Melrose Industries PLC

Annual Report
for the year ended 31 December 2014

Melrose Industries PLC

A year of improvement

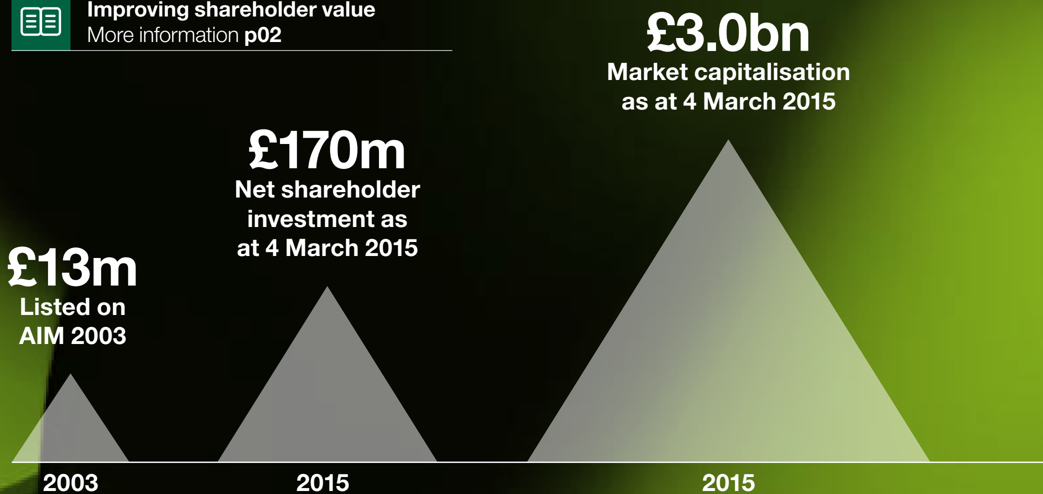
Throughout 2014 we have focused on improving performance across the Group. Elster businesses continue to perform strongly, with profits increased by two-thirds in the two full years of ownership.

Chairman's statement
More information **p12**

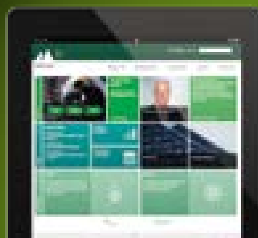
Transformational growth

The management team has a successful track record in creating substantial value for shareholders, as shown below. This has been delivered over a number of deals since 2003.

Improving shareholder value
More information **p02**



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



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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Notice of AGM
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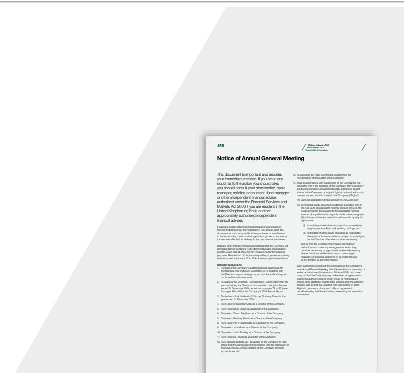


Improving shareholder value

Delivering transformational growth...

Melrose has achieved an average annual return on equity investment of 23% since making our first investment in 2005 and an increase in operating margins of 5 to 7 percentage points across the businesses we owned.

See the Melrose timeline of key events at www.melroseplc.net/about-us/history

£2.8bn

of shareholder value created

x 4

shareholder value

We are very pleased with the track record which we have achieved over the first 11 years of our history and remain confident that Melrose is well-positioned to create superior shareholder value going forward.

23%

Average annual return on investment

£0.2bn

Net shareholder investment at 4 March 2015

£3.0bn

Market capitalisation at 4 March 2015

Total shareholder return versus public benchmarks

Source: Datastream

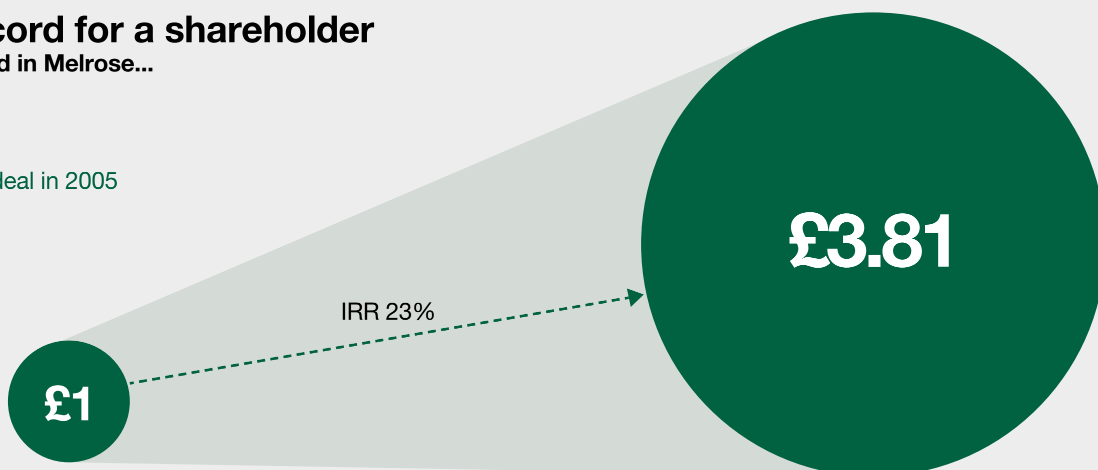
Since acquisition of McKechnie and Dynacast

Since acquisition of FKI

Track record for a shareholder

For £1 invested in Melrose...

Since the first deal in 2005
<10 years



Performance summary

Financial[1]

Revenue

£1,377.5m

Year	Revenue
2013	£1,466.4m
2014	£1,377.5m

Headline[2] operating profit

£246.0m

Year	Headline operating profit
2013	£240.0m
2014	£246.0m

Headline[2] operating profit margin

17.9%

Year	Headline operating profit margin
2013	16.4%
2014	17.9%

Headline[2] profit before tax of £213 million, up 21% (11% at actual currency) and headline[2] proforma[3] earnings per share of 15.3p

Elster profits up by two thirds (circa £80 million) in the two full years of ownership

Elster now delivering revenue and order intake growth, up +9% and +6% respectively in the second half of 2014

All three Elster divisions achieved profit growth in 2014 (Gas +13%, Electricity +23% and Water +11%)

Brush (revenue -3% and profit -7%) suffering from a tough OEM (Original Equipment Manufacturer) generator end market

In November 2014 Bridon sold for £365 million, doubling shareholders' original investment

Return of Capital of £200 million (18.7p per share) to be paid on 16 March 2015 alongside a 13 for 14 share consolidation

IFRS profit after tax[4] of £87 million (2013: £102 million)

Net debt at 31 December 2014 of £501 million, equal to 1.8x EBITDA[5]. Adjusting for the Return of Capital in March 2015, proforma leverage equal to 2.5x EBITDA[5]

Final proposed dividend of 5.3p per share (2013: 5.0p). Full year dividend increased by 5% to 8.1p per share (2013: 7.75p)

In common with many companies that trade internationally, the movement in exchange rates in 2014 has caused a headwind to profits of around 8%. For ease of comparison, unless stated otherwise, the year-on-year variances in these financial highlights are stated using constant currency.

(1) Continuing businesses only and at constant currency unless otherwise stated.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Calculated using the diluted number of shares in issue following the related Return of Capital and the associated share consolidation.
(4) After exceptional costs, exceptional income and intangible asset amortisation.
(5) Headline[2] operating profit before depreciation and amortisation.

Operational

Sale of Bridon

Buy > Improve > Sell

- The enterprise value was £365 million on a debt and cash free basis.
- As part of the transaction, Melrose contributed £6.7 million into the Bridon Group (2013) Pension Scheme, which remained with Bridon on disposal.
- Melrose used the net proceeds of the disposal to return £200 million in cash to shareholders. The balance was used to pay down borrowings.

£200m

Returned to shareholders

Acquisition of Eclipse, Inc.

Buy > Improve > Sell

Elster Gas acquired Eclipse, Inc. ('Eclipse'), a manufacturer of gas combustion components and systems for industrial heating and drying applications headquartered in Rockford, Illinois (USA) for a consideration of US $158 million.

Our strategy
More information **p16**

Corporate Social Responsibility

Buy > Improve > Sell

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.

Employee investment, 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.

Health and safety

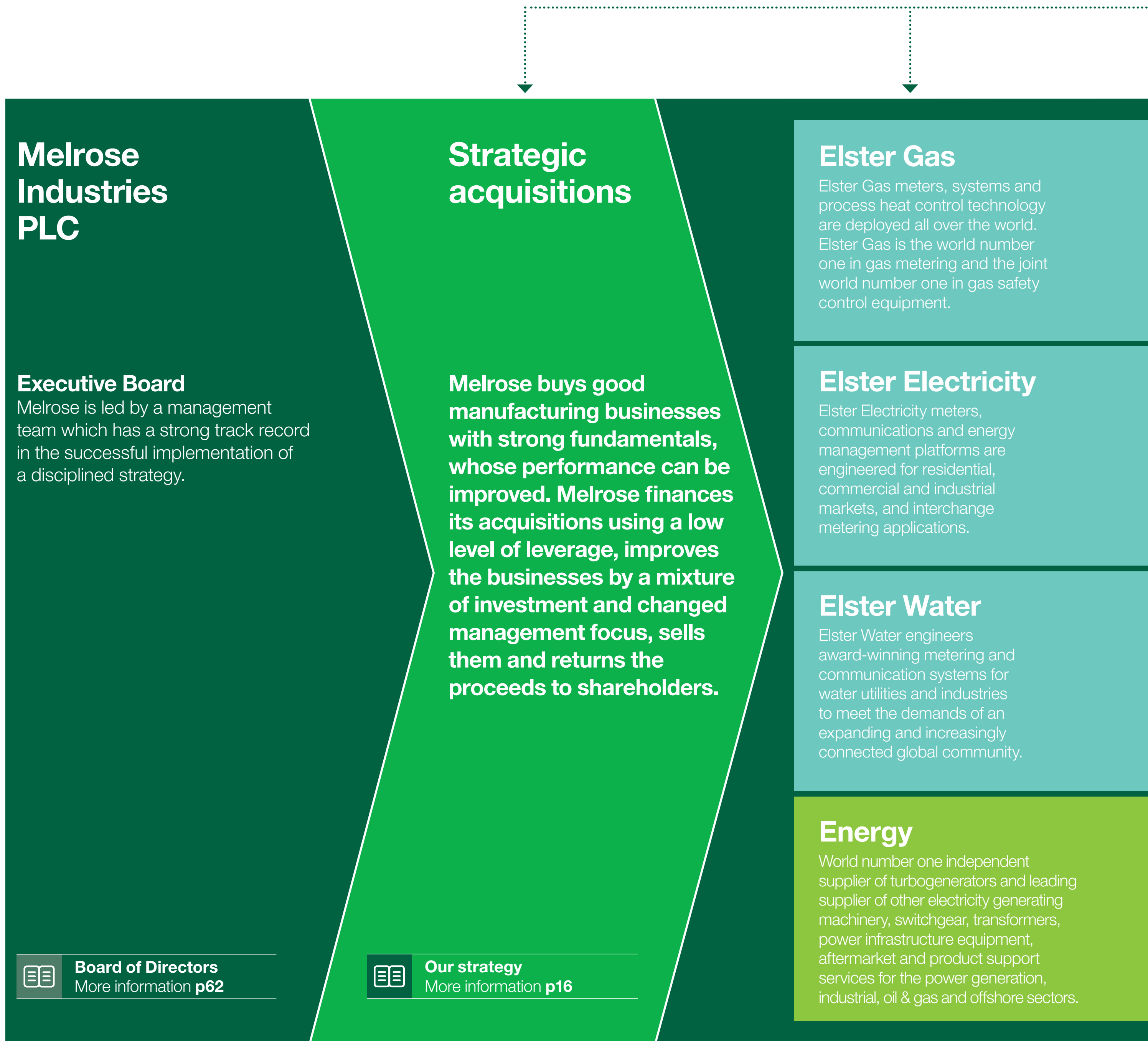
The Directors of the Company are committed to minimising the health and safety risks that each of the Group's employees is exposed to by promoting the effective use and management of business-specific policies and procedures.

Detailed health and safety plans are set by businesses each year to determine annual targets and improvement initiatives.

Corporate Social Responsibility
More information **p50**

Business 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.



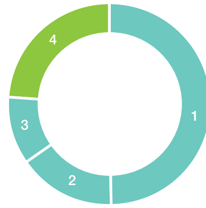
Governance
More information **p58**

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.

Corporate Social Responsibility
More information **p50**

Melrose believes good corporate social responsibility makes good business sense through supporting the development of employees, developing and maintaining close ties with stakeholders and minimising waste.

2014 Group revenue

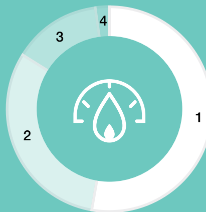


1. Elster Gas **£687.0m**
2. Elster Electricity **£215.7m**
3. Elster Water **£147.5m**
4. Energy **£327.3m**

Profit made by improved acquisition performance

Revenue by geographical destination
(Year ended 31 December 2014)

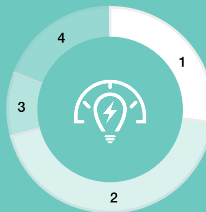
£687.0m
Gas



1. Europe	53%
2. North America	31%
3. Asia	14%
4. RoW	2%

Revenue by geographical destination
(Year ended 31 December 2014)

£215.7m
Electricity



1. Europe	27%
2. North America	44%
3. Asia	10%
4. RoW	19%

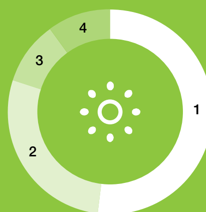
Revenue by geographical destination
(Year ended 31 December 2014)

£147.5m
Water

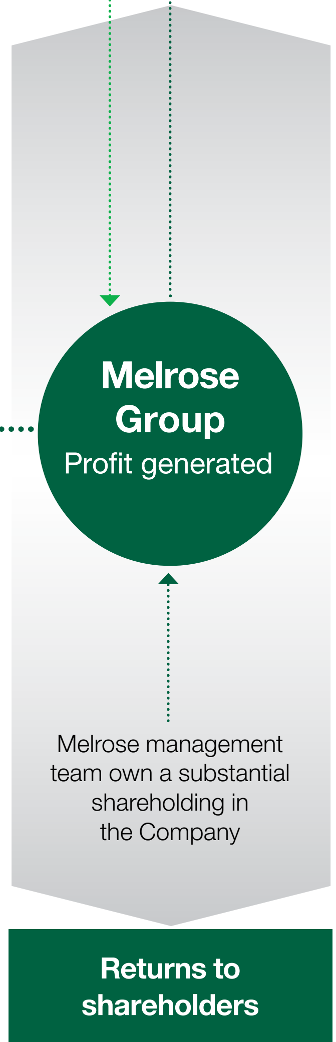
1. Europe	50%
2. North America	7%
3. Asia	8%
4. RoW	35%

Revenue by geographical destination
(Year ended 31 December 2014)

£327.3m
Energy



1. Europe	52%
2. North America	28%
3. Asia	10%
4. RoW	10%



Returns to shareholders

Performance Review
More information **p26**

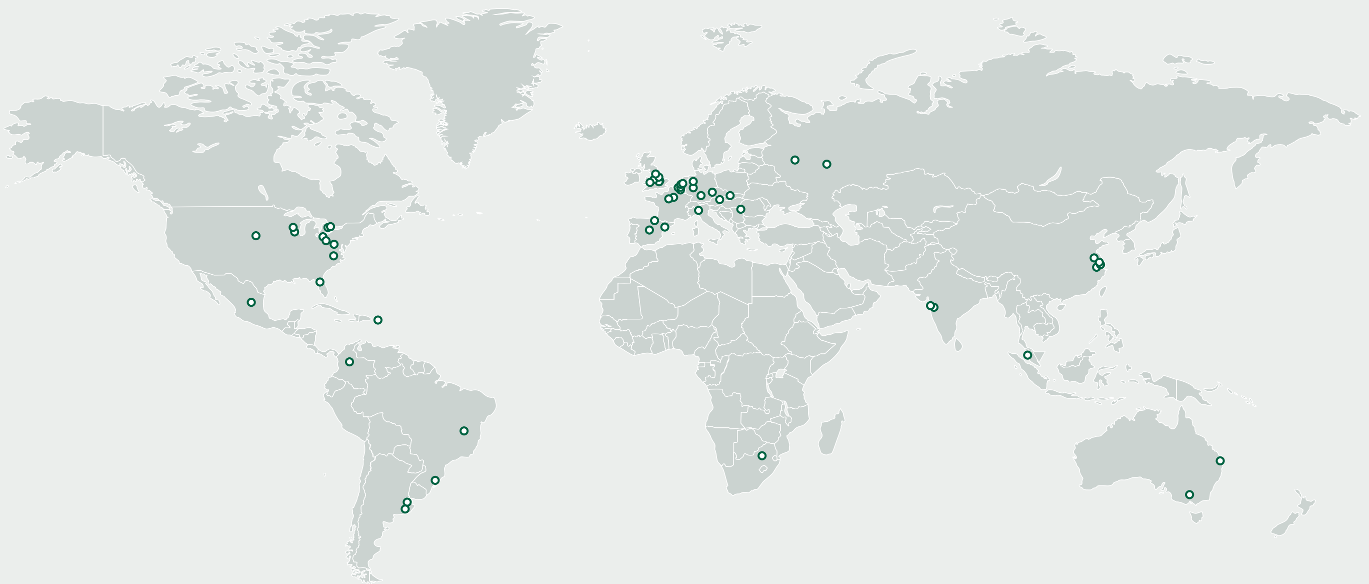
Melrose is not a passive investor in the businesses it acquires. Our Directors and senior management team have a hands-on relationship with each acquired company and work closely with them to develop the long-term strategic plans of the business.

