible assets, computer software and development costs	886.7
Derivative financial assets	0.3
Interests in joint ventures	9.8
Inventories	175.6
Trade and other receivables	182.6
Cash and cash equivalents	105.6
Trade and other payables	(356.9)
Provisions	(175.9)
Deferred tax	(200.8)
Retirement benefit obligation	(117.3)
Current tax	(29.2)
Interest-bearing loans and borrowings	(411.9)
Non-controlling interests	(4.9)
Net assets	163.9
Non-controlling interests (Elster shares)	(1.2)
Goodwill	1,307.1
Total consideration	1,469.8
Satisfied by:	
Cash consideration	**1,469.8**

[1] Restated to reflect the completion of the acquisition accounting for Elster.

13 Property, plant and equipment

	Land and buildings £m	Restated[1] Plant and equipment £m	Restated[1] Total £m
Cost			
At 1 January 2012	102.9	190.7	293.6
Acquisitions	27.3	72.9	100.2
Additions	7.5	47.0	54.5
Disposals	(0.3)	(2.6)	(2.9)
Disposal of businesses	(5.8)	(19.0)	(24.8)
Exchange adjustments	(2.0)	(4.7)	(6.7)
At 31 December 2012	129.6	284.3	413.9
Additions	4.5	52.9	57.4
Disposals	(1.1)	(5.7)	(6.8)
Disposal of businesses	(36.6)	(91.9)	(128.5)
Exchange adjustments	(1.3)	(1.9)	(3.2)
At 31 December 2013	**95.1**	**237.7**	**332.8**
Accumulated depreciation and impairment			
At 1 January 2012	(10.0)	(68.3)	(78.3)
Charge for the period	(3.3)	(25.7)	(29.0)
Impairments	–	(0.9)	(0.9)
Disposals	–	1.6	1.6
Disposal of businesses	0.9	8.8	9.7
Exchange adjustments	0.2	1.6	1.8
At 31 December 2012	(12.2)	(82.9)	(95.1)
Charge for the period	(4.6)	(38.3)	(42.9)
Impairments[2]	–	(2.8)	(2.8)
Disposals	–	1.7	1.7
Disposal of businesses	5.2	40.5	45.7
Exchange adjustments	0.1	1.7	1.8
At 31 December 2013	**(11.5)**	**(80.1)**	**(91.6)**
Net book value			
At 31 December 2013	**83.6**	**157.6**	**241.2**
At 31 December 2012	117.4	201.4	318.8
At 1 January 2012	92.9	122.4	215.3

(1) Restated to reflect the completion of the acquisition accounting for Elster (note 12).
(2) The impairment of plant and equipment comprises £0.6 million in relation to the Energy segment, £1.8 million in relation to the Water segment and £0.4 million in relation to discontinued operations.

14. Interests in joint ventures

	31 December 2013 £m	31 December 2012 £m
Aggregated amounts relating to joint ventures:		
Share of assets	**24.0**	22.4
Share of liabilities	**(11.4)**	(10.0)
Interests in joint ventures	**12.6**	12.4
Share of joint venture revenues	**36.6**	11.4
Share of results of joint ventures	**2.8**	0.8
Dividends received from joint ventures	**(2.7)**	(0.3)

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

15. Inventories

	31 December 2013 £m	Restated[(1)] 31 December 2012 £m
Raw materials	**75.1**	114.8
Work in progress	**89.2**	156.9
Finished goods	**70.2**	103.8
	234.5	375.5

(1) Restated to reflect the completion of the acquisition accounting for Elster (note 12).

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

The expense of writing down inventory to net realisable value during the year totalled £8.7 million whilst reversals of previous write downs of inventory amounted to £5.3 million.

Construction contracts

	31 December 2013 £m	31 December 2012 £m
Contracts in progress at the Balance Sheet date:		
Amounts due from contract customers included in other receivables	**4.7**	3.0
	4.7	3.0
Contract costs incurred plus recognised profit less recognised losses to date	**14.8**	9.4
Less: progress billings	**(10.1)**	(6.4)
	4.7	3.0

The average life of contracts is 1-2 years (31 December 2012: 1-2 years).

16. Trade and other receivables

Current	31 December 2013 £m	31 December 2012 £m
Trade receivables	**257.2**	334.1
Allowance for doubtful receivables	**(8.2)**	(12.6)
Amounts due from joint ventures	**1.0**	1.3
Other receivables	**27.5**	42.2
Prepayments	**15.3**	19.1
	292.8	384.1

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

Non-current	31 December 2013 £m	31 December 2012 £m
Other receivables	**0.3**	0.3

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:

	FKI £m	Elster £m	Central £m	Discontinued[1] £m	Total £m
At 1 January 2012	0.7	–	0.1	2.4	3.2
Acquired with business	–	10.2	–	–	10.2
Disposal of businesses	–	–	–	(0.3)	(0.3)
Income Statement charge	0.2	0.2	–	0.4	0.8
Utilised	(0.2)	(0.9)	–	(0.2)	(1.3)
Exchange differences	–	–	–	–	–
At 31 December 2012	0.7	9.5	0.1	2.3	12.6
Disposal of businesses	–	–	–	(2.6)	(2.6)
Income Statement charge	0.8	2.1	–	0.4	3.3
Utilised	(0.2)	(4.8)	(0.1)	(0.1)	(5.2)
Exchange differences	–	0.1	–	–	0.1
At 31 December 2013	**1.3**	**6.9**	**–**	**–**	**8.2**

[1] Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

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

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

Ageing of impaired trade receivables past due	31 December 2013 £m	31 December 2012 £m
0 – 30 days	**0.4**	1.9
31 – 60 days	**0.2**	0.4
60+ days	**7.6**	10.3
	8.2	12.6

Included in the Group's trade receivables balance are overdue trade receivables with a carrying amount of £42.7 million (31 December 2012: £88.0 million) against which an appropriate provision of £8.2 million (31 December 2012: £12.6 million) is held.

The balance deemed recoverable of £34.5 million (31 December 2012: £75.4 million) is past due as follows:

	31 December 2013 £m	31 December 2012 £m
0 – 30 days	**23.9**	58.1
31 – 60 days	**7.2**	7.9
60+ days	**3.4**	9.4
	34.5	75.4

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

17. Cash and cash equivalents

	31 December 2013 £m	31 December 2012 £m
Cash and cash equivalents	**200.4**	156.5

Cash and cash equivalents comprises cash at bank and in hand which earns interest at floating rates based on daily bank deposit rates and short-term deposits which are made for varying periods of between one day and one month and earn interest at the respective short-term deposit rates. The carrying amount of these assets is considered to be equal to their fair value.

18. Trade and other payables

Current	**31 December 2013 £m**	Restated[1] 31 December 2012 £m
Trade payables	**195.3**	253.4
Other payables	**111.8**	169.5
Other taxes and social security	**13.0**	16.5
Deferred government grants	**2.2**	2.4
Accruals	**76.9**	98.5
	399.2	540.3

[1] Restated to reflect the completion of the acquisition accounting of Elster (note 12).

Trade payables are non interest-bearing. Normal settlement terms vary by country and the average credit period taken for trade purchases is 100 days (2012: 98 days). Other payables are non interest-bearing and have an average term of approximately 60 days.

Non-current	**31 December 2013 £m**	31 December 2012 £m
Other payables	**1.1**	0.9
Accruals	**0.4**	1.7
	1.5	2.6

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

19. Interest-bearing loans and borrowings

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

	Current		Non-current		Total	
	31 December 2013 £m	31 December 2012 £m	**31 December 2013 £m**	31 December 2012 £m	**31 December 2013 £m**	31 December 2012 £m
Fixed rate obligations						
Bank borrowings – Brazilian Real	**–**	6.2	**–**	–	**–**	6.2
	–	6.2	**–**	–	**–**	6.2
Floating rate obligations						
Bank borrowings – US Dollar loan[(1)]	**–**	–	**175.1**	423.3	**175.1**	423.3
Bank borrowings – Euro loan[(2)]	**–**	–	**–**	298.2	**–**	298.2
Bank borrowings – Sterling loan[(3)]	**–**	–	**180.0**	447.5	**180.0**	447.5
Bank borrowings – Brazilian Real	**–**	–	**2.4**	–	**2.4**	–
	–	–	**357.5**	1,169.0	**357.5**	1,169.0
Unamortised finance costs	**–**	–	**(16.3)**	(21.0)	**(16.3)**	(21.0)
Total interest-bearing loans and borrowings	**–**	6.2	**341.2**	1,148.0	**341.2**	1,154.2

(1) Interest rate LIBOR +2.25%, final maturity June 2017 (31 December 2012: interest rate LIBOR +2.00%, final maturity June 2017).
(2) Interest rate EURIBOR +2.25%, final maturity June 2017 (31 December 2012: interest rate EURIBOR +2.00%, final maturity June 2017).
(3) Interest rate LIBOR +2.25%, final maturity June 2017 (31 December 2012: interest rate LIBOR +2.00%, final maturity June 2017).