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.

Melrose Group

Global market
Manufacturing locations around the world



Elster Water, a leader in water metering products and solutions.

75 million
Elster Gas metering devices have been deployed globally

130 countries
use Elster Gas measurement and safety control equipment

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 130 countries. It has one of the most extensively installed utility measurement bases in the world with more than 75 million gas metering devices deployed globally. Its complete range of end-to-end solutions enables customers to efficiently manage and control natural gas resources.

Current market trends

Global energy consumption continues to increase, with a growing share for natural gas (away from coal and oil) that is forecast to continue in the long term. This share growth reflects the environmental advantages of gas when compared with other fossil fuels. However, in addition, supply side growth (particularly from new sources of gas such as shale gas in the US), and some demand side weakness from the global economy, are helping to reduce the price of natural gas, further enhancing its attractiveness within the energy mix.

Business review
More information **p28**

External factors: competition and regulation

In Europe, the EU 20/20/20 mandatory environmental targets remain in force, targeting an improvement in the following areas: 20% improvement in energy efficiency against 1990 levels; 20% reduction in carbon emissions; 20% of energy to be from renewable sources. In addition to the environmental drivers, the global economic situation is increasing competition and pricing pressure and changing buying behaviour within key markets.

Recent international tensions are also increasing concerns over energy security, prompting changes to infrastructure investment strategies.

China accounts for almost 50% of global steel production, and there is international pressure for China to adopt ISO global standards in terms of safety and environmental efficiency.

Business response

The effect of these factors is being seen in the six strategic market sectors in which Elster Gas operates, as set out below.

The European gas meter market, driven by EU environmental legislation, is in the process of replacing existing standard gas meters with Smart meters. Elster is actively involved in major residential pilot projects in several countries, each with its own technical requirements.

The Integrated Gas Metering Station market is driven by increasing gas consumption, creating a demand to expand the gas pipelines and infrastructure to connect the gas reserves with the ultimate consumers. This fuels investment in infrastructure associated with extraction, production, grid injection and transmission of shale gas and biogas, including Liquefied Natural Gas ("LNG") terminals and grid injection plants. Elster supplies the full scope of energy measurement solutions, including ultrasonic meters, flow computers, and gas quality measurement devices.

These solutions are deployed worldwide, with a strong focus on Asia, the Middle East and the US, together with a growing biogas sector in Northern Europe.

The US Residential and Commercial Metering Market is driven by new housing, meter replacement programmes, and Smart Grid deployments. The downstream distribution market surged with government-funded projects focused on infrastructure improvement and integrity management. Elster's ability to provide a "main to meter" solution has generated strong demand which is anticipated to last for the next three to five years.

The Midstream, Pipeline, and Power Markets are driven by the transition from coal-burning power plants to natural gas, and by the rapid growth of shale gas with its associated infrastructure for export as LNG. Increased investment in the US high pressure transmission network is also expected to drive growth. Accordingly, Elster has invested resources in high pressure metering and energy measurement (gas chromatograph) systems to capitalise on the expected growth.

The Residential Heating Market is dominated by targets set by the EU for the use of energy in home heating. It will be mandatory from 2015 to install condensing boilers with high efficiency for a 10%–15% energy saving. Elster supplies solutions for heat generation (Safety Combustion Technology) and heat management (Comfort Controls) to the European heating market.

The Process Heat Market depends heavily on global capacity levels in the steel, aluminium and non-ferrous metal industries. Elster Kromschröder has developed specific solutions for Process Heat and Heating applications. Sales and application skills of the engineering team are key factors for high level products and solutions, and their "added value thinking" is an important market differentiator.

Market overview continued

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

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, South America, the Middle East and Africa. In the EU, Elster Electricity saw several gains of major customers and continued growth is expected. Following calls for the European-wide roll out of Smart meter solutions by 2022, further significant growth is anticipated. Good growth has also been seen in the Middle East, which is expected to continue over the coming years. In South America, there is a controlled change from standard metering towards Smart metering.

External factors: competition and regulation

The global market will continue to see a shift from "traditional" metering to Smart meter solutions. While the North American markets are expected to remain relatively constant at existing sales volumes, other markets are expected to see growth. In Latin America, Europe and the Middle East, further projects are starting and a significant level of tender activity is anticipated.

Business response

New metering and software solutions products and technologies have been developed and successfully launched. The new evolution of Meter Data Collection has been released recently and during 2015 further investment will be made to secure further world class partnerships with Smart Grid application providers.

Business review
More information **p30**

Precision engineering and quality control are a vital element of our world class manufacturing processes.

Elster Water

Elster Water is recognised globally as a leading supplier of water meters with sales revenue derived from more than 100 countries.

Current market trends

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. In developed markets, revenue growth is driven by a continued increase in the adoption of communicating meters for Smart metering projects, particularly in Europe, the Middle East and North America.

This Smart metering trend is also driving growth in electronic water meters equipped with standard communication interfaces for connection to Smart networks. These solid state, electronic meters, often called "static" meters, allow extended meter life in harsh water quality conditions.

"Smart metering is driving growth in electronic water meters equipped with standard communication interfaces for connection to Smart networks."

Elsewhere, legislation on water quality and CO_2 reduction continues to drive the adoption of polymer-bodied water meters in both developed and developing markets. Utilities are also seeking water meters with extended accuracy ranges in order to maximise water measurement and help detect leaks.

"Brush's product development of very large air-cooled generators will position the business well in future years."

External factors: competition and regulation

Regulations governing water meter specifications are both regional and national with most markets adopting international standards into their regulatory environment, usually with some adaptation to suit local needs. The competitive environment in Elster Water's main markets comprises a few large suppliers based in Europe and North America, together with many regional companies. The trends in Smart water metering are attracting new software providers to support advanced metering infrastructure projects including those from the IT sector. It is expected that there will be increasing numbers of projects requiring partners working together to deliver these Smart water services to utilities.

Business response

In response to the above trends, Elster Water remains focused on the delivery of innovative, value added products in market segments that are responsive to higher performing metering products and solutions. Recent innovations by Elster include extending the range of award winning polymer-bodied residential meters, the launch of the H5000 commercial and industrial meter and the integration and connectivity of leading Smart communication technologies.

Elster Water continues to work with key water industry partners in several regions to address local requirements. Strong customer relationships remain important, helping to ensure that Elster Water continues to develop water metering products and solutions tailored to customer needs.

Business review
More information **p32**

Energy

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

Current market trends

Slow growth in the global economy is driving a modest market growth in power generation. Advances in technology are resulting in the development of larger more efficient turbines, in excess of sizes traditionally supplied by Brush.

Exceptionally low oil & gas prices have had a negative impact on oil & gas investment projects, predominantly in the upstream sector of the industry, to which Brush has exposure.

Business review
More information **p34**

External factors: competition and regulation

Some Brush businesses have strong UK revenue streams, principally Transformers and Switchgear, customers of which are regulated by OFGEM (Office of Gas and Electricity Markets).

In China, the "Energy Action Plan" was released in November 2014 by the new Chinese Government which endorsed the distributed energy installation targets set out in the 12th '5 Year Plan'. This will underpin the switch from coal fired generation to gas fired generation which will require generators such as those to be manufactured by Brush China.

Business response

In 2014, Brush started to supply generators to its Chinese customers from its European factories. The newly-constructed factory in China is expected to deliver its first generator in the first quarter of 2016.

Brush's product development of very large air-cooled generators will position the business well in future years.

Product development continues to be an integral part of Brush's business strategy.

Chairman's statement

Christopher Miller
Chairman

I am pleased to report our 12th set of annual results since flotation in 2003.

2014 has been another successful year. Elster, our gas, electricity and water metering company acquired in 2012, continues to demonstrate the benefits of our management model.

In November 2014 we sold Bridon, our wire rope maker principally for the mining and oil & gas sectors, for an enterprise value of £365 million. In line with our strategy we have announced a capital repayment of £200 million which will be paid on 16 March 2015. With only Brush remaining from our FKI acquisition in 2008, this nearly completes that acquisition cycle.

Since making our first investment in 2005, Melrose has achieved an annual return on equity investment of 23% and an increase in operating margins of 5 to 7 percentage points across each of the businesses we have owned. Total shareholder return over the same period has been 421%, compared to 104% for the FTSE 350.

By implementing our strategy, following the Return of Capital, we will have created approximately £2,782 million of shareholder value with a net shareholder investment of £170 million.

As ever, I would like to thank all our employees for their efforts in helping to produce this outstanding performance.

Results for the Group

Revenue from continuing businesses for the year was £1,377.5 million (2013: £1,466.4 million) and headline profit before tax (before exceptional costs, exceptional income and intangible asset amortisation) was £212.5 million (2013: £191.5 million).

Further details of these results are contained in the Finance Director's review on pages 42 to 49.

Trading

Elster continues to perform strongly in all three divisions with orders and sales in Gas, the largest division, in particular, showing pleasing increases in constant currency terms. Whilst the bulk of restructuring and product rationalisation is behind us there is nevertheless an ongoing programme of efficiency gains which we expect will add to the substantial improvements already achieved in operating margins. Investment in all divisions continues and the purchase of Eclipse on 31 October 2014 for US $158 million is an exciting addition to Elster Gas which will make a good contribution in its first full year.

In our Energy division, Brush continues to experience difficult end markets with its OEM business. While it is pleasing to note that independent market research shows Brush has more than maintained its market share, nevertheless the forces at play holding down OEM demand do not appear to be dissipating in the near term. In the medium and long term, however, we have full confidence that this market will recover. In the meantime, the Aftermarket and Switchgear divisions are performing well.

£3.0 billion
market capitalisation from £13 million in 11 years

£2.8 billion
of shareholder value created

23%
average annual return on investment

“Our strategy is working: for a net shareholder investment of £170 million, and with a current market capitalisation of £3.0 billion, we have created £2.8 billion of shareholder value.”

We encountered foreign exchange headwinds in 2014 and while these have abated somewhat in recent months as regards the US Dollar, the further weakness in the Euro and the Rouble suggest a further 5% headwind in 2015 based on current exchange rates.

Further discussion of trading appears in the Chief Executive’s review on page 14.

Dividend

The Board proposes to pay a final dividend of 5.3p per share (2013: 5.0p). This will be paid on 18 May 2015 to those shareholders on the register at 17 April 2015, subject to approval at the AGM on 14 May 2015. This gives a total for the year of 8.1p per share (2013: 7.75p).

We continue to pursue a progressive dividend policy.

Strategy

Since Melrose’s flotation in 2003, and the introduction of our “buy, improve, sell” strategy, we have seen many changes in economic and stock market conditions. Nevertheless, through all this, returns to shareholders have been extremely good and we see no reason to diverge from our proven strategy. We continue to see situations which are candidates for our management and investment methods and we are confident we will identify a suitable opportunity in due course. In the meantime, we will continue to improve our existing businesses, and will make disposals at the appropriate time.

Outlook

The world economy continues to be geographically patchy. Strength in the USA is mirrored by weakness in most of Continental and Central Europe – a situation which seems unlikely to change in the near future. Adjusting for currency effects, our Group is trading in line with management expectations for 2015 despite the expected downturn in the performance at Brush. In our Elster businesses, we see the potential for good demand and growth prospects, as indeed we have seen in the second half of 2014. This, together with the opportunity for further margin enhancement, and the possibility of a value creating acquisition, gives us confidence for the balance of 2015 and beyond.

Christopher Miller
Chairman
4 March 2015

Headline[(1)] proforma[(2)] diluted earnings per share

15.3p

Dividend per share

8.1p ▲ **5%**

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated using the businesses in existence at the year end, using the diluted number of shares in issue following the Return of Capital and related share consolidation.

Governance

The Board remains committed to maintaining high standards of corporate governance.

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Board of Directors
More information **p62**

Chief Executive's review

Simon Peckham
Chief Executive

Acquiring good quality manufacturing businesses, making operational improvements, realising shareholder value at the appropriate time and then returning this value to shareholders continue to be the components of the "buy, improve, sell" business strategy that Melrose has followed since being founded in 2003.

The Group now consists of Brush, the last remaining business from the FKI acquisition, and the businesses which comprise Elster. Continued improvement of all these businesses is, as ever, a key objective for 2015.

Acquisitions and disposals during the year

2014 has been another highly successful year for Melrose. In October 2014, Elster Gas completed the acquisition of Eclipse, a US-based manufacturer of gas combustion components and systems for industrial heating and drying applications. Combining this with our existing Elster Gas business gives us a great opportunity to create significant shareholder value. In the following month, Melrose completed the disposal of Bridon for a total enterprise value of £365 million, representing the latest step in realising value from the FKI businesses acquired by Melrose in 2008.

Outlook

Overall market conditions remain challenging but we have in Elster a business that is well positioned for growth in 2015. At current exchange rates we face further currency headwinds this year and the order intake pattern suggests a more pronounced weighting of results to the second half of the year. As said previously, we believe we will see further progress in our Elster businesses but end market conditions mean that Brush will have a more difficult 2015. Overall, adjusting for the adverse currency movements which are outside our control, we believe that the Group will be in line with management expectations for 2015.

Simon Peckham
Chief Executive
4 March 2015

To find out more about our performance please see the following pages:

Elster Gas

More information **p28**

Elster Electricity

More information **p30**

Elster Water

More information **p32**

Energy

More information **p34**

“2014 has been another highly successful year for Melrose.”

An Elster Smart residential gas meter destined for the UK market is subjected to automated leak testing in Lotte, Germany.

Our 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.

Buy

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

Progress

The acquisition of Eclipse, a US-based specialist in the complementary field of low-temperature combustion technology, has created an opportunity to strengthen the Elster Gas business and enhance shareholder value.

The business is already performing ahead of expectations.

Priorities

To identify and acquire strong manufacturing businesses whose performance can be improved, using low (public market) leverage.

Key risks

Global economic and financial conditions may impact the timing of acquisitions. Assets may underperform or require more investment and resources than originally anticipated.

Buy Improve Sell

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**

Progress

The year on year operating margins of the continuing Group businesses have increased from 16.4% to 17.9%, with the Elster Group increasing operating margins from 17.4% to 19.6%. Operational improvement projects are returning efficiency gains in each Elster business.

Priorities

To drive operational improvements, invest in businesses and focus on cash generation.

Key risks

The Group may not succeed in driving strategic operational improvements to generate value post acquisition in the acquired business.

Buy **Improve** Sell

Key performance indicators

Headline[(1)] proforma[(2)] diluted earnings per share	Dividend per share	Headline[(1)] operating profit
15.3p	▲ 8.1p	▲ £246.0m

Key performance indicators
More information **p24**

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated using the number of shares in issue following the Return of Capital and the related share consolidation.
(3) Calculated using average exchange rates for the year.
(4) Headline[(1)] operating profit before depreciation and amortisation of computer software and development costs.

Sell

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

Progress

In November 2014, the Group completed the sale of Bridon for an enterprise value of £365 million, meaning that the original equity investment by Melrose more than doubled.

Priorities

To identify the optimal time to divest the Group's businesses and to return value to shareholders from significant disposals.

Key risks

Due to the Group's global operations, disposals may be significantly impacted by political and macroeconomic factors. There may be long-term liabilities which may be retained by the Group and insufficient allowance for indemnities and warranties given at disposal may affect the Group's financial position.

Buy > Improve > **Sell**

Cash conversion	Net debt[3] to headline[1] EBITDA[4]	Interest cover	Headline[1] operating profit margin
90%	1.7x	▲ 15.3x	▲ 17.9%

Acquisition of Eclipse, Inc.

Buy Improve Sell

A more comprehensive offering for our customers

Eclipse and Elster

In October 2014, the Elster Gas business acquired Eclipse, Inc., a manufacturer of gas combustion components and systems for industrial heating and drying applications headquartered in Rockford, Illinois (USA).

The total consideration was US $158 million. The transaction was on a debt and cash free basis and was funded within the existing debt facilities of the Melrose Group.

Eclipse's long established expertise in low-temperature industrial gas combustion complements Elster's expertise in high-temperature industrial gas combustion applications in Europe.

Eclipse high temperature SER burners providing even temperature distribution in a metals industry furnace.

US $158m

Total consideration paid for Eclipse

Continual improvement across Elster

Buy Improve Sell

Margins improve in Elster businesses

Since their acquisition in 2012, the improvement programmes implemented within the Elster businesses have increased Elster profits by two-thirds.

Operating margins continue to improve in each of the three businesses of Gas, Electricity and Water with the combined Elster operating margin having grown from 12.8% to 19.6% during the period of Melrose ownership.

Whilst the bulk of restructuring and product rationalisation is behind us, ongoing programmes of efficiency gains are expected to add to the substantial improvements already achieved in these businesses.

Automated housing production with doubled capacity for residential smart gas meters in Lotte, Germany.

Elster profits increased by two-thirds since acquisition in 2012

Elster operating margin grown from 12.8% to 19.6% during the period of Melrose ownership

Creating value in the sale of Bridon

Buy > Improve > Sell

Our “buy, improve, sell” model in action

Highlights

In November 2014, Melrose completed the disposal of the Bridon business for an enterprise value of £365 million. The Board used part of the net proceeds to return £200 million in cash to shareholders, using the balance to pay down borrowings.

“Bridon is an excellent example of the Melrose ‘buy, improve, sell’ model at work. It demonstrates our ability to create substantial value for shareholders by investing heavily in our businesses and improving operational performance. Since the acquisition of FKI in 2008, we have successfully grown and developed the Bridon business into a premier supplier of critical high-performance ropes for energy, mining and industrial applications.”

Simon Peckham,
Chief Executive

£365m

Enterprise value

x2

Original equity investment by Melrose more than doubled

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] proforma[2] diluted earnings per share

15.3p

Year	Value
2012[6]	14.4p
2013	15.0p
2014	15.3p

Method of calculation
Group headline[1] profit after tax, attributable to owners of the parent, of businesses in existence at each year end, divided by the diluted number of shares in issue following related share consolidations.

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

Dividend per share

8.1p

Year	Value
2012	7.6p
2013	7.75p
2014	8.1p

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.

Headline[1] operating profit

£246.0m

Year	Value
2012[4]	£113.5m (proforma[6] £189.5m)
2013[4]	£240.0m
2014	£246.0m

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

Strategic objective
To improve profitability of Group operations.

Cash conversion

90%

Year	Value
2012[4]	92%
2013[4]	96%
2014	90%

Method of calculation
Percentage of headline[1] EBITDA[3] 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.

Net debt to headline[1] EBITDA[3]

1.7x

Year	Value
2012[5]	2.6×
2013	0.5×
2014	1.7x

Method of calculation
Net debt at average exchange rates divided by headline[1] EBITDA[3] for existing businesses at each year end.

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

Interest cover

15.3x

Year	Value
2012	9.1x
2013	11.8x
2014	15.3x

Method of calculation
Calculated as headline[1] EBITDA[3] 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.

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated using the businesses in existence at each year end, using the diluted number of shares in issue following the related Return of Capital and associated share consolidation.
(3) Headline[1] operating profit before depreciation and amortisation of computer software and development costs.
(4) Restated to include the results of Bridon within discontinued operations.
(5) Based on 1 January 2012 to 31 December 2012 EBITDA[3] for all continuing businesses. Elster pre acquisition EBITDA[3] has been adjusted to estimate the impact of the transition to Melrose accounting policies under IFRS.
(6) Assuming a full year's ownership of Elster in 2012.

Headline[1] operating profit margin

17.9%

2012[4]	14.5% (proforma[6] 12.8%)
2013[4]	16.4%
2014	17.9%

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

Strategic objective
To improve profitability of Group operations.

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 2014 when compared to 2013 will vary. Further information in relation to the various health and safety initiatives undertaken by the Group's businesses during 2014 can be found within the Corporate Social Responsibility report on pages 50 to 57.

Environment and energy usage

Method of calculation
Environmental KPIs used within the Group and their method of calculation vary by business unit and depend 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 possible adverse effect on the environment. Particular relevance has been placed on the control of energy consumption.

Performance
Investment was provided by the Group for several environmental improvement initiatives during 2014. The Group is required to disclose greenhouse gas emissions data in relation to the 2014 financial year. Further information can be found within the Corporate Social Responsibility report on pages 50 to 57.

Other non-financial KPIs

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 report on pages 50 to 57 and the Directors' report on pages 64 to 67.

Performance Review

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Business review

Elster Gas

In 2014 the new semi-automatic production line in Lotte, Germany produced 1.5 million commercial and residential meters.

www.elster-gas.com/en/index

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.

Total revenue

(year ended 31 December 2014)

£687.0m +6%(2)

(2013: £688.9m)

Headline(1) operating profit

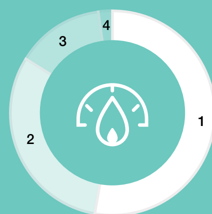
(year ended 31 December 2014)

£161.4m +13%(2)

(2013: £152.4m)

Revenue by geographical destination

(year ended 31 December 2014)



1. Europe	53%
2. North America	31%
3. Asia	14%
4. RoW	2%

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated at constant currency.

Elster Gas is a world leader in gas measurement and gas safety control equipment, supplying a global customer base in more than 130 countries. With one of the most extensive installed utility measurement bases in the world and more than 75 million gas metering devices deployed globally, 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 USA, 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 2014, five million gas meters were manufactured in Elster's major factories.

Global revenues increased by 6% in 2014. Operating profit increased by 13% compared to 2013, driven by sales growth and management's strategy of strong operational control coupled with rationalisation of the business footprint. During the year, there were significant performance improvements in both North America and Germany. Overall, there was a continued improvement in gross margin and when coupled with a further reduction in fixed costs, there was an encouraging 1.5% improvement this year in the return on sales.

In October 2014, Elster Gas completed the acquisition of Eclipse, a US-based manufacturer of gas combustion components and systems for industrial heating and drying applications. Eclipse will be merged with the Elster Gas control equipment business (sold under the Kromschröder brand) to create a market leading global Thermal Solutions division, which will offer industrial customers a comprehensive range of gas combustion and safety control systems. This business is now approximately a third of the sales of Elster Gas and a good contribution is expected from Eclipse during 2015.

Elster are also involved in both residential Smart gas meter programmes and commercial and industrial Smart meter rollouts in Europe. While overall progress

on the former is slow, due to delays by the relevant authorities in their mass rollout of Smart meters, volumes are slowly increasing in the foundation phase. In 2014, Elster Gas sold 29,000 Smart residential gas meters. By contrast, good progress has been made in the Smart commercial and industrial sector. In addition to the 24,000 Smart commercial and industrial gas meters sold in 2014, Elster Gas announced that British Gas Business, the UK's largest non-residential gas supplier, has selected Elster to supply up to 100,000 Smart commercial and industrial gas meters over the next three years to a significant proportion of its UK customer base.

In May 2014, Elster Gas announced major changes in the global footprint of its Integrated Metering Solutions (IMS) business which builds gas metering stations for the upstream production and shipment of gas. Production will move from Western Europe to Saudi Arabia and Malaysia, with the latter becoming the centre of excellence for these products. This shift moves production closer to the major gas metering station markets, with completion planned for the end of 2015.

Outlook

The main Elster Gas end markets remain healthy and order input in 2014 was higher than in 2013. We expect the recent decline in the oil price to have an effect on the timing of some gas metering station projects throughout 2015; however, the high demand projected in the Elster conventional gas meter markets will more than compensate for any weakness in this area.

When coupled with further planned operational improvements and the integration of Eclipse into the existing business, Elster Gas should enjoy another strong performance in 2015. Whilst still very early in the year, order books going into 2015 give us encouragement for the next 12 months.

Products

- Universal device for volume conversion, billing and system monitoring, with optional GSM (Global System for Mobile communication)/GPRS (General Packet Radio Services) 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

75 million

gas metering devices have been deployed globally.

Market overview

Global energy consumption continues to increase, with a growing share for natural gas that is forecast to continue in the long term. In addition, supply side growth and some demand side weakness are helping to reduce the price of natural gas, enhancing its attractiveness within the energy mix.

External factors

In the EU, mandatory environmental targets remain in force, targeting improvements in energy efficiency, reductions in carbon emissions and increased use of energy from renewable sources. The global economic situation is increasing competition and pricing pressure and changing buying behaviour within key markets.

Business response

Elster Gas is actively involved in projects driven by EU environmental legislation and the demands of the US Residential and Commercial Metering Market. Elster supplies the full scope of energy measurement solutions required for gas pipelines and infrastructure connecting gas reserves with the end-user.

Market overview
More information **p09**

Efficient and reliable helium leak detection in Lotte, Germany. Two million residential and industrial gas meters have been tested this way.

Business review continued

Elster Electricity

For the future Smart Grid, Elster Electricity is investing to secure world class partnerships and has recently introduced the new enhanced open and secure software offering, Connexo®.

www.elster.com/en/electricity

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

Total revenue

(year ended 31 December 2014)

£215.7m -4%(2)

(2013: £247.5m)

Headline(1) operating profit

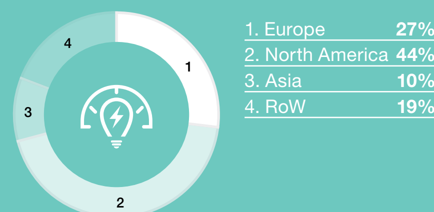
(year ended 31 December 2014)

£22.8m +23%(2)

(2013: £21.5m)

Revenue by geographical destination

(year ended 31 December 2014)



(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated at constant currency.

Elster Electricity is one of the largest international 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) with open API (Application Programme Interface) connecting third party applications, together with several other communication products and services. Elster Electricity has key production facilities located in Europe, North America and South America and operates in most global markets through its own offices or agents.

North America is served through factories and sales offices, and offers Smart metering solutions to commercial, industrial and residential markets. Elster has one of the largest installed AMI (Advanced Meter Infrastructure) meter bases. Most utilities in the USA have started deploying Smart meter solutions, with around 50% of all households equipped with Smart meters. Following the end of the Smart Grid Investment Grant awards as part of the American Reinvestment and Recovery Act, the North American market saw a revenue decrease compared to previous years. Growth, however, is expected in Mexico, where a regulatory framework is in place to accelerate further deployment.

Europe, the Middle East and Africa, with the biggest market being the European Union, have seen significant growth over the last year, and with the third Energy Package calling for a European-wide roll out of Smart meter solutions through to 2022, further growth is expected over the coming years. Elster Electricity is well positioned with a broad range of products and solutions, and with recent wins and pilot projects, Elster Electricity expects to capture its fair share of the market.

Operating profit improved as a result of consolidation activities and process improvement actions taken in previous years. The move of production in North America to San Luis Potosi in Mexico has now been completed and supply chain and assembly for a part of the European operation has now been consolidated in Timisoara in Romania. Focus on solutions selling and subsequent service revenue also contributed to the overall profit improvement. The supply chain, both in North America and Europe, has been consolidated around tier 1 OEM suppliers resulting in improved quality. 2014 saw another focus on VAVE (Value Added Value Engineering) across all product lines resulting in improved margins.

In 2015, a key focus will be on introducing the new enhanced open software offering, Connexo, starting in North America followed by Europe. New product features will be launched reflecting the market demand for new communication protocols and data encryption features. A move to a new facility in Timisoara in Romania is planned for the fourth quarter.

Outlook

Following last year's tender activities for Smart metering in Europe and the Middle East, a number of projects have been secured that will see pilot projects in 2015 and subsequent mass roll out in the years to follow. In South America, including Mexico, utilities are expected to continue the focus on reducing wastage of electricity through accelerated roll out of integrated metering solutions. These developments mean that Elster Electricity is well positioned for an exciting future, although the precise timing of Smart meter roll out remains unpredictable.

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

5 million

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

Market overview

Elster Electricity's primary markets are the EU, US, South America, the Middle East and Africa. In the EU, Elster Electricity saw several gains of major customers. Continued growth is expected. Good growth has also been seen in the Middle East, which is expected to continue over the coming years.

External factors

The global market will continue to see a shift from "traditional" metering to Smart meter solutions. While the North American markets are expected to remain relatively constant at existing sales volumes, other markets are expected to see growth.

Business response

New metering and software solutions products and technologies have been developed and successfully launched. The new evolution of Meter Data Collection has been released recently and during 2015 further investment will be made to secure further world class partnerships with Smart Grid application providers.

Market overview
More information **p10**

From traditional to Smart.

A visible shift from "traditional" metering to Smart meter solutions is occurring globally, and is expected to gain momentum over the coming years.

Business review continued

Elster Water

www.elster.com/en/water

Key strengths

- 130 year reputation for quality, reliability, accuracy and innovation within the water industry
- Global market presence in more than 100 countries, offering all major water measurement technologies
- Leading position in many of the world's best markets for water metering
- An industry leader with innovative product development and technology choice for customers
- Strong long-term customer relationships and strategic partnerships

Total revenue

(year ended 31 December 2014)

£147.5m -12%(2)

(2013: £179.9m)

Headline(1) operating profit

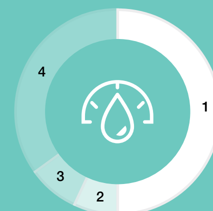
(year ended 31 December 2014)

£23.4m +11%(2)

(2013: £23.0m)

Revenue by geographical destination

(year ended 31 December 2014)



1. Europe	50%
2. North America	7%
3. Asia	8%
4. RoW	35%

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated at constant currency.

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.

Headline operating profits continued to improve in 2014, following the restructuring activity in 2012 and 2013. Restructuring operations during this period led to the cessation of manufacture of mechanical meters for the North American market and rationalisation of product lines, which resulted in the closure of sites in Europe to consolidate production. Operating margins have improved compared with 2013 due to the impact of improved operating efficiency, well-controlled raw material costs and a continued focus on overhead control. Working capital controls also improved with a year-on-year reduction ensuring strong cash conversion.

Revenues in 2014 were approximately 12% lower compared with 2013, largely due to the remaining effect of the exit from low margin business in North America and in Germany. This action has led to an overall improvement in the quality of earnings, delivering a return on sales of nearly 16% in the year (2013: 12.8%). Revenue in the Middle East was lower than expected due to the level of customer activity; however, this was offset by strong growth in Africa. Sales in the rest of Europe were lower than in 2013, reflecting our strategy of exiting lower margin products.

New product launches in 2014 included extending the range of polymer-bodied volumetric meters by adding high metrological performance variants and new registers to increase the options for system connectivity. For the sub-meter portfolio, a connection kit was launched to allow independent radio providers to adapt their products to work with Elster sub-meters, whilst gaining regulatory approval for more installation options. For Latin America, a new residential multi-jet M170 meter was launched with improved metrological performance offering an extended accurate operating range. For the commercial and industrial sector, the range of the new H5000 meter has been extended, offering new data communication options and alternative meter body configurations. A strong pipeline of new products continues to provide global business growth opportunities.

Elster Water's continual focus on their customers was recognised by the Institute of Mechanical Engineers' Manufacturing Excellence Awards 2014, with UK-based Elster Water Metering winning the coveted Manufacturing Excellence Award for Customer Focus.

Outlook

The focus in 2015 will be to maintain industry-leading operating margins and achieve revenue growth above industry growth rates. Elster Water is well positioned to penetrate new and existing markets offering a leading portfolio of water measurement products.

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
- Large portfolio of advanced commercial and industrial meters
- Connectivity and integration of leading water measurement communication technologies

H5000

Commercial and industrial water meter with class leading measuring range.

Market overview

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. In developed markets, revenue growth is driven by a continued increase in the adoption of communicating meters for Smart metering projects.

External factors

Regulations governing water meter specifications are both regional and national with most markets adopting international standards into their regulatory environment. The competitive environment in our main markets comprises a few large suppliers based in Europe and North America. The trends in Smart water metering are attracting new software providers, including those from the IT sector.

Business response

Elster Water remains focused on the delivery of innovative, value-added products in market segments that are responsive to higher performing metering products and solutions.

Market overview
More information **p10**

World class manufacturing techniques including statistical process control are key to maintaining the highest quality.