As at 1 January 2013, the Group held a five year multi-currency facility split between a £0.5 billion term loan and a £1.0 billion revolving credit facility. These facilities are due to mature on 29 June 2017.

As at 1 January 2013, the term loan was split into two tranches of £180 million and US $500 million. During the year, following the receipt of business disposal proceeds, US $210 million was repaid and cancelled against the US Dollar denominated term loan. At 31 December 2013, the £180 million and the remaining US $290 million term loan tranches remain drawn down.

The Sterling denominated term loan is subject to mandatory repayments of 5% on June 2015, June 2016 and 31 December 2016, adjusted for any term loan repayments made prior to these dates. Following the repayments made against the US Dollar denominated tranche in the year no further mandatory repayments are due in respect of the US Dollar denominated term loan before 29 June 2017.

As at 1 January 2013, the revolving credit facility was split between a £760 million Sterling denominated multi-currency facility and a €300 million Euro denominated facility. These were both partially drawn at 1 January 2013. During the year, £18.5 million of the Sterling denominated facility was repaid and cancelled. The remaining revolving credit facilities of £741.5 million and €300 million were repaid, but not cancelled, during the year following the receipt of business disposals. There were no drawdowns against these facilities at 31 December 2013.

Throughout the year, the Group remained compliant with all covenants under the facilities disclosed above. A number of companies continue to be guarantors under the bank facilities. In addition, until Elster Group S.E. becomes converted into a German limited liability company, a pledge has been given over the shares of Elster Group S.E..

Drawdowns under the existing facility bear interest at interbank rates of interest plus a margin determined by reference to the Group's performance under its debt cover covenant ratio and which ranges between 1.40% and 2.65%. The margin as at 31 December 2013 was 2.25% (31 December 2012: 2.00%).

Maturity of financial liabilities

The maturity profile of anticipated future cash flows including interest in relation to the Group's financial liabilities, on an undiscounted basis and which, therefore, differs from both the carrying value and fair value is shown in the table below. Interest on floating rate debt is based on the relevant LIBOR curve for US Dollar and Sterling balances and the EURIBOR curve for Euro balances. Interest on hedging interest rate swaps is based on the relevant forward LIBOR curves for US Dollar and Sterling amounts and EURIBOR curve for Euro amounts and is illustrated as a net cash flow.

	Interest-bearing loans and borrowings £m	Derivative financial liabilities £m	Restated[1] other financial liabilities £m	Restated[1] total financial liabilities £m
Within one year	9.6	7.2	384.0	400.8
In one to two years	22.0	–	1.5	23.5
In two to five years	368.8	–	–	368.8
Effect of financing rates	(59.2)	–	–	(59.2)
31 December 2013	**341.2**	**7.2**	**385.5**	**733.9**
Within one year	33.3	7.0	521.4	561.7
In one to two years	28.2	3.8	2.6	34.6
In two to five years	1,252.9	(0.3)	–	1,252.6
Effect of financing rates	(160.2)	–	–	(160.2)
31 December 2012	1,154.2	10.5	524.0	1,688.7

(1) Restated to reflect the completion of the acquisition accounting for Elster (note 12).

20. Provisions

	Surplus leasehold property costs £m	Environmental and legal costs £m	Incentive plan related £m	Warranty related costs £m	Other £m	Total £m
At 31 December 2012 restated[1]	31.5	68.7	20.3	102.5	64.2	287.2
Utilised[2]	(10.6)	(7.7)	(7.7)	(24.1)	(55.3)	(105.4)
Net release to exceptional items[3]	(0.5)	1.8	–	(19.7)	14.7	(3.7)
Net charge to headline[4] operating profit	–	0.9	9.0	(2.8)	0.8	7.9
Disposal of businesses	–	(9.2)	–	–	(0.6)	(9.8)
Unwind of discount (note 7)	0.6	0.1	–	–	–	0.7
Exchange differences	0.2	(0.5)	–	0.2	1.0	0.9
At 31 December 2013	**21.2**	**54.1**	**21.6**	**56.1**	**24.8**	**177.8**
Current	6.6	8.3	–	38.1	21.4	74.4
Non-current	14.6	45.8	21.6	18.0	3.4	103.4
	21.2	54.1	21.6	56.1	24.8	177.8

(1) Restated to reflect the completion of the acquisition accounting for Elster (note 12).
(2) Includes £98.2 million of cash spend against provisions and £7.2 million non cash utilisation.
(3) Net of £26.9 million of provisions originally booked as fair value adjustments on acquisition of Elster, released to exceptional income, and £23.2 million of other exceptional costs, mainly relating to restructuring.
(4) As defined on the Income Statement.

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

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

Incentive plan related provisions are in respect of long term incentive plans for divisional senior management, expected to result in cash expenditure in the next four years.

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

Other provisions relate primarily to costs that will be incurred in respect of restructuring programmes, usually resulting in cash spend within one year.

Where appropriate, provisions have been discounted using a discount rate of 3% (31 December 2012: 3%).

21. Deferred tax

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

		Deferred tax assets	Deferred tax liabilities			
	Notes	Restated[(1)] tax losses and other assets £m	Accelerated capital allowances and other liabilities £m	Deferred tax on intangible assets £m	Total deferred tax liabilities £m	Restated[(1)] total net deferred tax £m
At 1 January 2012		40.4	(14.7)	(83.6)	(98.3)	(57.9)
(Charge)/credit to income	8	(1.6)	(4.2)	1.4	(2.8)	(4.4)
Credit/(charge) to other comprehensive income		3.5	(1.6)	–	(1.6)	1.9
Acquisition of businesses	12	109.0	(43.4)	(266.4)	(309.8)	(200.8)
Exchange differences		(1.0)	(0.1)	1.4	1.3	0.3
At 31 December 2012		150.3	(64.0)	(347.2)	(411.2)	(260.9)
(Charge)/credit to income	8	(64.1)	36.8	24.7	61.5	(2.6)
(Charge)/credit to other comprehensive income		(0.6)	0.6	–	0.6	–
Disposal of businesses		(15.8)	14.4	36.2	50.6	34.8
Exchange differences		0.5	–	(1.1)	(1.1)	(0.6)
At 31 December 2013		**70.3**	**(12.2)**	**(287.4)**	**(299.6)**	**(229.3)**

(1) Restated to reflect the completion of the acquisition accounting for Elster (note 12) and for the adoption of IAS 19 (revised): "Employee benefits" (note 1).

As at 31 December 2013, the Group had gross unused losses of £217.1 million (31 December 2012: £250.6 million) available for offset against future profits. At 31 December 2013, a £9.7 million deferred tax asset (31 December 2012: £9.1 million) in respect of £42.0 million (31 December 2012: £35.5 million) of these gross losses were recognised in the Balance Sheet. No asset was recognised in respect of the remaining losses due to the divisional and geographic split of anticipated future profit streams and the effect of possible disposals in future years. The majority of these losses may be carried forward indefinitely subject to certain continuity of business requirements.

A deferred tax asset of £25.6 million (31 December 2012: £37.8 million) was recognised on Group retirement benefit obligations, being the extent to which they are expected to generate tax deductions against foreseeable taxable profits.

The remaining asset of £35.0 million (31 December 2012: £103.4 million) relates to other temporary differences.

As at 31 December 2013, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities had not been recognised was £3.3 million (31 December 2012: £6.6 million). No liability was recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

22. Share-based payments

Melrose Incentive Plans

The Company has 50,000 options (31 December 2012: 50,000 options) in issue which enable the holder of these options to subscribe for 2012 Incentive Shares. These options are held by Directors and senior employees. Further details of the 2012 Melrose Incentive Plan are provided in the Directors' remuneration report on pages 70 to 84.

The estimated value of the 2012 Incentive Shares at 31 December 2013 was £73.0 million (31 December 2012: £8.6 million). Using a Black Scholes option pricing model, the estimated fair value attributable to this plan in over three years time, at 31 May 2017, will be £101.7 million (31 December 2012: £60.2 million).

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

	Valuation assumptions
Weighted average share price	£2.27
Weighted average exercise price	£2.85
Expected volatility	30.0%
Expected life as at inception	5.0 yrs
Risk free interest	1.0%

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

The Group recognised an IFRS 2 charge of £4.0 million (2012: £3.5 million, of which £0.8 million related to the previous Melrose Incentive Plan) in the year ended 31 December 2013 in relation to the equity settled 2012 Melrose Incentive Plan.