Business review continued

Energy

www.brush.eu

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 throughout operating life
- Switchgear and transformer products in service with all UK and certain overseas energy supply authorities
- Hydropower generators to produce environmentally green energy
- Generators and electric motors for marine power
- Strategically located around the world

Total revenue

(year ended 31 December 2014)

£327.3m -3%[2]

(2013: £350.1m)

Headline[1] operating profit

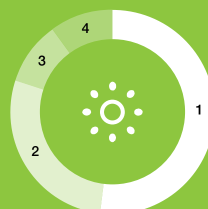
(year ended 31 December 2014)

£65.4m -7%[2]

(2013: £73.1m)

Revenue by geographical destination

(year ended 31 December 2014)



1. Europe	52%
2. North America	28%
3. Asia	10%
4. RoW	10%

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated at constant currency.

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 (and with a newly-built China generator plant coming into production in 2015) Brush designs, manufactures and services turbogenerators, principally in the 10 MVA to 300 MVA range, for both gas and steam turbine applications, and supplies a globally diverse customer base.

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

During 2014, Brush experienced a challenging market again, particularly in new build generators. This was mitigated by another strong year from aftermarket sales and HSS. Significant investment was made in the year to fund new product development, new routes to market, and the China project, and thus future growth. The performance was supported by operational efficiency gains, and the benefits from capital investments.

2014 saw the commencement of the construction of the Brush greenfield generator manufacturing plant near Shanghai, China. This £30 million capital investment will produce generators primarily for the China market and is in support of several of Brush's international turbine customers. Factory construction is nearly complete and manufacturing equipment is now being installed and commissioned, with the factory expected to deliver its first generator in January 2016. The first orders have now been received for this factory as it moves towards being operational. Brush has already been supplying generators in 2014 from Europe against the six year long-term purchase agreement with Huadian GE Aero Gas Turbine Equipment Co. Ltd ("HDGE"), which will continue until the new factory is operational.

The separation of the aftermarket business into one unit in 2013 has helped it to grow strongly in 2014. Late 2014 saw the launch of the "VF" range, an initiative to provide premium replacement rotors in seven weeks, and selected complete generators in 10 weeks, industry leading timescales. This gives end users a critically important replacement service as an alternative to repair, and significantly widens the available market to Brush, for both Brush and non-Brush legacy machine replacement. During 2015 this offer will be extended to third party, non-Brush manufactured generators as well as 4 pole generators.

The aftermarket business in the USA had another strong growth year. Investment has commenced on a new large rotor balancing facility in Pittsburgh, which will significantly enhance its capabilities and lead to further growth. The new global structure of service engineers resulted in Brush Aftermarket being able to manage the power outage spike in demand in the USA utilising its own engineers, rather than subcontractors. Overall Aftermarket sales were well ahead of a strong 2013.

The Transformer business had a slow sales year in 2014 as a result of it being the last year of the current five year OFGEM (the UK Government's Office of Gas and Electricity Markets) cycle. Orders have now improved into 2015 as the period has ended. The capital expenditure programme to reorganise the Transformers production process and value engineer the product was completed, and resulted in significant margin improvement.

The HSS business had a satisfactory year. Whilst sales were 8% behind the previous year (mainly due to project delays), as a result of efficiency savings profit was 3% ahead. During the year investment in R&D significantly increased, which positions the business well for the future with a pipeline of unique products.

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

£30m

Capital investment to construct a new generator plant in China.

Outlook

The medium and long-term growth in power and in particular the aero-derivative gas turbine market, where Brush has such a strong position, remain positive, and with the additional growth from China, a strong new product development pipeline across all business units coupled with continued operational improvements, means the business is well positioned for the future.

However, the overall market dynamics remain difficult in the short term. Profits are expected to decline significantly in 2015 despite the efforts of Brush's management and continued improvements in its Aftermarket, Transformers and Switchgear businesses.

Market overview

Slow growth in the global economy is driving a modest market growth in power generation. Advances in technology are resulting in the development of larger more efficient turbines, often in excess of sizes traditionally supplied by Brush.

External factors

Some of Brush businesses have strong UK revenue streams, principally Transformers and Switchgear, which are regulated by OFGEM.

In China, the "Energy Action Plan" will underpin the switch from coal fired generation to gas fired generation.

Business response

The newly-constructed factory in China is expected to deliver its first generator in the first quarter of 2016.

Brush's product development of very large air-cooled generators will position the business well in future years.

Market overview
More information **p11**

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.

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 recognises that it is ultimately responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. It also recognises the need to maintain sound risk management and internal control systems.

The Audit Committee 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 38 to 41. Further information detailing the internal control and risk management policies and procedures operated within the Group is shown on page 71 of the Corporate Governance report.

2014 Risk management review

In 2014, the Board initiated a root and branch audit and review of the risk management framework and underlying processes in operation in every business across the Melrose Group. The exercise was led by the Company Secretary and supported by risk consultants, BDO LLP. Audit meetings were conducted by the Company Secretary with senior management from each business unit. The review focused on the degree to which risk management arrangements are guided by strategic direction and the extent to which appropriate processes are in place for the identification, evaluation, prioritisation, recording, monitoring and reporting of risk within the businesses. The results of this audit exercise were presented to the Board and an action plan detailing the key risk management priorities was agreed.

Risk management framework

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

Risk management priorities for 2015

The Board recognises that operating in a dynamic and rapidly evolving commercial environment requires a pragmatic, flexible and responsive risk management framework that changes with the business and provides management with a comprehensive view of the Group's risk profile at any given time.

Following the 2014 risk management audit, BDO LLP have been engaged to support the Board in developing an enhanced risk management framework and in implementing a programme to promote and embed a more risk-aware culture across the organisation. Specific priorities for the Group in 2015 include:

- Reviewing the Board's risk appetite and, where appropriate, updating the Melrose Risk Policy and Strategy;
- Developing and implementing an enhanced and more consistent risk management governance framework across the Group. This will define the Melrose principles for risk management and set the standards for the identification, evaluation, prioritisation, recording, review and reporting of risks and their management or mitigation throughout the organisation;
- Rolling out a Group-wide education and training programme designed to instill and embed a culture of effective risk management against a consistently applied framework;
- Embedding the risk management programme through a series of risk workshops. These will be attended by risk champions from each business unit and will provide a forum for sharing learning and refining risk tools and processes; and
- Reviewing and improving our processes around the assessment of principal risks and the monitoring and reporting of the Group's risk management performance. Invariably, this may require slight revisions to the priorities attached to the principal risks already identified in this report.

Risks and uncertainties
More information **p38**

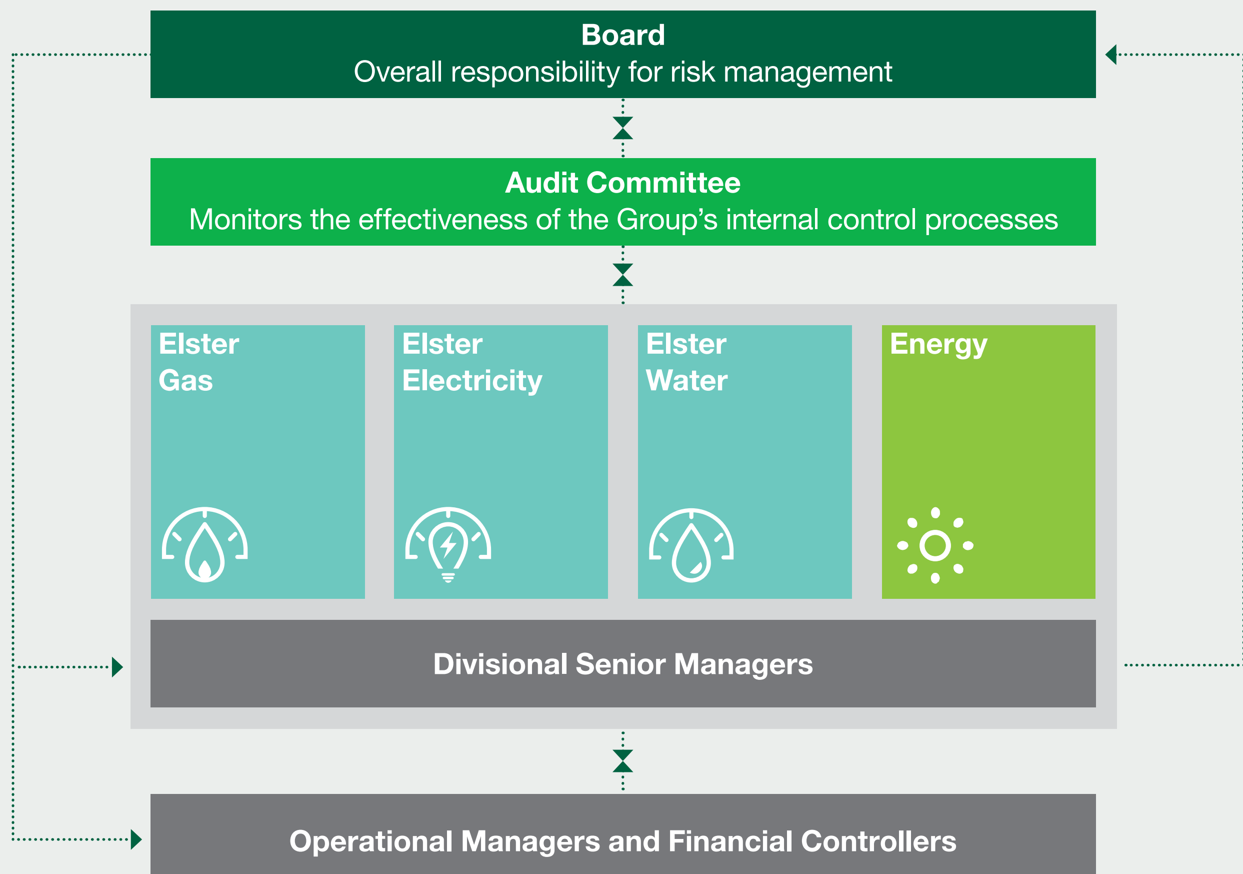
Governance overview
More information **p60**

The Board

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.



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. 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. If 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 retained liabilities 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	Responsibility	Risk trend	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.	Executive management[1]	Constant	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, with a key focus on a clean disposal.	Executive management[1]	Constant	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.	Executive management[1]	Constant	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.	Executive management[1]	Constant	Improve

(1) Comprises executive Directors and Melrose senior management.

Risk trend: ▲ Increasing ▶ Constant ▼ Decreasing

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 that when a business that is predominantly based in a foreign currency is sold, it is sold in that foreign currency. 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 2014, the Group has legacy defined benefit pension plans, with aggregate net liabilities of £218.5 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 £571.8 million of gross debt as at 31 December 2014. 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	Responsibility	Risk trend	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.	Executive management[1]	Constant	Improve
• The Group policy is to protect against the majority of foreign exchange risk which affects cash, by hedging such risks with financial instruments. • Protection against specific transaction risks is taken by the Board on a case-by-case basis.	Executive management[1]	Constant	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.	Executive management[1]	Constant	Buy, Improve, Sell
• Ensure the Company has adequate resources to meet its liabilities by reviewing its quarterly forecasts, ensuring there is sufficient headroom within committed bank facilities to cope with market volatility.	Executive management[1]	Constant	Improve

(1) Comprises executive Directors and Melrose senior management.

Risk trend: ▲ Increasing ▶ Constant ▼ Decreasing

Finance Director's review

Geoffrey Martin
Group Finance Director

The year to 31 December 2014 included the disposal of Bridon, the remaining business in the Lifting division, which in the prior year contributed 15% towards continuing Group revenue and 12% to continuing Group headline operating profit. Consequently, in accordance with IFRS 5, the trading results of Bridon up to the date of disposal have been shown as discontinued in both years.

The remaining continuing operations consist of the three Elster businesses, Gas, Electricity and Water, and the only remaining FKI business, Brush, which is shown within the Energy division.

The discontinued operations in 2013 also include the results, up until the date of their 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.

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 2014 the Group achieved revenue from continuing operations of £1,377.5 million (2013: £1,466.4 million), flat at constant currency, and headline operating profit of £246.0 million (2013: £240.0 million), an increase of 11% at constant currency. The Group results have been adversely impacted by movements in foreign exchange rates due to the strengthening of Sterling compared to many foreign currencies. At actual exchange rates Group revenue was down 6% whilst Group headline operating profit was up 3%. The Group headline operating profit margin (defined as the percentage of headline operating profit to revenue) increased from 16.4% in 2013 to 17.9% in 2014.

After exceptional costs, exceptional income and intangible asset amortisation, Group operating profit was £162.4 million (2013: £192.5 million) and profit before tax was £128.9 million (2013: £144.0 million).

Trading results by division–continuing operations
A split of revenue, headline operating profit and headline operating profit margin for 2014 and 2013 is as follows:

	2014 Revenue £m	2014 Headline operating profit/(loss) £m	2014 Headline operating profit margin %	2013 Revenue £m	2013 Headline operating profit/(loss) £m	2013 Headline operating profit margin %
Elster	**1,050.2**	**205.5**	**19.6%**	1,116.3	194.2	17.4%
Energy	**327.3**	**65.4**	**20.0%**	350.1	73.1	20.9%
Central corporate	**–**	**(13.9)**	**n/a**	–	(14.3)	n/a
Central LTIPs(1)	**–**	**(11.0)**	**n/a**	–	(13.0)	n/a
Continuing Group	**1,377.5**	**246.0**	**17.9%**	1,466.4	240.0	16.4%

(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 £13.9 million (2013: £14.3 million) of Melrose corporate costs and a Long Term Incentive Plan ("LTIP") accrual of £11.0 million (2013: £13.0 million). The LTIP accrual includes an amount of £4.0 million in respect of the Melrose share-based Incentive Plan (2013: £4.0 million), and a charge of £7.0 million (2013: £9.0 million) for the cash-based divisional management incentive plans. The disposals of Crosby, late in 2013, and Bridon in 2014, contributed to the reduced divisional LTIP charge in the year.

Return of Capital
Consistent with the Group strategy of returning to shareholders a large part of any proceeds from the disposal of businesses, £595.3 million was returned to shareholders on 28 February 2014 following the sale of Crosby a few months earlier. This return was made via a redeemable share scheme alongside a share consolidation 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.

In addition, Melrose announced on 3 February 2015 a further Return of Capital of £200.4 million following the disposal of Bridon. This was subsequently approved by shareholders on 20 February 2015. This return will be made on 16 March 2015 via a redeemable share scheme alongside a share consolidation which will reduce the number of shares by a factor of 13 for 14, or 7%, from 1,071.8 million to 995.2 million.

"Since acquiring FKI for just under £1 billion in 2008 the FKI businesses have generated £2 billion of cash from trading and disposal proceeds. Brush, the largest of the FKI businesses, is still owned by the Melrose Group."

Finance costs and income

The net finance cost in 2014 was £33.5 million (2013: £48.5 million).

Prior to the Return of Capital made on 28 February 2014 and following the disposal of Bridon on 12 November 2014, the Group's net debt and bank leverage were lower than usual levels. This, along with the renegotiation of the Group's financing facilities on 11 July 2014 (discussed later in this review), contributed to net interest on external bank loans, overdrafts and cash balances being lower in the year at £20.3 million (2013: £34.3 million). In 2014 the Group had a blended interest rate of 2.4% (2013: 3.1%).

Melrose uses interest rate swaps to fix the majority of the interest rate exposure on its debt. More detail on these swaps is given in the finance cost risk management section of this review.

Also included in net finance cost is a £4.0 million (2013: £4.7 million) amortisation charge relating to the arrangement costs of raising the bank facility, a net interest cost on net pension liabilities of £7.8 million (2013: £8.9 million) and a charge for the unwinding of discounts on long-term provisions of £1.4 million (2013: £0.6 million).

Tax

The headline Income Statement tax rate was 27.0% (2013: 26.4%).

The headline tax rate for the Group is lower than the weighted blend of the statutory tax rates around the world because of 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 resolved.

The tax rate after exceptional items and intangible asset amortisation is 32.4% (2013: 28.9%). The main reason for this being higher than the headline rate is the £3.9 million (2013: £8.1 million) exceptional tax charge on Group reorganisations.

The cash tax rate on headline continuing operations of 16.5% (2013: 22.5%) is below the headline Income Statement rate due to the utilisation of pre-existing Melrose Group tax losses and other deferred tax assets.

The deferred tax liability in respect of intangible assets, of £259.8 million (2013: £287.4 million), is not expected to represent a future cash tax payment and will unwind as the customer relationship, brand name and intellectual property intangible assets are amortised.

Elster – headline[1] operating profit margin

19.6%

Group – headline[1] operating profit margin

17.9%

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

(2) Restated to include the results of Bridon within discontinued operations.