23. Retirement benefit obligations

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

The total costs charged in relation to the continuing businesses during the year of £12.2 million (2012: £9.9 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

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

During July 2013, the most significant defined benefit plan in the Group, being the FKI UK Pension Plan, was demerged into three separate independent plans. Two new plans, namely the Bridon Group (2013) Pension Plan and the Brush Group (2013) Pension Plan, were established. Throughout this note these three plans are collectively referred to as the FKI UK Pension Plans.

The most significant defined benefit pension plans are:

- The FKI UK Pension Plans which are defined benefit in type and are funded plans. The plans are closed to new members and the accrual of future benefits for existing members.
- The McKechnie UK Pension Plan which is defined benefit in type and is a funded plan (other than £4.0 million of unfunded liabilities). The plan is closed to new members and the accrual of future benefits for existing members.
- The FKI US Pension Plan which is defined benefit in type and is a funded plan. The plan is closed to new members and the accrual of future benefits for existing members.

Other plans include a number of funded and unfunded defined benefit arrangements across Europe, North America and the rest of the world. The Group also operates unfunded retiree medical and welfare benefit plans, principally in the US.

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

Valuations of the FKI UK Pension Plans are based on full actuarial valuations as of 31 March 2013 and updated at 31 December 2013 by independent actuaries. The McKechnie UK Pension Plan valuation is based on a full valuation at 31 December 2011 updated at 31 December 2013 by independent actuaries. The FKI US Pension Plan valuation is based on the US full actuarial valuation as of 31 December 2012, updated at 31 December 2013 by independent actuaries.

The Group contributed £20.0 million (2012: £18.5 million) to the FKI UK Pension Plans and £5.2 million (2012: £4.6 million) to the McKechnie UK Pension Plan in the year ended 31 December 2013. Similar contributions will be made to these plans in 2014.

In total, the Group expects to contribute approximately £33.4 million to its defined benefit plans in the year ended 31 December 2014.

In the year, the Group has adopted IAS 19 (revised): "Employee benefits" and restated prior year pension numbers as if the new standard had been effective from 1 January 2012. The impact of this new standard is disclosed in note 1.

Actuarial assumptions

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

	31 December 2013					
	FKI UK Plans % p.a.	McKechnie UK Plan % p.a.	FKI US Plan % p.a.	US Plans % p.a.	European Plans % p.a.	Other plans % p.a.
Rate of increase in salaries	n/a	3.90[1]	n/a	4.00	2.75	3.00
Rate of increase in pensions in payment	3.20	3.20	n/a	n/a	1.90	n/a
Discount rate	4.40	4.40	4.70	4.70	3.50	4.70
RPI inflation assumption	3.40	3.40	n/a	n/a	1.90	2.25

[1] Closed to the accrual of future benefits but active members' benefits are still linked to current salaries.

23. Retirement benefit obligations continued

	31 December 2012					
	FKI UK Plans % p.a.	McKechnie UK Plan % p.a.	FKI US Plan % p.a.	US Plans % p.a.	European Plans % p.a.	Other plans % p.a.
Rate of increase in salaries	n/a	3.50[1]	n/a	4.00	2.75	3.00
Rate of increase in pensions in payment	2.90	3.00	n/a	n/a	1.90	n/a
Discount rate	4.50	4.50	3.90	3.90	2.90	3.90
RPI inflation assumption	3.00	3.00	n/a	n/a	1.90	2.90

(1) Closed to the accrual of future benefits but active members' benefits are still linked to current salaries.

Mortality

FKI UK Pension Plans

Mortality assumptions for the most significant plans in the Group, the FKI UK Plans, as at 31 December 2013 are based on the Self Administered Pension Scheme ("SAPS") "S1" base tables with scaling factors of 110% and 105% for deferred members and pensioners respectively, which reflect 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 are that a member currently aged 65 will live on average for a further 21.9 years (31 December 2012: 22.1 years) if they are male and for a further 24.1 years (31 December 2012: 24.2 years) if they are female. For a member who retires in 2033 at age 65, the assumptions are that they will live for a further 23.3 years (31 December 2012: 23.5 years) after retirement if they are male and for a further 25.6 years (31 December 2012: 25.8 years) after retirement if they are female.

The mortality assumptions are in line with those adopted for the full valuation as at 31 March 2013.

Other plans

The mortality assumptions adopted as at 31 December 2013 have been set to reflect the Group's best estimate view of life expectancies of members of each individual pension arrangement. These mortality assumptions vary by arrangement, each assumption reflecting the characteristics of the membership of that arrangement.

Balance Sheet disclosures

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

	31 December 2013 £m	31 December 2012 £m
Present value of funded defined benefit obligations	**(1,187.6)**	(1,186.6)
Fair value of plan assets	**1,070.8**	1,043.3
Funded status	**(116.8)**	(143.3)
Present value of unfunded defined benefit obligations	**(102.5)**	(118.0)
Net liabilities	**(219.3)**	(261.3)

The plan liabilities and assets at 31 December 2013 were split by plan as follows:

	FKI UK Plans[1] £m	McKechnie UK Plan £m	FKI US Plan £m	US Plans £m	European Plans £m	Other plans £m	**Total £m**
Plan liabilities	(780.6)	(183.0)	(183.0)	(39.3)	(101.5)	(2.7)	**(1,290.1)**
Plan assets	671.4	182.5	177.6	27.4	9.5	2.4	**1,070.8**
Net liabilities	(109.2)	(0.5)	(5.4)	(11.9)	(92.0)	(0.3)	**(219.3)**

(1) The FKI UK Plans comprise three separate plans; the FKI UK Pension Plan, the Brush Group (2013) Pension Plan and the Bridon Group (2013) Pension Plan. The net liabilities of these plans are £70.8 million, £29.4 million and £9.0 million respectively.

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

	31 December 2013 £m	31 December 2012 £m
Equities	**381.6**	410.7
Government bonds	**215.8**	194.4
Corporate bonds	**318.6**	339.9
Property	**18.5**	19.4
Insurance contracts	**13.5**	14.4
Other	**122.8**	64.5
Total	**1,070.8**	1,043.3

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

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

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

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
At beginning of year	**1,304.6**	1,076.7
Acquisition of business	**–**	155.1
Disposal of businesses	**(35.6)**	(0.7)
Current service cost	**3.4**	1.2
Past service cost	**–**	(0.9)
Losses/(gains) on curtailments	**0.7**	(7.0)
Interest cost on obligations	**54.2**	51.4
Remeasurement (gains)/losses – demographic	**(18.5)**	26.9
Remeasurement losses – financial	**2.9**	80.6
Remeasurement losses/(gains) – experience	**35.2**	(17.4)
Benefits paid out of plan assets	**(54.1)**	(49.9)
Benefits paid out of Group assets for unfunded plans	**(4.7)**	(1.8)
Currency translation differences	**2.0**	(9.6)
At end of year	**1,290.1**	1,304.6

The defined benefit plan liabilities are 5% (31 December 2012: 6%) in respect of active plan participants, 44% (31 December 2012: 45%) in respect of deferred plan participants and 51% (31 December 2012: 49%) in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2013 is 15.3 years (31 December 2012: 15.5 years).

23. Retirement benefit obligations continued

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

	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
At beginning of year	**1,043.3**	959.0
Acquisition of business	**–**	37.8
Disposal of businesses	**(25.4)**	–
Interest income on plan assets	**45.0**	45.1
Return on plan assets, excluding interest income	**39.7**	31.1
Contributions	**28.9**	31.9
Benefits paid out of plan assets	**(54.1)**	(49.9)
Plan administrative costs	**(2.8)**	(2.1)
Currency translation differences	**(3.8)**	(9.6)
At end of year	**1,070.8**	1,043.3

[1] Restated for the adoption of IAS 19 (revised): "Employee benefits" (note 1).

The actual return on plan assets was a gain of £84.7 million (2012: £76.2 million).

Income Statement disclosures

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

	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Continuing operations		
Included within headline[2] operating profit:		
– current service cost	**3.4**	1.1
– plan administrative costs	**2.8**	2.1
– past service cost	**–**	(0.3)
Included within net finance costs:		
– interest cost on obligations	**53.3**	50.1
– interest income on plan assets	**(44.3)**	(43.9)
Included within exceptional items:		
– curtailment gain	**–**	(7.0)
Discontinued operations		
Included within headline[2] operating profit:		
– current service cost	**–**	0.1
– past service cost	**–**	(0.6)
Included within net finance costs:		
– interest cost on obligations	**0.9**	1.3
– interest income on plan assets	**(0.7)**	(1.2)
Included within exceptional items:		
– curtailment loss	**0.7**	–

[1] Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9) and for the adoption of IAS 19 (revised): "Employee benefits" (note 1).
[2] As defined on the Income Statement.