Finance Director's review continued

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 utilisation against tax audits in respect of prior years. The total gross tax losses within the Group are shown below:

Tax losses	Recognised £m	Unrecognised £m	Total £m
UK	14.0	115.1	129.1
Germany	20.0	–	20.0
Rest of World	6.9	27.6	34.5
Total 2014	**40.9**	**142.7**	**183.6**
Total 2013	42.0	175.1	217.1

Exceptional items and amortisation of intangible assets

In the year ended 31 December 2014 the continuing Group incurred exceptional costs of £34.3 million (2013: £19.3 million). These included £30.6 million (2013: £18.8 million) of restructuring costs which mainly relate to the Elster businesses, notably in Gas where the most significant proportion of restructuring cost relates to the closure of the Essen plant in Belgium and relocation of its Integrated Metering Solutions business, which builds gas metering stations, to Saudi Arabia and Malaysia. This decision was taken so as to move production closer to the major gas metering station markets and it is also expected to deliver cost savings in the future as a result. Additionally, restructuring projects were undertaken in the Gas business in Mainz, to move research and development and the production of ultrasonic meters to the German plant in the year.

Also within the Gas business, following the acquisition of Eclipse, Inc. ("Eclipse") late in 2014, immediate severance programmes were announced in the US business as part of the planned synergies.

The restructuring costs incurred in 2013 were proportionally weighted to the Elster Electricity and Water businesses. Some restructuring costs have been incurred within these businesses in 2014 within the European operations following the large restructure programmes performed in the North America businesses in 2012 and 2013.

In addition, £3.7 million (2013: £0.5 million) of acquisition and disposal costs were incurred, mostly relating to the acquisition of Eclipse.

The Group benefited from exceptional income of £5.4 million (2013: £28.9 million) as a result of the release of a surplus provision following the successful resolution of a property lease dispute. The exceptional income in 2013 related to the successful resolution of a number of warranty issues, inherited with the acquisition of Elster, for less expense than expected.

In addition, intangible asset amortisation of £54.7 million (2013: £57.1 million) was charged. A net tax credit on these exceptional costs, exceptional income and intangible asset amortisation, of £19.5 million (2013: £17.0 million), and an exceptional tax charge of £3.9 million (2013: £8.1 million) has been taken in the year.

Overall, the net exceptional items and intangible asset amortisation, after tax, shows a net expense of £68.0 million (2013: £38.6 million).

Earnings per share ("EPS")

The Melrose Board considers that headline diluted EPS, calculated using the headline continuing profit attributable to shareholders and the number of shares in issue following the Return of Capital in March 2015, best demonstrates the performance in 2014 because it matches the size of the continuing Group with the ongoing number of shares. On this basis the EPS in 2014 was 15.3p.

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 2014 the diluted EPS for continuing operations was 7.8p (2013: 7.8p). For continuing and discontinued operations the diluted EPS for 2014 was 17.5p (2013: 43.7p).

Acquisition during the year

On 31 October 2014 Elster Gas acquired Eclipse, a manufacturer of gas combustion components and systems for industrial heating and drying applications, headquartered in Rockford, Illinois (USA), for cash consideration of £97.6 million. The acquisition was funded through the existing Group debt facilities and in the two months of ownership Eclipse has contributed £12.2 million to revenue and £1.4 million to headline operating profit.

Disposal during the year

On 12 November 2014 the disposal of Bridon was completed for a gross cash consideration of £374.8 million less £9.9 million of costs. The profit on disposal of this business was £96.9 million.

Bridon was acquired with FKI in July 2008 and contributed £208.0 million of revenue and £22.6 million of headline operating profit up to the date it was disposed in 2014, and is shown within discontinued operations.

Since acquiring FKI for just under £1 billion in 2008 the FKI businesses have generated £2 billion of cash from trading and disposal proceeds. Brush, the largest of the FKI businesses, is still owned by the Melrose Group.

Cash generation and management

The cash generation performance in 2014 and the movement in net debt are summarised as follows:

	2014 £m
Headline operating profit	246.0
Depreciation and amortisation of computer software and development costs	31.8
Working capital movement	(28.5)
Headline operating cash flow (pre capex)	**249.3**
Headline EBITDA conversion to cash (pre capex) %	**90%**
Net capital expenditure	(58.3)
Net interest and net tax paid	(59.3)
Defined benefit pension contributions	(31.1)
Other (including discontinued operations)	(30.2)
Cash inflow from trading (after all costs including tax)	**70.4**

The conversion of headline operating profit (before depreciation and amortisation) into cash was 90% in 2014 (2013: 96%). Within this strong level of cash generation Elster achieved 94% and Brush 83%.

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

	2014 £m
Opening net debt	**(140.8)**
Cash inflow from trading (after all costs including tax)	70.4
Net cash flow from acquisitions and disposals[1]	253.3
Amounts paid to shareholders (Return of Capital and dividends)	(678.9)
Foreign exchange and other	(5.3)
Closing net debt	**(501.3)**

(1) Gross disposal proceeds of £374.8 million, less costs paid of £8.5 million and cash disposed of £14.6 million, net of acquisition of subsidiaries of £97.6 million, cash acquired of £1.5 million and costs of acquisition of £2.3 million.

The Balance Sheet leverage (calculated as net debt divided by continuing headline operating profit before depreciation and amortisation) was 1.8x at 31 December 2014 (31 December 2013: 0.4x). Net debt will increase in March 2015 following the recently approved Return of Capital of £200.4 million. Allowing for this, the proforma leverage at 31 December 2014 would have been 2.5x, which is considered to be a better reflection of the ongoing leverage level for the Group.

Capital expenditure

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

	Elster	Energy	Central	Total
Net capital expenditure £m	28.1	30.0	0.2	58.3
Depreciation £m	24.6	6.3	0.9	31.8
Net capital expenditure to depreciation ratio (full year)	1.1x	4.8x	0.2x	1.8x
Melrose 10 year (2005–2014) average annual multiple				1.3x

The net capital spend to depreciation ratio was 1.8x in 2014 (2013: 1.1x). Within this, the ratio in the Brush business was 4.8x (2013: 2.8x) which included the continuation of the significant investment in a new factory in the Shanghai area of China. The net capital spend to depreciation ratio in Elster was 1.1x (2013: 0.7x). Elster is inherently a less capital intensive business than Energy.

Assets and liabilities

The summary of Melrose Group assets and liabilities are shown below:

	2014 £m	2013 £m
Fixed assets (including computer software and development costs)	**224.2**	265.3
Intangible assets	**859.8**	985.9
Goodwill	**1,520.9**	1,602.0
Net working capital	**106.4**	126.9
Retirement benefit obligations	**(218.5)**	(219.3)
Provisions	**(177.0)**	(177.8)
Deferred tax and current tax	**(247.4)**	(272.9)
Other[1]	**6.6**	18.6
Total	**2,075.0**	2,328.7

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

These assets and liabilities are funded by:

	2014 £m	2013 £m
Net debt	**(501.3)**	(140.8)
Equity	**(1,573.7)**	(2,187.9)
Total	**(2,075.0)**	(2,328.7)

The movements in net debt and equity primarily relate to the return of £595.3 million to shareholders and the disposal of Bridon in the year.

Finance Director's review continued

Goodwill, intangible assets and impairment review

The total value of goodwill as at 31 December 2014 was £1,520.9 million (31 December 2013: £1,602.0 million) and intangible assets was £859.8 million (31 December 2013: £985.9 million). These balances reduced as a result of the disposal of Bridon in the year and the split is as follows:

	Elster £m	Energy £m	Total £m
Goodwill	1,319.2	201.7	1,520.9
Intangible assets	776.2	83.6	859.8
Total goodwill and intangible assets	**2,095.4**	**285.3**	**2,380.7**

The goodwill and intangible assets have been tested for impairment as at 31 December 2014. The Board is comfortable that no impairment is required.

Provisions

Total provisions at 31 December 2014 were £177.0 million (31 December 2013: £177.8 million). In total, £49.6 million of cash was spent on the utilisation of provisions, of which £38.7 million related to restructuring and warranty. The following table details the movement in provisions in the year:

	Total £m
At 31 December 2013	**177.8**
Cash spent on the utilisation of provisions	(49.6)
Acquisition of Eclipse	9.2
Net charge to headline operating profit	15.0
Net charge to exceptional items	26.2
Disposal of Bridon	(1.4)
Other (including foreign exchange)	(0.2)
At 31 December 2014	**177.0**

The net charge to headline operating profit in the year was £15.0 million which included the £7.0 million divisional LTIP charge along with £7.8 million of normal net warranty expenses in the year.

The net charge to exceptional items of £26.2 million included £31.6 million relating to restructuring projects, most of which is expected to be spent in 2015. This amount has been partly offset by the exceptional income release of £5.4 million relating to the successful resolution of a historical property lease dispute.

The other movements on provisions in the period relate to the net effect of the unwind of discounting on long-term provisions and the relevant foreign exchange impact.

Pensions

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

At 31 December 2014 the FKI UK Pension Plans, which comprise two separate independent plans, the FKI UK Pension Plan and the Brush Group (2013) Pension Plan, are significant in size and had a combined net deficit at 31 December 2014 of £82.7 million (31 December 2013: £100.2 million). Plan assets were £695.6 million (31 December 2013: £619.5 million) and plan liabilities were £778.3 million (31 December 2013: £719.7 million).

The other UK defined benefit pension plan of significant size in the Group is the McKechnie UK Pension Plan with an accounting surplus at 31 December 2014 of £1.6 million (31 December 2013: deficit of £0.5 million). The plan assets at 31 December 2014 were £209.9 million (31 December 2013: £182.5 million) and liabilities were £208.3 million (31 December 2013: £183.0 million).

These three UK plans are closed both to new members and current members' future service.

A US defined benefit plan for FKI also exists. At 31 December 2014 the FKI US plan had assets of £176.5 million (31 December 2013: £177.6 million), liabilities of £195.2 million (31 December 2013: £183.0 million) and consequently a net deficit of £18.7 million (31 December 2013: £5.4 million). This plan is closed to new members and to current members' future service.

During the year a decision was made to offer lump sums to terminated vested participants of the FKI US Plan whose benefit had a current lump sum of US $65,000 or less. Approximately 60% of those offered accepted, resulting in a reduction in gross liabilities of £23 million, and a benefit of £3.5 million to the overall pension charge for the year, shown within central costs.

The Elster businesses also operate a number of defined benefit plans, most of which are unfunded, with a net accounting deficit at 31 December 2014 of £118.7 million (31 December 2013: £101.5 million). Within this, 79%, or £94.3 million (31 December 2013: 82%), related to unfunded German defined benefit plans and early retirement programmes.

During the year the Group terminated certain Elster US unfunded retiree medical and welfare plans, reducing gross liabilities by £4.3 million, which benefited the overall pension charge in the year within the Gas division.

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

	2014 Assumptions %	2013 Assumptions %
Discount rate	**3.50**	4.40
Inflation	**2.10**	3.40

For the most significant plans (the FKI UK Pension Plans), a male aged 65 in 2014 is expected to live for a further 21.9 years (31 December 2013: 21.9 years) whilst a woman aged 65 would live for a further 24.2 years (31 December 2013: 24.1 years). This is assumed to increase by 1.3 years (6%) for a male and 1.5 years (6%) for a female aged 65 in 2034.

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 £15.6 million, or 2%, and a 0.1 percentage point increase to inflation would increase the liabilities on these plans by £11.1 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 £36.2 million, or 4%.

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 allow each cash payment to members to be made when due. In 2014 the Melrose Group made annual contributions of £18.5 million in total (2013: £18.5 million) to the two remaining UK plans within the FKI businesses and £5.2 million (2013: £5.2 million) to the McKechnie UK Pension Plan. In addition, £8.1 million was paid into the disposed Bridon Group (2013) Pension Plan.

In 2015 the Group expects to contribute £20.0 million to the FKI UK Plans and £5.2 million to the McKechnie UK Pension Plan.

The Melrose Board recognises that pension plan liabilities need to exit the Group as businesses are sold. 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 2014 was £501.3 million compared to £140.8 million a year earlier. The level of net debt and leverage at both year ends was lower than the normal level because disposals had been completed during the year but the associated returns to shareholders did not occur until after the year end.

On 11 July 2014 the Group's financing facilities were renegotiated to improve the existing terms and to extend the maturity date from 29 June 2017 to 11 July 2019.

The Group previously had a committed term loan held in two tranches of £180 million and US $290 million. As part of the renegotiation the US $290 million term loan tranche was converted into a revolving credit facility and now exists along with the £741.5 million and €300 million revolving credit facilities that were already in place. The remaining Sterling term loan is subject to mandatory 5% repayments on 11 July 2017, 11 July 2018 and 11 January 2019.

The banking facility continues to have two financial covenants, a net debt to headline EBITDA covenant (debt cover 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 2014.

The first of these covenants, which calculates net debt at average rates during the year, is set at 3.5x leverage or lower for each of the half yearly measurement dates for the remainder of the term. At 31 December 2014 it was 1.7x (31 December 2013: 0.5x), but it would have been 2.5x on a proforma basis when allowing for the Return of Capital that will occur in March 2015.

The interest cover covenant is unchanged, at 4.0x or higher throughout the life of the facility. At 31 December 2014 it was 15.3x (31 December 2013: 11.8x).

The drawdown of the facilities are made in the core currencies of the Group, being US Dollar, 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 £70.5 million at 31 December 2014 (31 December 2013: £200.4 million) and are offset against gross debt of £571.8 million (31 December 2013: £341.2 million) to arrive at the net debt position of £501.3 million (31 December 2013: £140.8 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 considers carefully its counterparty risk with banks when deciding where to place the cash on deposit held within the Melrose Group.

Finance Director's review continued

Finance cost risk management

The Group remained in a net debt position at 31 December 2014. Drawdowns under the amended facilities bear interest at interbank rates of interest plus a margin. The margin ranges between 0.75% and 1.90% (previously 1.40% to 2.65%), determined by reference to the Group's debt cover ratio.

At the beginning of 2014 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 cost on US $246.8 million, £336.8 million and €200.0 million of debt.

During the year, following the disposal of Bridon, a €50.0 million interest rate swap arrangement was closed out. This left swap arrangements in place fixing the interest rate cost on US $246.8 million, £336.8 million and €150.0 million of gross borrowings at 31 December 2014.

Subsequent to the Balance Sheet date, to ensure that the Group protected between 70% and 80% of gross borrowings from exposure to changes in interest rates following the Return of Capital in March 2015, further swap arrangements have been closed out and new arrangements placed. The new swap arrangements provide protection through to July 2019 and require the Group to pay, annually in arrears, a weighted blended fixed finance cost of 0.92% (31 December 2013: 0.70%) for US Dollar swaps, 0.06% (31 December 2013: 0.72%) on Euro swaps and 1.05% (31 December 2013: 0.91%) on Sterling swaps, plus the relevant bank margin which is currently 1.30% (31 December 2013: 2.25%).

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
2014	1.65	1.56
2013	1.56	1.66
Euro		
2014	1.24	1.29
2013	1.18	1.20

The effect on the key headline numbers in 2014 for the continuing Group due to the translation movement of exchange rates from 2013 to 2014 is shown below. The table illustrates the translation movement in revenue and headline operating profit if the 2013 average exchange rates had been used to calculate the 2014 results rather than the 2014 average exchange rates. In particular, the table illustrates an 8% headwind to headline operating profit in the year from the movement in foreign exchange rates.

The translation difference in 2014	£m
Revenue decrease	90.4
Headline operating profit decrease	19.5

Given the Group's largest exchange rate exposure is to the Euro, which makes up 40% of Group profits in 2014, current exchange rates, including the recent weakness of the Euro, mean there is a 5% headwind from currency into 2015.

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	6.2
For every 10 cent strengthening of the Euro against Sterling	8.1

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

Sensitivity of profit to translation and full transaction exchange rate risk	Increase in headline operating profit £m
For every 10 cent strengthening of the US Dollar against Sterling	8.4
For every 10 cent strengthening of the Euro against Sterling	4.3

No specific exchange instruments are used to protect against the 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, 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. 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.

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 and Performance Review sections of the Annual Report. In addition, the consolidated financial statements, and in particular notes 19 and 24, include details of the Group's borrowing facilities and hedging activities along with the processes for managing its exposures to credit risk, capital risk, liquidity risk, interest risk, foreign currency risk and commodity cost risk.

The Group has considerable financial resources and a breadth of end markets, both by sector and geographically, giving some balance to the 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
Group Finance Director
4 March 2015

Corporate Social Responsibility

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10. Energy Savings Opportunity Scheme
11. Supply chain assurance
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Internal communication initiatives foster a culture of openness.

1. 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 appropriate. 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. Furthermore, as a Group-wide policy and so far as particular disabilities permit, the Company and each of its businesses will, where practicable, give employees disabled during their period of employment continued employment in the same job, or 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. Where reasonable to do so, arrangements wll be made to enable disabled persons to carry out a specific role. 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. Melrose is proud to be a member of the Business Disability Forum, a not-for-profit member organisation that works with the business community to understand the changes required in the workplace in order that disabled people are treated fairly so that they can contribute to business success, to society and to economic growth.