Statement of Comprehensive Income disclosures

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

	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Return on plan assets, excluding amounts included in net interest expense	**39.7**	31.1
Actuarial gains/(losses) arising from changes in demographic assumptions	**18.5**	(26.9)
Actuarial losses arising from changes in financial assumptions	**(2.9)**	(80.6)
Actuarial (losses)/gains arising from experience adjustments	**(35.2)**	17.4
Net remeasurement gain/(loss) on retirement benefit obligations	**20.1**	(59.0)

[1] Restated for the adoption of IAS 19 (revised): "Employee benefits" (note 1).

Risks and sensitivities

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

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

	Change in assumption	Decrease/ (increase) to plan liabilities £m	Increase/ (decrease) to profit before tax £m
Discount rate	Increase by 0.10%	18.5	0.6
	Decrease by 0.10%	(18.8)	(0.6)
RPI inflation assumption[1]	Increase by 0.10%	(11.8)	n/a
	Decrease by 0.10%	11.7	n/a
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(34.5)	n/a
	Decrease by 1 year	33.6	n/a

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

The sensitivity analysis above has been 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 are based on the relevant assumptions and membership profile as at 31 December 2013 and are applied to the obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation to the sensitivity of the assumptions shown. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate and the sensitivity analysis presented may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

24. Financial instruments and risk management

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their fair values at 31 December 2013 and 31 December 2012:

	FKI £m	Restated[2] Elster £m	Central £m	Restated[1] discontinued £m	Restated[2] total £m
31 December 2013					
Financial assets					
Cash and cash equivalents	–	–	200.4	–	200.4
Net trade receivables	107.6	141.3	0.1	–	249.0
Derivative financial assets	2.6	0.9	9.7	–	13.2
Financial liabilities					
Interest-bearing loans and borrowings	–	(2.4)	(338.8)	–	(341.2)
Derivative financial liabilities	(3.6)	(1.1)	(2.5)	–	(7.2)
Other financial liabilities	(125.4)	(228.4)	(31.7)	–	(385.5)
31 December 2012					
Financial assets					
Cash and cash equivalents	–	–	156.5	–	156.5
Net trade receivables	104.3	141.9	0.1	75.2	321.5
Derivative financial assets	2.7	0.2	0.1	0.3	3.3
Financial liabilities					
Interest-bearing loans and borrowings	–	(6.2)	(1,148.0)	–	(1,154.2)
Derivative financial liabilities	(2.0)	(0.2)	(8.2)	(0.1)	(10.5)
Other financial liabilities	(129.5)	(280.5)	(33.5)	(80.5)	(524.0)

[1] Restated to include the financial assets and financial liabilities of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).
[2] Restated to reflect the completion of the acquisition accounting for Elster (note 12).

24. Financial instruments and risk management continued

Credit risk

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

	FKI £m	Elster £m	Central £m	Restated[1] discontinued £m	Total £m
31 December 2013					
Financial assets					
Cash and cash equivalents	–	–	200.4	–	200.4
Trade receivables	107.6	141.3	0.1	–	249.0
Derivative financial assets	2.6	0.9	9.7	–	13.2
31 December 2012					
Financial assets					
Cash and cash equivalents	–	–	156.5	–	156.5
Trade receivables	104.3	141.9	0.1	75.2	321.5
Derivative financial assets	2.7	0.2	0.1	0.3	3.3

(1) Restated to include the financial assets of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

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

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

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the Group's net debt and equity balance.

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

Liquidity risk

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

Fair values

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

Foreign exchange contracts

As at 31 December 2013, the Group held foreign exchange forward contracts to mitigate expected exchange fluctuations on cash flows on sales to customers and purchases from suppliers. These instruments operate as cash flow hedges unless the amounts involved are small. The terms of the material currency pairs with total principals in excess of Sterling £1.0 million equivalent are as follows:

	31 December 2013 Selling currency millions	**31 December 2013 Average hedged rate**	31 December 2012 Selling currency millions	31 December 2012 Average hedged rate
Sell Australian Dollar/Buy Euro	**–**	**–**	AUD 4.7	EUR/AUD 1.27
Sell Australian Dollar/Buy Sterling	**AUD 1.9**	**GBP/AUD 1.76**	AUD 4.3	GBP/AUD 1.58
Sell Brazilian Real/Buy US Dollar	**BRL 4.3**	**USD/BRL 2.33**	–	–
Sell Canadian Dollar/Buy US Dollar	**CAD 1.8**	**USD/CAD 1.05**	CAD 1.7	USD/CAD 1.00
Sell Czech Koruna/Buy Euro	**CZK 77.0**	**EUR/CZK 25.84**	–	–
Sell Czech Koruna/Buy Sterling	**CZK 188.3**	**GBP/CZK 32.69**	–	–
Sell Czech Koruna/Buy US Dollar	**–**	**–**	CZK 33.9	USD/CZK 20.24
Sell Euro/Buy Czech Koruna	**EUR 9.1**	**EUR/CZK 26.1**	EUR 7.1	EUR/CZK 25.20
Sell Euro/Buy Mexican Peso	**–**	**–**	EUR 4.1	EUR/MXN 17.01
Sell Euro/Buy Polish Zloty	**–**	**–**	EUR 1.8	EUR/PLZ 4.09
Sell Euro/Buy Russian Ruble	**EUR 5.5**	**EUR/RUB 45.21**	–	–
Sell Euro/Buy Sterling	**EUR 33.0**	**GBP/EUR 1.18**	EUR 37.4	GBP/EUR 1.24
Sell Euro/Buy US Dollar	**EUR 1.5**	**EUR/USD 1.34**	EUR 2.7	EUR/USD 1.28
Sell Hong Kong Dollar/Buy Sterling	**–**	**–**	HKD 16.9	GBP/HKD 12.41
Sell Malaysian Ringgit/Buy Euro	**–**	**–**	MYR 5.8	EUR/MYR 4.00
Sell Malaysian Ringgit/Buy US Dollar	**–**	**–**	MYR 5.6	USD/MYR 3.11
Sell Norwegian Krone/Buy Sterling	**NOK 54.9**	**GBP/NOK 9.59**	NOK 92.3	GBP/NOK 9.30
Sell Russian Ruble/Buy Euro	**RUB 70.0**	**EUR/RUB 44.76**	–	–
Sell Singapore Dollar/Buy Sterling	**–**	**–**	SGD 2.1	GBP/SGD 1.98
Sell South African Rand/Buy Euro	**ZAR 22.8**	**EUR/ZAR 13.8**	ZAR 21.1	EUR/ZAR 10.60
Sell South African Rand/Buy Sterling	**ZAR 23.3**	**GBP/ZAR 16.67**	ZAR 29.3	GBP/ZAR 14.21
Sell Sterling/Buy Czech Koruna	**GBP 43.1**	**GBP/CZK 30.93**	GBP 62.1	GBP/CZK 30.58
Sell Sterling/Buy Euro	**GBP 53.5**	**GBP/EUR 1.18**	GBP 37.0	GBP/EUR 1.22
Sell Sterling/Buy Singapore Dollar	**GBP 1.9**	**GBP/SGD 1.97**	–	–
Sell Sterling/Buy US Dollar	**GBP 11.5**	**GBP/USD 1.57**	GBP 3.1	GBP/USD 1.61
Sell UAE Dirham/Buy Sterling	**–**	**–**	AED 6.8	GBP/AED 5.90
Sell US Dollar/Buy Canadian Dollar	**–**	**–**	USD 3.7	USD/CAD 1.00
Sell US Dollar/Buy Czech Koruna	**USD 4.2**	**USD/CZK 19.38**	–	–
Sell US Dollar/Buy Euro	**USD 6.1**	**EUR/USD 1.34**	USD 5.6	EUR/USD 1.22
Sell US Dollar/Buy Sterling	**USD 61.5**	**GBP/USD 1.58**	USD 84.5	GBP/USD 1.59

The foreign exchange contracts all mature between January 2014 and May 2015.

The fair value of the contracts at 31 December 2013 was a net asset of £0.4 million (31 December 2012: £0.8 million).

Commodity swap contracts

The fair value of existing contracts remaining on the Balance Sheet as at 31 December 2013 was £nil (31 December 2012: net asset of £0.1 million).

Hedge of net investments in foreign entities

At 31 December 2013 the Group held the following amounts which were designated as hedges of net investments in the Group's subsidiaries in the USA and were being used to reduce the exposure to foreign exchange risks. At 31 December 2013 there were no borrowings in Euros due to the disposal proceeds received in the year which were used to temporarily pay down debt prior to the return of capital in February 2014.

24. Financial instruments and risk management continued

Borrowings in local currency:

	31 December 2013 £m	31 December 2012 £m
US Dollar	**144.9**	307.8
Euro	**–**	281.9

Interest rate sensitivity analysis

A one percentage point rise in market interest rates for all currencies would increase/(decrease) profit before tax by the following amounts assuming the net debt as at the Balance Sheet date was outstanding for the whole year. At 31 December 2013 the Group temporarily held excess Sterling and Euro interest rate swaps as a result of paying down all of the debt relating to the revolving credit facilities with the proceeds received from the disposals that occurred in the year. This position was reversed following the return of capital on 28 February 2014. Adjusting for this excess position, the sensitivity for Sterling would decrease profit after tax by £0.1 million and by £0.2 million for Euros.

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Sterling	**2.7**	(1.0)
US Dollar	**(0.1)**	(0.5)
Euro	**1.8**	(0.6)
	4.4	(2.1)

Interest rate risk management

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

The Group entered 2013 protecting 79% of its gross debt from exposure to changes in interest rates by holding a number of interest rate swaps to fix the interest rate cost on US $560.0 million, £336.8 million and €292.0 million of debt.

During the year the Group closed out several interest rate swap arrangements as a result of the reduction in gross debt following the receipt of proceeds from the business disposals. As at 31 December 2013 swap arrangements exist which will fix the finance cost on US $246.8 million, £336.8 million and €200.0 million.

Following the capital return on 28 February 2014, 78% of the Group's gross debt is now fixed and the weighted blended fixed finance cost is 0.70% (31 December 2012: 0.84%) on US Dollar swaps, 0.72% (31 December 2012: 0.78%) on Euro swaps and 0.91% (31 December 2012: 0.91%) on Sterling swaps, plus the bank margin which is 2.25%.

The interest rate swaps are designated as cash flow hedges and were highly effective throughout 2013. The fair value of the contracts at 31 December 2013 was a net asset of £5.6 million (31 December 2012: net liability of £8.1 million).

Foreign currency risk

The Group's policy for managing foreign currency risk is set out in the Finance Director's review on page 46.

Foreign currency sensitivity analysis

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

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
US Dollar	**(0.8)**	(0.7)
Euro	**0.5**	0.4
Czech Koruna	**(0.1)**	0.2

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the increase/(decrease) in Group equity caused by a 10 cent strengthening of the US Dollar and Euro against Sterling and a 10% strengthening of the Czech Koruna against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The high sensitivity in relation to the Euro is because of a currency swap for €235.0 million that was put in place ahead of the year end to temporarily repay Euro debt using a proportion of the disposal proceeds received in the year. The Euro debt was redrawn ahead of the return of capital on 28 February 2014. Adjusting for the currency swap, the sensitivity on the Euro is £3.0 million. The Group operates in a range of different currencies, and those with a material impact are noted here:

	31 December 2013 £m	31 December 2012 £m
US Dollar	**1.5**	1.6
Euro	**20.8**	1.7
Czech Koruna	**(0.1)**	–

In addition, the change in equity due to a 10 cent strengthening of the US Dollar and Euro against Sterling for the translation of net investment hedging instruments would be a decrease of £9.3 million (31 December 2012: £20.2 million) and £nil (31 December 2012: £24.9 million) respectively. However, there would be no overall effect on equity because there would be an offset in the currency translation of the foreign operation.

Fair value measurements recognised in the Balance Sheet

The fair value of foreign currency forward contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the contracts.

The fair value of interest rate swap contracts is determined using yield curves derived from quoted interest rates.

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

Recurring fair value measurements	**31 December 2013 Current £m**	**31 December 2013 Non-current £m**	**31 December 2013 Total £m**	31 December 2012 Current £m	31 December 2012 Non-current £m	31 December 2012 Total £m
Derivative financial assets						
Foreign currency forward contracts	**5.1**	**–**	**5.1**	3.2	–	3.2
Commodity swaps	**–**	**–**	**–**	0.1	–	0.1
Interest rate swaps	**–**	**8.1**	**8.1**	–	–	–
Total recurring financial assets	**5.1**	**8.1**	**13.2**	3.3	–	3.3
Derivative financial liabilities						
Foreign currency forward contracts	**(4.7)**	**–**	**(4.7)**	(2.4)	–	(2.4)
Interest rate swaps	**(2.5)**	**–**	**(2.5)**	(4.6)	(3.5)	(8.1)
Total recurring financial liabilities	**(7.2)**	**–**	**(7.2)**	(7.0)	(3.5)	(10.5)

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

25. Issued capital and reserves

Share Capital	**31 December 2013 £m**	31 December 2012 £m
Allotted, called-up and fully paid		
1,266,627,036 (31 December 2012: 1,266,627,036) Ordinary Shares of 0.1p each (31 December 2012: 0.1p each)	**1.3**	1.3
	1.3	1.3

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

Own shares

The Trustee of the Melrose PLC Employee Benefit Trust ("EBT") holds no shares in Melrose Industries PLC at either 31 December 2013 or 31 December 2012.

Notes to the financial statements continued

26. Cash flow statement

	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Reconciliation of headline[2] operating profit to cash generated by continuing operations		
Headline[2] operating profit from continuing operations	**274.9**	149.3
Adjustments for:		
Depreciation of property, plant and equipment	**35.4**	18.4
Amortisation of computer software and development costs	**5.3**	2.1
Restructuring costs paid and movements in other provisions	**(63.3)**	(57.1)
Operating cash flows before movements in working capital	**252.3**	112.7
Decrease in inventories	**27.9**	12.4
Increase in receivables	**(1.2)**	(2.4)
Decrease in payables	**(40.2)**	(34.7)
Cash generated by operations	**238.8**	88.0
Tax paid	**(46.9)**	(28.3)
Interest paid	**(53.2)**	(42.8)
Acquisition costs	**(11.4)**	(25.2)
Defined benefit pension contributions paid	**(32.7)**	(32.3)
Incentive scheme payments	**(3.4)**	–
Net cash from/(used in) operating activities from continuing operations	**91.2**	(40.6)

(1) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).
(2) As defined on the Income Statement.

Cash flow from discontinued operations	Year ended 31 December 2013 £m	Restated[1] year ended 31 December 2012 £m
Cash generated from discontinued operations	**59.6**	80.4
Tax paid	**(13.9)**	(21.1)
Defined benefit pension contributions paid	**(0.9)**	(1.4)
Net cash from operating activities from discontinued operations	**44.8**	57.9
Purchase of property, plant and equipment	**(11.6)**	(17.4)
Purchase of computer software	**(0.1)**	(0.3)
Proceeds from disposal of property, plant and equipment	**–**	0.3
Interest received	**0.1**	0.1
Net cash used in investing activities from discontinued operations	**(11.6)**	(17.3)
Net movement in borrowing	**–**	–
Net cash used in financing activities from discontinued operations	**–**	–

(1) Restated to include the results of Truth, Marelli, Crosby, Acco and Harris within discontinued operations (note 9).

Net debt reconciliation

	At 31 December 2012 £m	Cash flow £m	Acquisitions £m	Disposals £m	Other non-cash movements £m	Foreign exchange difference £m	At 31 December 2013 £m
Cash	156.5	(822.8)	(24.2)	888.2	–	2.7	**200.4**
Debt due within one year	(6.2)	5.7	–	–	–	0.5	**–**
Debt due after one year	(1,148.0)	828.3	–	–	(4.7)	(16.8)	**(341.2)**
Net debt	(997.7)	11.2	(24.2)	888.2	(4.7)	(13.6)	**(140.8)**

27. Commitments and contingencies

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

	31 December 2013 £m	31 December 2012 £m
Amounts payable:		
Within one year	**9.3**	16.3
After one year but within five years	**20.1**	33.0
Over five years	**28.4**	30.9
	57.8	80.2

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length up to a period of 25 years. Plant, machinery and vehicle leases typically run for periods of up to five years.

Capital commitments

At 31 December 2013, there were commitments of £13.8 million (31 December 2012: £16.8 million) relating to the acquisition of new plant and machinery.

28. Related parties

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

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

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

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24: “Related party disclosures”. Further information about the remuneration of individual Directors is provided in the audited part of the Directors’ Remuneration report on page 72.

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Short-term employee benefits	**3.0**	2.7
Share-based payments	**2.7**	2.5
	5.7	5.2

Notes to the financial statements
continued

29. Post Balance Sheet events

At a General Meeting of the Company held on 7 February 2014, shareholders approved a return of capital of 47 pence per Ordinary Share totalling £595.3 million.