World class manufacturing facilities and engineering.

The Group regards employee training and advancement as an essential element of industrial relations.

2. 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 that 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.

24%

of Melrose Group employees are women

Corporate Social Responsibility continued

Operators in Lotte, Germany, assembling precision electronic measurement devices for Elster Smart gas meters.

3. Employee initiatives

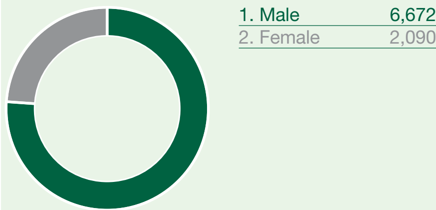
During 2014, the Group's businesses implemented a range of employee-related initiatives. Some of these are listed below:

- Recognising that leadership is critical to the success of its business, Brush UK has developed and implemented a Leadership Development Programme which has external accreditation to the Institute of Leadership & Management. It is structured to allow talent to develop and grow within the business. The programme has been designed to reflect the development needs of the organisation and through the Problem Solving Module participants identify a business improvement opportunity which creates a return on investment in the company. Participants present their opportunities to the Brush Executive to underline how they have applied their learning in the operational environment.
- The Brush Group launched a Customer Connection Programme in 2014 supporting its global vision statement 'The Vital Few'. The objective of the programme is to develop the employees' ability to exceed the expectations of both the internal and external customers and maximise these relationships. During the programme, employees identify a Customer Innovation Project which delivers a return on investment in the company and is presented to the Brush Executive at the end of the programme.
- In 2014, Brush UK launched a new Graduate Scheme, illustrating its commitment to recruiting bright minds and fresh talent for the future. The two-year graduate programme includes an overseas placement so that the graduates gain international experience within the organisation preparing them for a successful future with Brush. To ensure the success of this programme, Brush representatives attended a number of job fairs to promote the programme and discuss it with potential graduates. This included the Graduate Engineer and Science Show in London. Brush has also been active in the local community, attending careers fairs at local schools encouraging young people to consider engineering and manufacturing as a career choice. Such events also promote the employer branding of Brush in a wider sphere as an employer of choice.
- Brush continues to value the contribution that apprentices bring to the organisation and another 10 apprentices joined Brush UK in 2014 bringing the total current number of apprentices to 56 at various stages of their four year apprenticeship. The apprentice scheme is continually developing and evolving to bring together a blend of technical training, academic learning and personal development to create a future talent pipeline for Brush.
- Brush takes the health and well-being of its employees very seriously and has continued to develop and enhance its Occupational Health Service, which is available to employees five days a week. The service can make referrals to doctors, physiotherapists or counselling services as required to ensure that the business supports its employees through any periods of absence or illness. Health promotion is a key feature of the service that is continually developing through awareness campaigns, which in turn has a positive impact on both the employee and the business.
- Elster Electricity introduced new internal communication initiatives in 2014; a further step in fostering a culture of clear and open communication. In September 2014, the first global webcast (Electricity*LIVE*) took place, hosted by the global management team. The first global newsletter, Electricity*CurrentAffairs*, containing contributions from employees worldwide, was distributed in December 2014. Specialised newsletters are also issued bi-monthly, providing employees with important business facts and news regarding the software business.
- Elster Electricity's 2014 Global Leadership Development Programme involved two strategy workshops, two training sessions on change management and a four-day training session on leadership for 42 employees.
- Two Elster Gas leadership conferences were held in 2014. These were attended by senior management, managing directors and other executives from across the Elster Gas businesses. The conferences involved knowledge sharing and discussions on business priorities and strategic targets.
- Elster Gas conducted their first international employee engagement survey in 2014 covering the major parts of the business. Teams were set up to work on the analysis and evaluation of the survey results and the development of action plans, in order to improve employee engagement.
- Elster Water launched an improved performance management system in 2014 to ensure that all employees are aware of the business objectives and how they individually contribute to the success of the business.

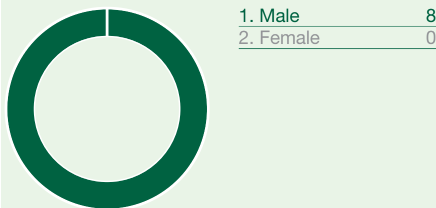
4. Gender diversity

The charts below show the total number of males and females working within the Group as at 31 December 2014.

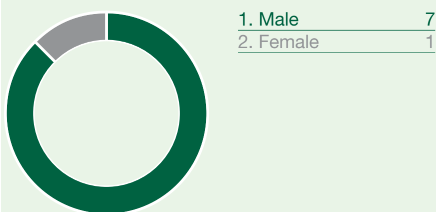
Total Group employees



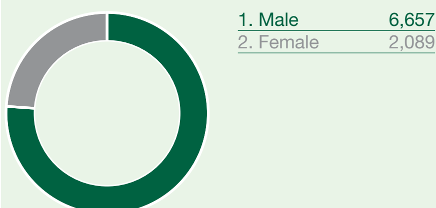
Senior managers(1)



Melrose Industries PLC Board



Other employees



(1) Defined as senior head office employees of Melrose Industries PLC, located in the London, Birmingham and Atlanta offices.

5. Health and 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. Defined and business specific health and safety key performance indicators are also used within the Group's businesses.

Reports detailing business unit performances in relation to three health and safety KPIs (Major Accident Frequency Rate; Accident Frequency Rate; and Accident Severity Rate) are presented to the Board and reviewed at each quarterly Board meeting.

There were no issues or concerns identified by the Melrose Board during 2014. While no corrective measures were deemed necessary, the Board as always encourages business unit management to remain vigilant where employee and third party safety is concerned.

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

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. 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.

Health, safety and sustainability are integral to our business.

Corporate Social Responsibility
continued

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 divisional 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.

"Divisional managers are provided with detailed health and safety reports on a frequent basis."

6. Health and safety initiatives

During 2014, many of the Group's businesses implemented a range of health and safety initiatives. Some of these are listed below:

- During 2014, Brush UK implemented a behavioural safety programme to continue to evolve the very strong health and safety culture within the business. The programme focuses on developing a proactive approach among Brush employees so that they increase their responsibility and accountability for their own and their working group's actions while ensuring they intervene at the earliest opportunity to stop an unsafe act or correct an unsafe condition.
- The business has recognised the following benefits:
  - A 100% reduction in reportable accidents to the Health and Safety Executive;
  - An engaged workforce in matters relating to health and safety;
  - A clear demonstration of the Brush management's intentions to continually improve the standard of health and safety within the business; and
  - A recognition that a strong health and safety culture can have a positive impact on the growth and brand value of the business.
- Elster Electricity carried out numerous health and safety initiatives in various countries in 2014. This included an initiative at Elster Electricity UK which provided training and awareness in key areas including fire marshalling, first aid, manual handling, safety management and risk control.
- In Brazil, personal safety procedures for risk areas were implemented and weekly five minute health and safety talks were held with all production employees at Elster Electricity's Mexican site. In the US, safety audits were conducted by an external third party to provide a safer working environment for all employees.
- Following the highly successful implementation and external audit of the OHSAS 18001 system in Romania in October 2014, and to support Elster Electricity's increased commitment to Occupational Health and Safety (OHS), OHSAS 18001 will be further implemented within EMEA and externally audited throughout 2015. This initiative demonstrates Elster Electricity's continued commitment to employee well-being.
- It is a policy of Elster Gas that all major manufacturing plants are certified to OHSAS 18001 to promote world class health and safety practices. Several major plants are now accident free.
- During the year, the Accident Frequency Rate for the global Elster Gas business was reduced by 30% when compared with 2013. At the same time, the Accident Severity Rate saw a 50% reduction. The improvement in both metrics demonstrates the leadership's commitment to improving the welfare of all Elster Gas employees worldwide.
- Elster Water's 2013 comprehensive OHS review and improvement initiative was completed in H1 2014. Elster Water sites with assembly and/or test processes were re-audited after completion of minor improvements and confirmed compliant to national and international OHS standards.
- All operational processes are subject to continuous review by senior site management to confirm compliance to OHS standards. Elster Water applies a "no-risk" tolerance in order to provide a safe and clean work environment for all its employees.

7. The environment

The Melrose Board fully understands the importance of the Group's environmental responsibilities. Each of the Company's businesses is committed to ensuring that their operations have a minimum possible adverse effect on the environment.

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 using KPIs in order that each of the businesses can plan for ongoing reductions.

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

8. Environmental initiatives

During 2014, many of the Group's businesses implemented a range of environmental improvement initiatives. Some of these are listed below:

- Brush UK focused on making further energy savings. Savings were made in gas consumption (19% saving from 2013) and electricity consumption (0.5% saving from 2013). Lighting initiatives across the Loughborough site have generated savings in certain working facilities of between 47% and 72%.
- To increase awareness of environmental management and to complement the existing ISO 14001 certifications at the operations in Romania, the UK, and Russia, standardised processes are being implemented across Elster Electricity. To ensure best practice and transparency, these new processes will continue to be aligned with ISO 14001 and will be externally audited.
- Elster Electricity constantly increases product features while optimising its power consumption, having a positive impact on energy saving, energy distribution costs and energy management features. Elster EnergyICT, a unit within Elster Electricity, offers utility-grade energy management software solutions. These help to reduce their clients' energy consumption by up to 30%.
- At Elster Electricity in Mexico, a "tree day" was held in 2014 which involved the donation of trees for reforestation.
- It is a policy of Elster Gas that all major manufacturing plants are certified to OHSAS 14001 to promote world class environmental behaviour. In several countries the 2013 certifications were renewed following audit approvals. In the first quarter of 2014, both facilities in Germany were certified.
- A comprehensive environmental measurement and reporting system was introduced for all Elster Gas manufacturing operations which tracks six key KPIs as part of the monthly operations review. The KPIs measure electricity consumption, gas consumption (and hence together CO_2), water consumption, solid waste generation (and % recycled), liquid waste generation and Volatile Organic Compounds (VOCs) emissions. Performance against these KPIs improved in 2014.
- Elster Water meters and radio equipment contain lithium batteries. These batteries are defined as dangerous goods under the 'UN Recommendations on the Transport of Dangerous Goods'. Elster Water, together with its logistics partners, have implemented appropriate processes to ensure compliance with these UN Recommendations.

Corporate Social Responsibility
continued

Global GHG emissions data for period 1 January – 31 December 2014

(tonnes CO_2e[1] unless stated)

Emissions sources:	2014	2013[2]	Change
Combustion of fuel and operation of facilities	18,985	23,237	-18%
Electricity, heat and steam purchased for own use	9,380	12,036	-22%
Overseas electricity[3]	26,741	29,642	-10%
Company's chosen intensity measurement:			
Emissions reported above normalised to tonnes per £1,000 turnover	0.040	0.044	-9%

(1) CO_2e – carbon dioxide equivalent, this figure includes greenhouse gases in addition to carbon dioxide.
(2) Excluding Bridon emissions.
(3) The emissions associated with overseas electricity are presented in tonnes carbon dioxide only as per the DEFRA guidance.

9. Greenhouse gas emissions

This greenhouse gas (GHG) report has been prepared for the reporting period of 1 January 2014 to 31 December 2014.

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

We have 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).

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

The reported emissions cover all entities over which the organisation had financial control for a period of at least one year as of 31 December 2014. Emissions from entities acquired or disposed of during the reporting period (i.e. disposed of before 31 December 2014 or acquired after 1 January 2014) are not accounted for in the report. Therefore, the data from the Bridon business unit has not been included within the reported GHG data, as this business was divested during 2014. One business was acquired during the reporting period, Eclipse, and the emissions from this business unit will be included in the 2015 report.

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.

The financial reporting year of 2013 was the first year in which the Company had been required to disclose its GHG emissions data within the Annual Report and represents the baseline against which the subsequent emission data sets will be based. The main change in the data compared to the baseline data, as presented in the table above, is due to the divestment of the Bridon business unit in 2014; the Bridon group represented approximately 45% of the total GHG emissions reported in 2013. Other, smaller changes have resulted from the closure and relocation of activities from some sites and general efficiency savings and improvements at a number of other sites.

Given that the Melrose business model is to acquire and divest businesses over a 3-5 year timeframe, there may be significant year on year changes in the reported emissions data which may not reflect the underlying GHG performance of the Group's businesses.

10. Energy Savings Opportunity Scheme

The Energy Savings Opportunity Scheme ("ESOS") Regulations 2014, which transpose Article 8 of EU Directive 2012/27/EU on energy efficiency and came into force on 17 July 2014, are intended to help deliver part of the EU's 20% improvement in energy efficiency. The ESOS Regulations require qualifying organisations to measure energy consumption, evaluate energy efficiency, identify management opportunities, store data and notify the Environment Agency by 5 December 2015 that an ESOS compliance audit has been completed.

Melrose is working with environmental and energy efficiency specialists, CMR Consultants, to ensure that the Group meets its ESOS compliance obligations.

11. 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.

12. 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 dealing with matters such as human rights. All employee policies are also prepared 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 and Performance Review, as set out on pages 02 to 57, have been approved by the Board.

On behalf of the Board

Simon Peckham
Chief Executive
4 March 2015

The Brush Group has been involved in high class engineering and manufacturing for more than 125 years.

Governance

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Governance overview

Christopher Miller
Chairman

Introduction from the Chairman

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 UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council (the "FRC") and available to view on the FRC's website at: https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx. The UK Code was previously dated September 2012 and was updated by the FRC in September 2014. Although the updated version of the UK Code only applies to financial periods beginning on or after 1 October 2014, Melrose welcomes the changes to the UK Code and therefore will be seeking to comply with them earlier than formally expected.

In support of this commitment, the Board carried out a number of actions during 2014 designed to ensure that Melrose remains compliant with the provisions of the UK Code and also to enable continuous improvement in line with best practice corporate governance guidelines.

Risk management

In 2014, the Board initiated a root and branch audit of the risk management framework and underlying processes in operation in every business in the Melrose Group. Following on from this audit, external risk consultants BDO LLP have been engaged to support the Group in developing an enhanced risk framework and in implementing a programme to promote and embed a more risk-aware culture across the organisation. As part of this programme, the Group's risk strategy and the Board's risk appetite will be reviewed and, if deemed appropriate, refreshed. Further details on this can be found on pages 36 to 41 of the Annual Report.

Remuneration

The revised UK Code provides that greater emphasis should be placed on ensuring that remuneration policies are designed with the long-term success of the Company in mind. This is a belief that the Melrose Board has always held. Our remuneration philosophy is that executive remuneration should be simple and transparent, support the delivery of the business strategy and pay for performance. This belief is reflected in our remuneration structure. Base salaries are set at the lower end of a competitive range, the annual bonus is deliberately positioned below the median maximum opportunity for comparable companies and payments under the single long-term

Board structure

Christopher Miller
Executive Chairman

David Roper
Executive Vice-Chairman

Simon Peckham
Chief Executive

Geoffrey Martin
Group Finance Director

Perry Crosthwaite[1]
Senior non-executive Director

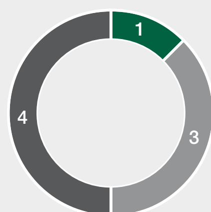
Audit Committee

- John Grant, Chairman
- Perry Crosthwaite
- Justin Dowley
- Liz Hewitt

Nomination Committee

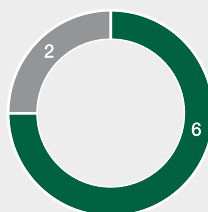
- Liz Hewitt[2], Chairman
- Perry Crosthwaite
- Justin Dowley
- John Grant
- Christopher Miller

Board composition



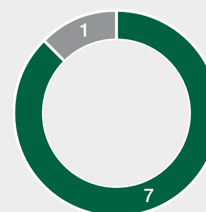
Executive Chairman	1
Executive Directors	3
Non-executive Directors	4

Industry background



Finance	6
Industry	2

Board diversity



Male	7
Female	1

incentive arrangement are entirely dependent upon shareholder value generated over a five year period. Rather than successive one year LTIP schemes, we believe that a five year scheme is preferable in that it is closer to a typical ownership cycle for an acquired business. We believe that this remuneration strategy has directly driven Melrose's historical out-performance of the market, supported the Company's success and clearly led to increased shareholder value.

A further change to the UK Code provides that companies should put in place arrangements that will enable the recovery or withholding of variable pay. Malus[(1)] has always applied to the Melrose long-term incentive plan and the annual bonus scheme. The Company will introduce a clawback provision for the annual bonus scheme with effect from the 2014 annual bonus. In addition, clawback will apply to any new long-term incentive arrangements awarded to executive Directors of Melrose, in line with best practice.