'B' and 'C' shares with a total value of £595.3 million have been created resulting in a corresponding reduction in the merger reserve. As the capital return payments are made, either on 28 February 2014, 7 May 2014 or a combination of both, depending upon elections made by shareholders, the 'B' and 'C' shares will be redeemed and £595.3 million will be transferred to the capital redemption reserve.

As a result of the approval of the capital return, on 10 February 2014 the number of Ordinary Shares in issue was consolidated in a ratio of 11 for 13 in order to maintain comparability of the Company's share price before and after the capital return.
On 10 February 2014 the number of Ordinary Shares in issue became 1,071,761,339, each with a nominal value of 13/110 pence.

Further details of the capital return are provided on pages 58 and 59 in the Directors' report.

30. Contingent liabilities

As a result of the acquisitions of the FKI and Elster businesses, certain contingent legal, environmental, warranty and tax liabilities were identified either at the time of acquisition or as part of the completion of the acquisition accounting. Whilst it is difficult to reasonably estimate the ultimate outcome of these claims, the Directors' best estimate has been included in the Balance Sheet when they existed at the time of acquisition and hence were recognised in accordance with IFRS 3: "Business combinations". Where a provision has been recognised, information regarding the different categories of such liabilities and the amount and timing of outflows is included within note 20.

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

Company Balance Sheet for Melrose Industries PLC

	Notes	31 December 2013 £m	31 December 2012 £m
Fixed assets			
Investment in subsidiaries	3	**2,711.9**	2,710.6
		2,711.9	2,710.6
Creditors: amounts falling due within one year			
Creditors	4	**(100.8)**	(0.3)
Net current liabilities		**(100.8)**	(0.3)
Net assets		**2,611.1**	2,710.3
Capital and reserves			
Issued share capital	5	**1.3**	1.3
Merger reserve	6	**1,190.6**	1,190.6
Retained earnings	6	**1,419.2**	1,518.4
Shareholders' funds	7	**2,611.1**	2,710.3

The financial statements were approved by the Board of Directors on 5 March 2014 and were signed on its behalf by:

Geoffrey Martin
Group Finance Director

Simon Peckham
Chief Executive

Registered number: 8243706

Notes to the Company Balance Sheet

1. Significant accounting policies

Basis of accounting

The separate financial statements of Melrose Industries PLC ("the Company") are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and preceding period.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' statement of going concern on page 47 of the Finance Director's review.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured at the fair value of the consideration paid. Any premium is ignored.

Share-based payments

The Company has applied the requirements of FRS 20: "Share-based payment". The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

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

Where equity-settled share-based payments are made available to employees of the Company's subsidiaries, these are treated as increases in equity over the vesting period of the award with a corresponding increase in the Company's investment in subsidiaries.

Cash Flow Statement

The Company has taken advantage of the exemption from preparing a Cash Flow Statement under the terms of FRS 1 (revised): "Cash flow statements" because it prepares a consolidated Cash Flow Statement which is shown on page 94 of the Group financial statements.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

2. Profit for the period

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own Profit and Loss Account for the year. Melrose Industries PLC reported a loss for the financial year ended 31 December 2013 of £5.1 million (period ended 31 December 2012: £0.6 million).

The auditor's remuneration for audit services to the Company is disclosed in note 7 to the Group consolidated financial statements.

3. Investment in subsidiaries

	£m
At 1 January 2013	2,710.6
Additions – share-based payments	1.3
At 31 December 2013	**2,711.9**

The Company has investments in the following subsidiaries which principally affected the profits and net assets of the Group.

The following subsidiary is directly owned by Melrose Industries PLC:

Subsidiary	Country of incorporation	Principal activity	Holding %
Melrose PLC	Great Britain	Holding company	100

Significant indirectly owned subsidiaries of the Group are:

Subsidiaries	Country of incorporation	Principal activity	Equity interest %
Energy			
Brush Electrical Machines Limited	Great Britain	Engineering company	100
Brush HMA B.V.	Netherlands	Engineering company	100
Brush SEM s.r.o.	Czech Republic	Engineering company	100
Brush Transformers Limited	Great Britain	Engineering company	100
Harrington Generators International Limited	Great Britain	Engineering company	100
Hawker Siddeley Switchgear Limited	Great Britain	Engineering company	100
Generator and Motor Services of Pennsylvania LLC	USA	Engineering company	100
Lifting			
Bridon-American Corporation	USA	Engineering company	100
Bridon International GmbH	Germany	Engineering company	100
Bridon International Limited	Great Britain	Engineering company	100
Bridon New Zealand Limited	New Zealand	Engineering company	100
Elster			
Elster American Meter Company LLC	USA	Engineering company	100
Elster Perfection Corporation	USA	Engineering company	100
Elster N.V.	Belgium	Engineering company	100
Elster GmbH	Germany	Engineering company	100
Elster S.A.S.	France	Engineering company	100
OOO Elster Gaselectronica	Russia	Engineering company	100
Elster Metering Limited	Great Britain	Engineering company	100
Hauck Manufacturing Company Inc	USA	Engineering company	100
Elster Solutions LLC	USA	Engineering company	100
Elster Medicao de Energia Ltda	Brazil	Engineering company	100
Elster AMCO Water LLC	USA	Engineering company	100
Elster Metering Pty Ltd	Australia	Engineering company	100
Elster Messtechnik GmbH	Germany	Engineering company	100
Elster s.r.o.	Slovakia	Engineering company	100
Elster Group S.E.	Germany	Holding company	100
Elster Holdings Netherlands B.V.	Netherlands	Holding company	100
Elster Holdings US Inc	USA	Holding company	100
Elster Water Metering Holdings Limited	Great Britain	Holding company	100
Group			
FKI Limited	Great Britain	Holding company	100
FKI Engineering Limited	Great Britain	Holding company	100
Precision House Management Services Limited	Great Britain	Management services company	100

Notes to the Company Balance Sheet
continued

4. Creditors

	31 December 2013 £m	31 December 2012 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	**100.0**	0.3
Accruals and other payables	**0.8**	–
	100.8	0.3

The Directors consider that amounts owed to Group undertakings approximate to their fair value.

5. Issued share capital

Share Capital	31 December 2013 £m	31 December 2012 £m
Allotted, called-up and fully paid		
1,266,627,036 Ordinary Shares of 0.1p each	**1.3**	1.3
	1.3	1.3

6. Reserves

Reserves	Issued share capital £m	Merger reserve £m	Retained earnings £m
At beginning of period	–	–	–
Issue of share capital	1,520.0	1,190.6	–
Capital reduction	(1,518.7)	–	1,518.7
Loss for the period	–	–	(0.6)
Credit to equity for equity-settled share-based payments	–	–	0.3
At 31 December 2012	1.3	1,190.6	1,518.4
Dividends paid	–	–	(98.1)
Loss for the year	–	–	(5.1)
Credit to equity for equity-settled share-based payments	–	–	4.0
At 31 December 2013	**1.3**	**1,190.6**	**1,419.2**

Details of share-based payments are given in note 22 to the Group consolidated financial statements.

7. Reconciliation of movements in shareholders' funds

	£m
At beginning of period	–
Issue of share capital	2,710.6
Loss for the period	(0.6)
Credit to equity for equity-settled share-based payments	0.3
At 31 December 2012	2,710.3
Dividends paid	(98.1)
Loss for the year	(5.1)
Credit to equity for equity-settled share-based payments	4.0
At 31 December 2013	**2,611.1**

8. Related party transactions

The Company has taken the exemption in FRS 8: "Related party disclosures" not to disclose intercompany balances and transactions in the period with fully owned subsidiary undertakings.

9. Post Balance Sheet events

At a General Meeting of the Company held on 7 February 2014, shareholders approved a return of capital of 47 pence per Ordinary Share totalling £595.3 million.

'B' and 'C' shares with a total value of £595.3 million have been created resulting in a corresponding reduction in the merger reserve. As the capital return payments are made, either on 28 February 2014, or 7 May 2014, or a combination of both, depending upon elections made by shareholders, the 'B' and 'C' shares will be redeemed and £595.3 million will be transferred to the capital redemption reserve.

As a result of the approval of the capital return, on 10 February 2014 the number of Ordinary Shares in issue was consolidated in a ratio of 11 for 13 in order to maintain comparability of the Company's share price before and after the capital return.
On 10 February 2014 the number of Ordinary Shares in issue became 1,071,761,339, each with a nominal value of 13/110 pence.

Further details of the capital return are provided on pages 58 and 59 in the Directors' report.

Notice of Annual General Meeting

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser.

If you have sold or otherwise transferred all of your shares in Melrose Industries PLC (the "Company"), you should send this document 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 delivery to the purchaser or transferee.

Notice is given that the Annual General Meeting of the Company will be held at Barber-Surgeons' Hall, Monkwell Square, Wood Street, London, EC2Y 5BL at 11.00 am on 13 May 2014 for the following purposes. Resolutions 1 to 15 (inclusive) will be proposed as ordinary resolutions and resolutions 16 to 18 (inclusive) as special resolutions.

Ordinary resolutions

1. To receive the Company's audited financial statements for the financial year ended 31 December 2013, together with the Directors' report and the auditor's report on those financial statements.
2. To approve the Directors' remuneration report (other than the part containing the Directors' remuneration policy) for the year ended 31 December 2013, as set out on pages 70 to 77 of the Company's 2013 Annual Report.
3. To approve the Directors' remuneration policy, as set out on pages 77 to 84 of the Company's 2013 Annual Report.
4. To declare a final dividend of 5.0p per Ordinary Share for the year ended 31 December 2013.
5. To re-elect Mr Christopher Miller as a Director of the Company.
6. To re-elect Mr David Roper as a Director of the Company.
7. To re-elect Mr Simon Peckham as a Director of the Company.
8. To re-elect Mr Geoffrey Martin as a Director of the Company.
9. To re-elect Mr Perry Crosthwaite as a Director of the Company.
10. To re-elect Mr John Grant as a Director of the Company.
11. To re-elect Mr Justin Dowley as a Director of the Company.
12. To elect Ms Liz Hewitt as a Director of the Company.
13. To re-appoint Deloitte LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at which accounts are laid.
14. To authorise the Directors to determine the remuneration of the auditor of the Company.
15. That, in accordance with the provisions of section 551 of the Companies Act 2006 (the "Act"), the Directors be and are generally and unconditionally authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company ("Rights"):

    (A) up to an aggregate nominal amount of £422,209; and

    (B) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £844,418 (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 rights issue:

        (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

        (ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

    and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of any territory or any other matter,

    such authorities to expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2015, 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

16. That, subject to the passing of resolution 15, in accordance with the provisions of sections 570 and 573 of the Act, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authorities granted by resolution 15 as if section 561(1) of the Act did not apply to any such allotment 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 15, such power shall be limited to the allotment of equity securities in connection with an offer by way of 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 15 up to an aggregate nominal amount of £63,331,

    such power 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 2015, but so that the Company may make offers or agreements before the power expires, which would or might require equity securities to be allotted after the power expires and so that the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this authority has expired.

17. That the Company be and is generally and unconditionally authorised to make one or more market purchases (as defined in section 693 of the Act) of Ordinary Shares in the capital of the Company provided that:

    (A) the maximum aggregate number of Ordinary Shares authorised to be purchased is 107,176,133;

    (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 Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Share is purchased; and

    (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out,

    in each case, exclusive of expenses;

    (D) this authority shall expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2015;

    (E) the Company may make a contract of purchase of Ordinary Shares under this authority which would or might be executed wholly or partly after the expiry of this authority, and may make a purchase of Ordinary Shares in pursuance of any such contract; and

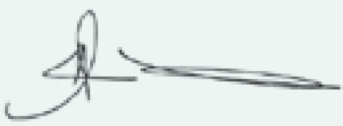
    (F) any Ordinary Shares purchased pursuant to this authority may either be held as treasury shares or cancelled by the Company, depending on which course of action is considered by the Directors to be in the best interests of shareholders at the time.

18. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

Recommendation

The Board believes that each of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole. Accordingly, the Directors unanimously recommend that ordinary shareholders vote in favour of all of the resolutions proposed, as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board



Adam Westley
Company Secretary
4 April 2014

Registered Office:
11th Floor Colmore Plaza
20 Colmore Circus Queensway
Birmingham
West Midlands
B4 6AT

Notice of Annual General Meeting
continued

Explanatory notes to the proposed resolutions

Resolutions 1 to 15 (inclusive) are proposed as ordinary resolutions, which means that for each of those resolutions to be passed, more than half the votes cast must be cast in favour of the resolution. Resolutions 16 to 18 (inclusive) are proposed as special resolutions, which means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be cast in favour of the resolution.

Resolution 1 – Receipt of 2013 Annual Report and financial statements

The Directors are required to lay the Company's financial statements and the Directors' and auditor's reports on those financial statements (collectively, the "Annual Report") before shareholders each year at the Annual General Meeting ("AGM").

Resolutions 2 and 3 – Approval of Directors' remuneration report and Directors' remuneration policy

Following changes to the Act and in line with new regulations which came into effect on 1 October 2013, the Directors' remuneration report (the "Directors' Remuneration Report") is now presented in three sections:

- the annual statement from the Chairman of the Remuneration Committee;
- the annual report on remuneration; and
- the Directors' remuneration policy.

The annual statement from the Chairman of the Remuneration Committee, set out on pages 70 and 71 of the 2013 Annual Report, summarises, for the year ended 31 December 2013, the major decisions taken on Directors' remuneration, any substantial changes relating to Directors' remuneration made during the year and the context in which those changes occurred and decisions that have been taken.

The annual report on remuneration, set out on pages 72 to 77 of the 2013 Annual Report, provides details of the remuneration paid to Directors in respect of the year ended 31 December 2013, including base salary, taxable benefits, short-term incentives (including percentage deferred), long-term incentives vested in the year, pension-related benefits, any other items in the nature of remuneration and any sum(s) recovered or withheld during the year in respect of amounts paid in earlier years.

The Directors' remuneration policy, set out on pages 77 to 84 of the 2013 Annual Report, provides details of the Company's proposed policy on Directors' remuneration (including the proposed policy on payments for loss of office).

The Directors' Remuneration Report (other than the part containing the Directors' remuneration policy) is subject to an annual advisory shareholder vote by way of an ordinary resolution; Resolution 2 is to approve the Directors' Remuneration Report (other than the part containing the Directors' remuneration policy).

The Directors' remuneration policy is subject to a binding shareholder vote by way of an ordinary resolution, at least once every three years; Resolution 3 is to approve the Directors' remuneration policy. The Directors' remuneration policy will, subject to shareholder approval, take effect from the conclusion of the AGM. Payments (including payments for loss of office) will continue to be made to the current and any former Directors in line with existing contractual arrangements until this time.

Once the Directors' remuneration policy takes effect, all remuneration payments and payments for loss of office made by the Company to the current and any former Directors must be consistent with the Directors' remuneration policy or, if inconsistent with the Directors' remuneration policy, must have been separately approved by way of an ordinary resolution of the shareholders in accordance with the relevant provisions of the Act.

If the Directors' remuneration policy is approved and remains unchanged, it will be valid for up to three years without a new shareholder approval. If the Company wishes to change the Directors' remuneration policy, it must first seek the approval of the proposed revised Directors' remuneration policy from the shareholders before it can implement the proposed new Directors' remuneration policy.

If the Directors' remuneration policy is not approved for any reason, the Company will, if and to the extent permitted by the Act, continue to make payments (including payments for loss of office) to the current and any former Directors in accordance with existing contractual arrangements and will seek the approval of a proposed revised Directors' remuneration policy from the shareholders as soon as practicable.

Resolution 4 – Declaration of final dividend

The Board is recommending, and the shareholders are being asked to approve, the declaration of a final dividend of 5.0 pence per Ordinary Share for the year ended 31 December 2013. The final dividend will, subject to shareholder approval, be paid on 15 May 2014 to the holders of Ordinary Shares whose names are recorded on the register of members of the Company at the close of business on 22 April 2014.

Resolutions 5 to 11 (inclusive) – Re-election of Directors

In accordance with the UK Corporate Governance Code (the "Code") and the Company's articles of association (the "Articles"), every Director (other than Senior non-executive Director, Miles Templeman, who will retire at the conclusion of the AGM and will not stand for re-election and Liz Hewitt, who is standing for election) will stand for re-election at the AGM. Biographical details of each Director can be found on pages 56 and 57 of the 2013 Annual Report. All of the non-executive Directors standing for re-election are considered independent under the Code.

Resolution 12 – Election of a Director

In accordance with the Articles, Liz Hewitt is standing for election as a Director of the Company following her appointment to the Board on 8 October 2013. She is currently a non-executive Director of Novo Nordisk A/S and Synergy Health plc and is an external member of the House of Lords Audit Committee. Biographical details for Liz Hewitt can be found on page 57 of the 2013 Annual Report.

Resolution 13 – Re-appointment of auditor

The Company is required to appoint auditors at each general meeting at which accounts are laid before shareholders, to hold office until the next such meeting.