Engagement with shareholders

During the second half of 2014 and continuing into 2015, the Company has launched a programme of engagement with major investors and the governance bodies in respect of our remuneration policy and incentive arrangements. The Board is pleased with the support and constructive feedback throughout these discussions and it is our intention to continue this programme for the foreseeable future.

Christopher Miller
Executive Chairman
4 March 2015

(1) Malus is defined in the CEBS (Committee of European Banking Supervisors) Guidelines on Remuneration Policies and Practices as "an arrangement that permits the institution to prevent vesting of all or part of the amount of a deferred remuneration award in relation to risk outcomes or performance".

Main responsibilities of the Board:

- 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.

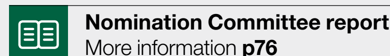
Governance

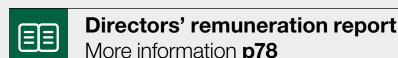
Justin Dowley
Non-executive Director

John Grant
Non-executive Director

Liz Hewitt
Non-executive Director

Audit Committee report
More information **p72**


Nomination Committee report
More information **p76**


Directors' remuneration report
More information **p78**

Remuneration Committee

- Justin Dowley[(3)], Chairman
- Perry Crosthwaite
- John Grant
- Liz Hewitt

(1) Perry Crosthwaite assumed the position of Senior non-executive Director at the conclusion of the 2014 AGM following the retirement of Miles Templeman.
(2) Liz Hewitt became Chairman of the Nomination Committee at the conclusion of the 2014 AGM following the retirement of Miles Templeman.
(3) Justin Dowley replaced Perry Crosthwaite as Chairman of the Remuneration Committee at the conclusion of the 2014 AGM.

Board of Directors

Christopher Miller
Executive Chairman

Year appointed
Appointed as Executive Chairman on 29 May 2003.

Skills and experience
Christopher brings to the Board a wealth of experience gained from his involvement in manufacturing industries and private investment.

A chartered accountant, Christopher qualified with Coopers & Lybrand, following which he was an Associate Director of Hanson plc. In September 1988, Christopher joined the board of Wassall PLC as its Chief Executive. Between October 2000 and May 2003, Christopher was involved in private investment activities.

Board meetings attended
4/4

Other appointments
–

Committee membership
Nomination

Independent
Not applicable

David Roper
Executive Vice-Chairman

Year appointed
Appointed as Executive Vice-Chairman on 9 May 2012, having previously been Chief Executive from May 2003.

Skills and experience
David provides experience gained from his roles in corporate finance, management of manufacturing industries and private investment.

A chartered accountant, David qualified 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, David was appointed to the board of Wassall PLC and became its deputy Chief Executive in 1993. Between October 2000 and May 2003, David was involved in private investment activities and served as a non-executive Director on the boards of two companies.

Board meetings attended
4/4

Other appointments
–

Committee membership
–

Independent
Not applicable

Simon Peckham
Chief Executive

Year appointed
Appointed as Chief Executive on 9 May 2012, having previously served as Chief Operating Officer from May 2003.

Skills and experience
Simon provides expertise in equity finance, corporate transactions and management of manufacturing industries.

Simon qualified as a solicitor in 1986, following which, in 1990, he joined Wassall PLC, where he became an executive Director in 1999. From October 2000 until May 2003, Simon worked for the equity finance division of The Royal Bank of Scotland and was also involved in several high profile transactions.

Board meetings attended
4/4

Other appointments
–

Committee membership
–

Independent
Not applicable

Geoffrey Martin
Group Finance Director

Year appointed
Appointed as Group Finance Director on 7 July 2005.

Skills and experience
Geoffrey provides expertise in corporate finance, management and corporate restructuring.

A chartered accountant, Geoffrey qualified with Coopers & Lybrand, where he worked within the corporate finance and audit departments.

In 1996, Geoffrey 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

Other appointments
–

Committee membership
–

Independent
Not applicable

Perry Crosthwaite
Senior non-executive Director(1)

Year appointed
Appointed as a non-executive Director on 26 July 2005.

Skills and experience
Perry has financial expertise gained through a distinguished career in investment banking with 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.

Board meetings attended
4/4

Other appointments
Chairman of Jupiter Green Investment Trust PLC
Non-executive Director of Investec Limited and Investec plc

Committee membership
Audit
Nomination
Remuneration(1)

Independent
Yes

John Grant
Non-executive Director

Year appointed
Appointed as a non-executive Director on 1 August 2006.

Skills and experience
John brings financial expertise and global executive experience gained from a variety of senior 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.

Board meetings attended
4/4

Other appointments
Non-executive Director of MHP S.A. and Pace plc
Chairman of The British Racing Drivers' Club Limited

Committee membership
Audit (Chairman)
Nomination
Remuneration

Independent
Yes

Justin Dowley
Non-executive Director

Year appointed
Appointed as a non-executive Director on 1 September 2011.

Skills and experience
Justin has extensive experience within the banking, investment and asset management sector.

A chartered accountant, Justin qualified with Price Waterhouse and was latterly Vice Chairman of EMEA Investment Banking, a division of Nomura International plc. He was also a founder partner of Tricorn Partners, Head of Investment Banking at Merrill Lynch Europe and a Director of Morgan Grenfell.

Board meetings attended
4/4

Other appointments
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

Committee membership
Audit
Nomination
Remuneration (Chairman)(2)

Independent
Yes

Liz Hewitt
Non-executive Director

Year appointed
Appointed as a non-executive Director on 8 October 2013.

Skills and experience
Liz has extensive business and financial experience gained from senior roles in international companies.

A chartered accountant, Liz qualified 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, she was Group Director of Corporate Affairs for Smith & Nephew plc.

Board meetings attended
4/4

Other appointments
Non-executive Director of Novo Nordisk A/S and Savills plc

Committee membership
Audit
Nomination (Chairman)(3)
Remuneration

Independent
Yes

(1) Perry Crosthwaite assumed the position of Senior non-executive Director at the conclusion of the 2014 AGM and resigned as Chairman of the Remuneration Committee.
(2) Justin Dowley became Chairman of the Remuneration Committee at the conclusion of the 2014 AGM.
(3) Liz Hewitt became Chairman of the Nomination 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 2014.

The Corporate Governance report set out on pages 68 to 71, the Finance Director's review on pages 42 to 49 and the Corporate and Social Responsibility section of the Performance Review on pages 50 to 57, 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 (the "DTRs") 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 Performance Review.

Directors

The Directors of the Company as at the date of this report, together with their biographical details, are given on pages 62 and 63.

Changes to the Board during the year are set out in the Corporate Governance report on pages 68 to 71. Details of Directors' service contracts are set out in the Directors' remuneration report on page 93.

The Statement of Directors' responsibilities in relation to the consolidated financial statements is set out on page 96.

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 contained in the Articles. Therefore, all Directors will offer themselves for re-election at the AGM to be held on 14 May 2015.

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 2014, 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. 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 their 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 11.00 am on 14 May 2015. The notice convening the meeting is shown on pages 156 to 161 and includes full details of the resolutions to be proposed, together with explanatory notes in relation to such resolutions.

Post Balance Sheet events

In November 2014, the Company completed the disposal of its Bridon business for an enterprise value of £365 million (see note 9 to the financial statements for further details), representing the latest step in realising value for the FKI businesses acquired by Melrose in 2008. In accordance with its strategy, the Board decided to use part of the net proceeds of the disposal to return £200 million in cash to shareholders (the "Return of Capital"). At the time of such decision, this return was equivalent to 18.7 pence per existing Ordinary Share of 13/110 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 20 February 2015, 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 18.7 pence per Existing Ordinary Share as:

- an income payment (the ''Income Option''); or
- a capital payment (the ''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 a combination of the Share Alternatives.

Only shareholders who were on the register of members at 5.00 pm on 20 February 2015 (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 pm on 27 February 2015.

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 18.7 pence per C Share held. The single C Share dividend became due and payable on 2 March 2015 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 will be paid to relevant shareholders and the C Deferred Shares will be automatically redeemed by the Company on 16 March 2015.	687,786,937
Capital Option	Relevant shareholders received one B Share, with a nominal value of 18.7 pence, for every Existing Ordinary Share held at the B/C Share Record Date, and had such B Share(s) redeemed by the Company on 2 March 2015. Proceeds in respect of the Capital Option will be paid to relevant shareholders on 16 March 2015.	383,974,411

(1) The Capital Option was not 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 the 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, an Ordinary Share capital consolidation was approved by shareholders at the general meeting of the Company held on 20 February 2015, in the ratio of 13 for 14 (the "Share Capital Consolidation"), and the record date for the Share Capital Consolidation was 6.00 pm 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 13 shares of 1/110 pence each in the capital of the Company and, forthwith upon such sub-division, the consolidation of every 14 shares of 1/110 pence each in the capital of the Company resulting from such sub-division into one new ordinary share of 7/55 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 2013, 31 December 2014 and immediately following the Share Capital Consolidation on 20 February 2015, are set out within the sections below. 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 2013, 31 December 2014 and immediately following the Share Capital Consolidation becoming effective on 23 February 2015.

Share class	31 December 2013	31 December 2014	23 February 2015 (post the Share Capital Consolidation)
Former Ordinary Shares of 0.1 pence each	1,266,627,036	Nil	Nil
Existing Ordinary Shares of 13/110 pence each	Nil	1,071,761,339[1]	Nil
New Ordinary Shares of 7/55 pence each	Nil	Nil	995,206,966[2]

(1) Fractional entitlements resulting from the Share Capital Consolidation effective on 10 February 2014 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 Bank plc 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 in the ratio of 11 for 13 approved by shareholders at the general meeting of the Company held on 7 February 2014.

(2) Fractional entitlements resulting from the Share Capital Consolidation effective on 23 February 2015 were aggregated and sold in the market. The aggregated proceeds of sale, net of commission, were donated to a charity nominated by the Board, the Rainbow Trust. 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, Nine Existing Ordinary Shares were allotted and issued to Investec Bank plc on 3 February 2015 at 266.8 pence per share, being the closing middle-market price of an Existing Ordinary Share on 2 February 2015. These Ordinary Shares were subject to the Share Capital Consolidation and were entitled to participate in the Return of Capital.

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 81 to 82 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 they hold.

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 20 February 2015, 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 2014, the following voting interests in the Ordinary Share capital of the Company, disclosable under DTR 5, had been notified to the Directors:

Shareholder	Shareholding	% of Ordinary Share capital
BlackRock, Inc.	104,103,286	9.71
Schroders plc	59,672,074	5.57
Legal & General Group Plc	53,881,949	5.02
Aberdeen Asset Managers Limited	53,456,498	4.99

Between 1 January 2015 and 3 March 2015, the following voting interests in the Ordinary Share capital, disclosable under DTR 5, were notified to the Directors:

Shareholder	Shareholding	% of Ordinary Share capital
Schroders plc	46,308,210	4.32

Shareholder dividend

The Directors are pleased to recommend the payment of a final dividend of 5.3p per share (2013: 5.0p) on 18 May 2015 to Ordinary shareholders on the register of members of the Company at the close of business on 17 April 2015. This dividend recommendation will be put to shareholders at the forthcoming AGM of the Company, to be held on 14 May 2015. Subject to shareholder approval being obtained at the AGM for the final dividend, this will mean a full year 2014 dividend of 8.1p per share (2013: 7.75p).

In November 2014, the Company completed the disposal of its Bridon business for an enterprise value of £365 million (see note 9 to the financial statements for further details), representing the latest step in realising value for the FKI businesses acquired by Melrose in 2008. In accordance with its strategy, the Board decided to use part of the net proceeds of the disposal to return £200 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 20 February 2015. 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 credit risk, liquidity risk, cash flow risk, exchange rate risk, contract and warranty risk and commodity cost risk, can be found in the Finance Director's review on pages 42 to 49, 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 2014, investment continued and several new product launches were either realised during 2014, or planned for 2015. 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 business reviews on pages 28 to 35 of the Performance Review.

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 2014 are shown on pages 51 and 52 of the Corporate Social Responsibility section of the Performance Review, 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 55 and 56 of the Corporate Social Responsibility section of the Performance Review, 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 2014 (2013: nil).

Disclosures required under Listing Rule 9.8.4R

No information is required to be disclosed by the Company in respect of Listing Rules 9.8.4R (1) to (14).

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 4 March 2015.

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 was subsequently amended in July 2014 and extended for five years from that date. This 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.

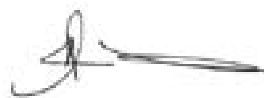
In the event of a takeover of the Company, options over the 2012 Incentive Shares would be exercised and any 2012 Incentive Shares resulting from such exercise, or that have previously been issued, would convert into Ordinary Shares of 7/55 pence or an entitlement to a dividend paid in cash, the rate 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 2014 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 re-appoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration.

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



Adam Westley
Company Secretary
4 March 2015

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 2014, 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 81 and 82 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 pages 60 and 61.

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 70. In addition, a number of unscheduled Board meetings were held during the year in connection with corporate transactions, for example, business acquisitions and divestments and, since the year end, 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 Board, Committee or Business Review 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 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 2014, the non-executive Directors, led by the current Senior non-executive Director, Perry Crosthwaite, 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 4 March 2015, the Board comprised an executive Chairman, three other executive Directors and four 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 62 and 63 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.

The Board notes that Perry Crosthwaite, who was appointed as a non-executive Director on the Melrose Board in July 2005 and first elected at the 2006 AGM, will have served three terms totalling nine years at the time of the 2015 AGM. However, the Board is of the opinion that, due to his invaluable experience in financial and other corporate matters, Perry 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 Perry 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. 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, see below, 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 was organised to the Elster Gas operations in Germany (see below).

Board visit

In October 2014, the Board visited Elster Gas in Lotte, near Osnabrück, Germany, which in 2012 had received the German Global Excellence in Operations award. Meetings were held with senior management from across the Elster Gas business and a tour of the production facility was complemented by presentations covering:

- the history of Elster Gas, the scope of its operations and the global product range;
- the business transformation post-acquisition by Melrose;
- the future strategy of Elster Gas; and
- human resource management across the business unit.

Board evaluation

Evaluation approach and process

During 2014, the Chairman held meetings with each of the Directors, including the Senior non-executive Director, Perry Crosthwaite, to discuss the performance of individual executive Directors and the Board as a whole. Following positive feedback from Directors over the process adopted for the 2013 evaluation exercise, the Board decided once again to engage 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 is a specialist corporate governance consultancy and, other than supporting the Audit Committee in its assessment of the effectiveness of the external auditor, has no commercial dealings or other connection with the Melrose Group.

The first stage of the evaluation involved a review by the Board of what had been delivered in 2014 against the outputs and actions agreed from the 2013 evaluation exercise.

Actions agreed from the 2013 evaluation	What we delivered in 2014
To incorporate into the Board schedule visits to major operating businesses and periodic sessions with senior management from those business units.	In October 2014, the Board visited the award winning/class leading Elster Gas factory in Osnabrück, Germany (see above).
To increase the frequency of management presentations to the Board.	In addition to a series of presentations delivered by the Elster Gas management team during the Board's site visit to Osnabrück, the Board also received a comprehensive business briefing from the leadership team of Elster Electricity.
To devote further Board time to discussions on talent management and executive and non-executive Director succession planning.	Executive and non-executive Director succession planning, talent management and senior executive career planning were considered by the Board at a dedicated session held in December 2014. It is intended that these issues remain a core focus for the Board and that they be reviewed on an annual basis.
To further enhance the Board's understanding of risk identification and management.	At the Board's instruction, an audit was undertaken of the risk management processes in operation across the Group. Following this audit, a new risk management framework is being developed and will be implemented throughout the Group during 2015 (see pages 36 to 37).

The second stage of the 2014 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 questionnaires tailored to the specific circumstances of Melrose.

The Board was 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.

Corporate Governance report
continued

Lintstock subsequently produced a report which addressed the following areas:

- The composition of the Board, its expertise and dynamics;
- The performance of the Board since the last evaluation exercise;
- The Board's time management, the annual cycle of work and the support afforded to the Board;
- The performance of the Board Committees and of the Chairman and Senior non-executive Director;
- The Board's oversight of strategy, its understanding of the Company's performance relative to its competitors and the key strategic issues facing the Group over the next three to five years;
- The Board's oversight and management of risk and internal control; and
- The succession planning for the executive Directors and for senior management at the level below the Board and the Board's visibility of potential successors from within the business.

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

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 continued to be very effective.

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

- On the importance of planning for executive Director succession and managing the succession of non-executive Directors;
- To continue its focus on risk management and internal control and to clearly delineate accountabilities for risk management between the Board and the Audit Committee;
- That it should continue with its visits to major operating units to ensure that it develops and maintains a sound knowledge of the businesses, is visible to the operations and has access to a broad group of executives and employees;
- To increase the frequency of management presentations so that the Chief Executive of each business reports to the Board annually; and
- That the format and content of the management information provided to the Board should be reviewed. Increased market information and intelligence was also requested.