The Audit Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external auditor, Deloitte LLP, on behalf of the Board, and concluded that the external auditor was in all respects effective.

This resolution proposes the re-appointment of Deloitte LLP until the conclusion of the next AGM.

Resolution 14 – Authority to agree auditor's remuneration

This resolution authorises the Directors, in accordance with standard practice, to negotiate and agree the remuneration of the auditor. In practice, the Audit Committee will consider and approve the remuneration of the auditor on behalf of the Board.

Resolution 15 – Authority to allot shares

This resolution seeks shareholder approval to grant the Directors the authority to allot shares in the Company, or to grant rights to subscribe for or convert any securities into shares in the Company ("Rights") pursuant to section 551 of the Act (the "Section 551 authority"). The authority contained in paragraph (A) of the resolution will be limited to an aggregate nominal amount of £422,209, being approximately one-third of the Company's issued Ordinary Share capital as at 4 April 2014.

In line with guidance issued by the Association of British Insurers, paragraph (B) of this resolution would give the Directors authority to allot shares in the Company or grant Rights in connection with a rights issue up to aggregate nominal amount of £844,418, representing approximately two-thirds of the Company's issued Ordinary Share capital as at 4 April 2014, as reduced by the aggregate nominal amount of any allotments or grants under paragraph (A) of this resolution.

The Company does not hold any shares in treasury.

If approved, the Section 551 authority shall, unless renewed, revoked or varied by the Company, expire at the end of the Company's next AGM after the resolution is passed or, if earlier, at the close of business on 30 June 2015. The exception to this is that the Directors may allot shares or grant Rights after the authority has expired in connection with an offer or agreement made or entered into before the authority expired. The Directors have no present intention to exercise the Section 551 authority.

Resolution 16 – Partial disapplication of pre-emption rights

This resolution seeks shareholder approval to grant the Directors the power to allot equity securities of the Company pursuant to sections 570 and 573 of the Act (the "Section 570 and 573 power") without first offering them to existing shareholders in proportion to their existing shareholdings.

The power is limited to allotments for cash in connection with pre-emptive offers, subject to any arrangements that the Directors consider appropriate to deal with fractions and overseas requirements and otherwise for cash up to a maximum nominal value of £63,331, representing approximately 5% of the Company's issued Ordinary Share capital as at 4 April 2014, which is in accordance with the relevant guidelines for the Company.

If approved, the Section 570 and 573 power shall apply until the end of the Company's next AGM after the resolution is passed or, if earlier, until the close of business on 30 June 2015. The exception to this is that the Directors may allot equity securities after the power has expired in connection with an offer or agreement made or entered into before the power expired. The Directors have no present intention to exercise the Section 570 and 573 power.

Resolution 17 – Authority to purchase own shares

This resolution seeks shareholder approval to grant the Company the authority to purchase its own shares pursuant to sections 693 and 701 of the Act.

This authority is limited to an aggregate maximum number of 107,176,133 Ordinary Shares, representing 10% of the Company's issued Ordinary Share capital as at 4 April 2014.

The maximum price which may be paid for an Ordinary Share will be an amount which is not more than the higher of (i) 5% above the average of the middle market quotation for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Share is purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out (in each case, exclusive of expenses).

If approved, the authority shall, unless varied, revoked or renewed, expire at the end of the Company's next AGM after the resolution is passed or, if earlier, at the close of business on 30 June 2015. The Directors have no present intention of exercising all or any of the powers conferred by this resolution and will only exercise their authority if it is in the interests of shareholders generally.

Notice of Annual General Meeting continued

Resolution 18 – Notice period for general meetings other than AGMs

This resolution seeks shareholder approval to allow the Company to continue to call general meetings (other than AGMs) on 14 clear days' notice. In accordance with the Companies (Shareholders' Rights) Regulations 2009, the notice period required for general meetings of the Company is 21 days unless shareholders approve a shorter notice period (subject to a minimum period of 14 clear days). AGMs will continue to be held on at least 21 clear days' notice.

The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. In accordance with the Act, the Company must make a means of electronic voting available to all shareholders for that meeting in order to be able to call a general meeting on less than 21 clear days' notice.

Explanatory notes as to the proxy, voting and attendance procedures at the Annual General Meeting

1. The holders of Ordinary Shares in the Company are entitled to attend the Annual General Meeting and are entitled to vote. A member entitled to attend and vote may appoint a proxy to exercise all or any of their rights to attend, speak and vote at a general meeting of the Company. Such a member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.

2. A form of proxy is enclosed with this notice. To be effective, a form of proxy must be completed and returned, together with any power of attorney or authority under which it is completed or a certified copy of such power or authority, so that it is received by the Company's registrars at the address specified on the form of proxy not less than 48 hours (excluding any part of a day that is not a working day) before the stated time for holding the meeting. Returning a completed form of proxy will not preclude a member from attending the meeting and voting in person.

3. Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him 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 Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he 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 ordinary shareholders of the Company.

4. To be entitled to attend and vote at the Annual General Meeting (and for the purposes of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members by 6.00pm on 9 May 2014 (or, in the event of an adjournment, on the date which is two days before the time of the adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5. As at 4 April 2014, the Company's issued share capital consists of 1,071,761,339 Ordinary Shares of 13/110 pence each, carrying one vote each, 15,759,880 B shares of 47 pence each, with limited voting rights and 757,503,886 C Deferred shares of 0.00001 pence each, without voting rights.

6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via **www.euroclear.com**). 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 11.00am on 9 May 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

8. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
9. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertified Securities Regulations 2001.
10. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
11. Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.
12. Any member holding Ordinary Shares attending the meeting has the right to ask questions. The Company must answer any such questions relating to the business being dealt with at the meeting but no such answer need be given if (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 the Company 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 Act, can be found at **www.melroseplc.net**.
14. You may not use an electronic address provided in either this Notice of Annual General Meeting or any related documents (including the Proxy Form) to communicate with the Company for any purposes other than those expressly stated.
15. The following documents will be available for inspection at the Company's registered office during normal business hours (Saturdays, Sundays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting:
    (A) copies of all service agreements under which Directors of the Company are employed by the Company or any subsidiaries; and
    (B) a copy of the terms of appointment of the non-executive Directors of the Company.
16. You may register your vote online by visiting Equiniti's website at **www.sharevote.co.uk**. In order to register your vote online, you will need to enter the Task ID, together with your Voting ID and Shareholder Reference Number which are set out on the enclosed Proxy Form. The return of the Proxy Form by post or registering your vote online will not prevent you from attending the Annual General Meeting and voting in person, should you wish. Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at **www.shareview.co.uk** and click on the link to vote. 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 am on 9 May 2014.

Company and shareholder information

As at 31 December 2013, there were 9,808 holders of Ordinary Shares of 0.1 pence each in the capital of the Company. Their shareholdings are analysed below and show shareholding numbers as at 31 December 2013.

Shareholdings

Size of shareholding	Number of shareholders	Percentage of the total number of shareholders	Number of ordinary shareholders as at 31 December 2013	Percentage of Ordinary Shares in issue
1-5,000	7,835	79.88	9,996,873	0.79
5,001-50,000	1,385	14.12	18,385,216	1.45
50,001-100,000	110	1.12	8,120,355	0.64
100,001-500,000	230	2.35	53,775,788	4.25
Over 500,000	248	2.53	1,176,348,804	92.87
Total	**9,808**	**100.00**	**1,266,627,036**(1)	**100.00**

(1) Following the Return of Capital to shareholders and the subsequent Share Capital Consolidation, details of which can be found on pages 58 and 59 of the Directors' report, the total number of issued Ordinary Shares in the capital of the Company was 1,071,761,339, with a nominal value of 13/110 pence each. Shareholders continued to own approximately the same proportion of the Company after the Share Capital Consolidation as they did before, subject to fractional entitlements.

Financial calendar 2014

Ex-dividend date for final dividend	16 April 2014
Record date for final dividend	22 April 2014
Annual General Meeting	13 May 2014
Payment date of final dividend	15 May 2014
Announcement of interim results	August 2014
Intended payment of interim dividend	November 2014
Preliminary announcement of 2014 results	March 2015

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David Roper
Simon Peckham
Geoffrey Martin
Miles Templeman
Perry Crosthwaite
John Grant
Justin Dowley
Liz Hewitt

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Shareholders can view up to date information about their shareholding by visiting **www.shareview.co.uk**.

The shareholder helpline number is 0871 384 2030 or +44 (0) 121 415 7047 (if calling from overseas). Lines are open 8.30am to 5.30pm Monday to Friday, excluding public holidays. Calls to these numbers are charged at 8 pence per minute (excluding VAT) plus network extras. Calls to the shareholder helpline from overseas will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes.

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