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 2014 Annual General Meeting. The Articles 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 re-election at the 2015 Annual General Meeting, to be held on 14 May 2015.

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.

The table also shows attendance at Business Review meetings held between scheduled Board meetings.

Attendance of Directors

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

(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) Retired from the Board at the conclusion of the AGM on 13 May 2014.

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 2014 financial year and up to the date of approval of this Annual Report.

A separate Audit Committee report is set out on pages 72 to 75 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 38 to 41.

The Group's financial risk management objectives and policies are also described in the Finance Director's review on pages 42 to 49.

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.

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 72 to 75, 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 37 internal audit visits, covering 43% of Group turnover, were completed during 2014.

These visits include 30 Elster reporting units which, combined with the visits completed in 2013 and the planned visits for the first quarter of 2015, will ensure that 93% of the continuing Elster units will have been visited by internal audit since the 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 37 sites visited in 2014, four sites have been chosen for "re-visits" in 2015 to ensure that the agreed improvements to systems and processes have been implemented. During 2014, initial fair value audit visits were also completed on all Eclipse sites acquired during the year.

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.

During 2014, the Company updated its compliance policies and these are now in the process of being implemented across the Group. As part of these ongoing improvements, NAVEX Global was engaged to provide an externally facilitated whistleblowing hotline which is being made available during 2015.

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 78 to 80;
- the Annual Report on Remuneration, which can be found on pages 81 to 88; and
- a summary of the Directors' remuneration policy, which can be found on pages 88 to 95.

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	3/3
Miles Templeman(1)	1/1

(1) Retired from the Board at the conclusion of the AGM on 13 May 2014.

Role and responsibilities

The Audit Committee's (the "Committee") role and responsibilities are set out in its terms of reference. These were updated in August 2014 in line with best practice and 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 it can state 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 62 and 63.

Miles Templeman stepped down from the Committee following his retirement from the Board at the conclusion of the AGM on 13 May 2014.

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 2014, 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 2014 Annual Report and financial statements. Advised the Board that in its view, the 2014 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 2014

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, 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.
External auditor rotation The Group is required to comply with developing regulatory requirements in respect of external auditor rotation. As noted below, the external auditor is required to rotate the audit signing partner every five years. The Group's current audit signing partner is due to be replaced in the financial year ending 31 December 2015.	The Committee considered papers which highlighted the developing regulatory and governance framework and which highlighted the expected timeline and relevant impact on the Group. During 2014, the Committee considered a number of potential candidates for the role of new audit signing partner. A suitable candidate was selected and was formally introduced to the Committee. The new audit signing partner will take office following the conclusion of the audit process in respect of the financial year ended 31 December 2014.
Non-audit fees With effect from the 2017 financial year, the Group will be required to comply with new rules governing the level of non-audit services that may be awarded to the external auditor.	The Committee considered papers detailing the new rules and highlighting the impact on the Group. A policy on the engagement of the external auditor for the supply of non-audit services is in place and, in line with best practice, is subject to regular review. The Company is committed to complying with the rules and regulations governing the payment of non-audit fees.

Audit Committee report
continued

External audit

Appointment, re-appointment and assessment of effectiveness

The Committee reviews and makes recommendations with regard to the re-appointment 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 re-appointment.

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. For 2014, the Company engaged the services of Lintstock Limited, an independent corporate governance specialist, to support the assessment of Deloitte LLP's effectiveness and performance. Lintstock worked with the Chairman of the Committee and the Company Secretary to develop a series of questions covering the key areas of the audit process that the Committee is expected to have an opinion over, including:

- the calibre, continuity, experience, resources and technical and industry knowledge of the external audit team;
- the planning and execution of the audit process;
- the quality and timeliness of communications from the external auditor;
- the support provided to the Committee by the external audit partner; and
- the external auditor's independence and objectivity.

The Committee, along with relevant members of the management team, were requested to complete an online questionnaire containing these questions. Lintstock subsequently produced a report summarising the responses. Based on this report, the Committee concluded that the quality of the external audit team remains very high, 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 auditor 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 2015 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 intends to comply with the order issued by the Competition & Markets Authority relating to the statutory audit market for FTSE 350 companies, which came into effect on 1 January 2015, and will apply to financial years commencing on or after 1 January 2015. The current audit engagement partner's rotation is due in the year ending 31 December 2015. It is the Committee's understanding that under the EU rules, a formal tender process will be required to be held no later than two years from the end of the current rotation and that a rotation of external audit firm will be required by 2023. This matter will be kept under review.

Non-audit services

Under new EU and Competition Commission rules, effective from the 2017 financial year, the level of non-audit services awarded to the external auditor will need to be capped at 70% of the average audit fee for the previous three years.

The Company is committed to complying with the rules and regulations governing non-audit services. A policy on the engagement of the external auditor for the supply of non-audit services is in place 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 (it was re-examined during 2014); 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 2014, 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 have 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, where considered necessary, 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
4 March 2015

Nomination Committee report

Liz Hewitt
Nomination Committee Chairman

"Melrose is a meritocracy and individual performance is the key determinant in any appointment, irrespective of ethnicity, gender or other characteristic, trait or orientation."

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

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

(1) Appointed Chairman with effect from the conclusion of the AGM on 13 May 2014.
(2) Retired as Chairman with effect from the conclusion of the AGM on 13 May 2014.

Directors' remuneration report
More information **p78**

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 2014 the Committee met twice. The attendance of its members at these Committee meetings is shown above.

The Committee's terms of reference were reviewed and revised in August 2014. 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 2014 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 2014. The Committee was chaired by Miles Templeman until his retirement from the Board following the conclusion of the 2014 AGM on 13 May 2014. Miles Templeman was succeeded as chairman by Liz Hewitt. Perry Crosthwaite, John Grant and Justin Dowley also served on the Committee throughout the year. Christopher Miller, Executive Chairman of the Board, was also a member of the Committee throughout the year.

The Company Secretary acts as secretary to the Committee. On occasion, the Committee invites the Chief Executive, the Vice-Chairman and the Group Finance Director to attend discussions where their input is required.

Diversity

Melrose is a meritocracy and individual performance is the key determinant in any appointment, irrespective of ethnicity, gender or other characteristic, trait or orientation. The Board recognises the importance of diversity throughout the workforce, be it geographical, cultural or market aligned and encompassing gender, race, sexual orientation and disability, and it is committed to equality of opportunity for all employees. For example, Melrose is proud to support the Business Disability Forum, a body committed to understanding the changes required in the workplace so that disabled people are treated fairly and they can contribute to business success, to society and to economic growth.

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.

The Committee will endeavour to pursue diversity, including gender diversity, throughout the Melrose Group and notes the recommendations of Lord Davies' review, "Women on Boards". However, given the Company's strategic business model and the frequent turnover of businesses, the Committee does not think that setting and committing to specific diversity targets in relation to the composition of the Board, and the workforce in the wider businesses within the Group, is correct for Melrose.

What the Committee did in 2014

The principal focus of the Committee during 2014 has been to consider the items set out below:

- The Committee considered the composition and balance of the Board and the timing of future Board changes and reviewed the succession plans in place in respect of key executives in conjunction with the provisions of the UK Corporate Governance Code;
- The existing time commitment of Melrose non-executive Directors was reviewed and confirmed as appropriate;
- The Committee membership was reviewed and a recommendation made to the Board that no changes should be made in 2015;
- The independence of each non-executive Director was reviewed and a recommendation made to the Board supporting the Board's determination of non-executive Director independence;
- Consideration was given to the re-appointment of the Directors before making a recommendation to the Board regarding each Director's re-election at the 2015 AGM;
- A review of the leadership requirements of Melrose, both executive and non-executive, was undertaken and this confirmed that the existing management team is appropriate for the Group. This review also demonstrated that appropriate and effective leadership is in place within the business units and that processes are in place to ensure that performance is reviewed regularly against operational and financial criteria;
- The Committee examined the career planning and talent management programmes in operation across the Group and concluded that these were appropriate for the needs of the business;
- The Committee reviewed and re-affirmed the principles underlying the Company's diversity policy; and
- The Committee's terms of reference were revised during the year to ensure that these remain in line with best practice.

Liz Hewitt
Chairman, Nomination Committee
4 March 2015

Directors' remuneration report

Justin Dowley
Remuneration Committee Chairman

"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 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
Justin Dowley (Chairman)(1)	3/3
Perry Crosthwaite(1)	3/3
Miles Templeman(2)	2/2
John Grant	3/3
Liz Hewitt	3/3

(1) Justin Dowley was appointed Chairman of the Remuneration Committee with effect from the close of the 2014 AGM on 13 May 2014. Perry Crosthwaite was Chairman of the Remuneration Committee from 1 January 2014 until the close of the 2014 AGM.
(2) Miles Templeman retired as a non-executive Director of the Company with effect from the close of the 2014 AGM on 13 May 2014.

Board of Directors
More information **p62**

Dear Shareholder,
On behalf of the Board, I am pleased to present our report on Directors' remuneration, being my first report as Chairman of the Remuneration Committee. The Directors' remuneration report sets out the amounts earned in respect of the year ended 31 December 2014 and the remuneration policy for the Directors of Melrose.

As with the Directors' remuneration report for the year ended 31 December 2013, this report is 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 2014 and how the Directors' remuneration policy will be applied in 2015; the Annual Report on Remuneration will be subject to an advisory vote at the AGM. The Directors' remuneration policy sets out the policy that was approved by shareholders at the 2014 AGM and took binding effect from the conclusion of that meeting (in line with the regulations on the presentation and disclosure of Directors' remuneration which came into effect from October 2013), except that, as noted on page 88, we have not included the "illustrations of the application of Remuneration Policy". The approval of the Directors' remuneration policy is valid for three years (provided the Company does not intend to make changes to the policy within this period) and therefore shareholder approval of the policy is not required at the AGM scheduled for 14 May 2015. A key element of the Melrose remuneration framework is the Long-Term Incentive Plan, which had already been approved by special resolution of shareholders at a general meeting held in April 2012.

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. This philosophy is reflected in our remuneration structure.

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

- **Base salary:** Base salaries are paid at 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.

- **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 81%. The maximum opportunity is deliberately positioned below the median maximum opportunity for FTSE 250 companies and is a percentage of salaries that are paid at the lower end of a market competitive range compared to companies of similar size and complexity.
- **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 (the "LTIP"). Entitlements under the 2012 Incentive Plan, details of which are provided on page 85, were awarded in April 2012. Any payment made will be dependent upon shareholder value generated over a five year time period.

Rather than successive one year LTIP arrangements, we believe that a five year arrangement is preferable, given that it is closer to a typical ownership cycle for an acquired business. By its nature this means that any payment under the LTIP is only made once every five years and so the payment in that fifth year should not be regarded as an annual payment.

The LTIP arrangements are intended to directly align our executive Directors' incentive arrangements with those of shareholders by linking remuneration specifically to shareholder value. The LTIP structure is designed to ensure that only once shareholders have received a compound, annual, cash return in excess of RPI plus 2% does the LTIP have any value whatsoever. This means that the Melrose LTIP has a minimum growth requirement (effectively a charge) which requires the initial invested capital to be inflated by RPI + 2% per annum. The value payable to management under the LTIP comprises 7.5% of value created in excess of this minimum. The LTIP is then paid out to participants in pre-determined proportions, either in Ordinary Shares or (and only in certain circumstances which are within the complete control of the Remuneration Committee) as a cash dividend, with the total being equal in value to 7.5% (reduced from 10% in the equivalent 2009 plan) of the increase in shareholder value in excess of the minimum growth requirement from the date of grant to 31 May 2017. The formula by which growth is calculated, as set out in the Company's articles of association, takes account of every change to the capital structure and dividend payment. In this way, the participants will only receive a share of returns over and above that adjusted level. Under the 2012 Incentive Plan, the initial invested shareholder capital needs to grow by RPI +2% per annum before LTIP participants receive anything at all. After that return, shareholders will also receive 92.5% of any total value gain. We have included on pages 81 to 82 further information in relation to the 2012 Incentive Plan, including an illustration of how any increase in value would be shared between shareholders and participants in the plan.

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 when compared with our competitors, 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 and provide a strong platform for the ongoing long-term success of the Company.

Together with their own purchase of shares, the remuneration policy has also enabled the executive Directors to build up and retain significant shareholdings in the Company. As at 31 December 2014, the Chairman and Chief Executive held 92 and 51 times their base salary respectively in Melrose shares. Further detail is given on pages 84 to 85; however, the table below shows the number of Ordinary Shares held by the executive Directors as at 31 December 2014 and the value of each executive Director's shareholding at that date as a multiple of his 2014 base salary.

Executive Director	Number of shares held as at 31 December 2014	Value of shares held at 31 December 2014[1]	Value of shares held at 31 December 2014 as a multiple of 2014 base salary
Christopher Miller	14,934,282[2]	£39,844,644	92
David Roper	8,110,074	£21,637,677	50
Simon Peckham	8,373,288	£22,339,932	51
Geoffrey Martin	4,026,674	£10,743,166	31

(1) For these purposes, the value of a share is 266.8 pence, being the closing mid-market price on 31 December 2014.

(2) As at 31 December 2014, the interest of Christopher Miller included 5,719,999 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.

As noted on page 85, internal Company rules on shareholdings are extended to senior Melrose management in addition to the executive Directors in order that appropriate remuneration principles are applied to senior management on a similar basis to executive Directors.

Directors' remuneration report
continued

Our remuneration structure for non-executive Directors
A simple remuneration structure is applied for our non-executive Directors. Non-executive Directors are paid fees to reflect market conditions and attract individuals with appropriate knowledge and expertise. Fees for non-executive Directors are determined by the executive Directors; and our non-executive Directors do not participate in our pension arrangements, the annual bonus or our long-term incentive arrangement.

2014 key decisions and incentive pay-outs
The Remuneration Committee remains committed to a responsible approach to executive pay. As described in the Strategic Report and Performance Review sections of this Annual Report, the Company delivered strong financial and operational results in 2014. The executive Directors' remuneration rewards that performance.

Annual bonuses for executive Directors are calculated using two elements, 80% being based on diluted earnings per share growth and 20% on a strategic element. Having listened to our investors and a number of corporate governance advisers, and in the interests of transparency, greater levels of detail are included on the objectives and deliverables and on how the Remuneration Committee determined the level of award under the 2014 annual bonus.

In line with increases in previous years, an inflationary increase of 3% was made to the executive Directors' salaries with effect from 1 January 2014. This is consistent with the salary rises awarded to the wider head office population. Non-executive Directors' basic fees increased by 3% with effect from January 2014 and with effect from the 2014 AGM the additional fees payable to the committee chairmen and Senior non-executive Director (which had been unchanged since 2006) were increased as disclosed in last year's Directors' remuneration report.

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 2014.

Business unit Long-Term Incentive Plans
Long-term incentive plans are in place for the leadership of the Business units with pay-outs based on the performance of their respective businesses.

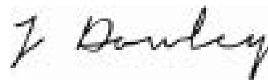
Approach to Directors' remuneration for 2015
The Directors' remuneration policy as approved by shareholders at the 2014 AGM is set out in the policy report on pages 88 to 95. Details of how the policy will be applied in practice for 2015 are set out in the Annual Report on Remuneration on page 87. Executive Directors' base salaries have been increased by 3% with effect from January 2015, the same as for other head office employees (other than where other such employees' salaries have been increased on a different basis to reflect individual circumstances such as promotions). Non-executive Directors' basic fees for 2015 have also been increased by 3%.

The overall framework for the executive Directors' annual bonus arrangements for 2015 will remain the same as in 2014, with a maximum bonus opportunity of 100% of salary, 80% of which is based on financial performance metrics and 20% of which is based on strategic performance metrics.

The Remuneration Committee has considered the application of malus and clawback to the executive Directors' variable remuneration opportunities, taking into account the views of our investors and the corporate governance advisory agencies and the recent changes to the UK Corporate Governance Code. The annual bonus arrangement is a discretionary arrangement and, therefore, any annual bonus opportunity is, effectively, subject to a "malus" provision over the course of the relevant year. Annual bonus awards for 2014 and future years will also be subject to a clawback arrangement giving the Remuneration Committee the ability to require repayment of some or all of any bonus earned in the event of: (1) material misstatement of financial results; (2) miscalculation of any performance measure on which the bonus earned was calculated; and (3) serious misconduct by the relevant participant. The Remuneration Committee will have discretion to apply clawback at any time up until the Annual General Meeting held in the second year following the payment of the bonus – for example, clawback may be applied in respect of any bonus earned in respect of performance in 2014 at any time up until the Annual General Meeting in 2017. The malus provisions applied to the 2012 Incentive Plan are referred to on page 82; clawback of some form will apply to the new long-term incentive arrangements which will replace, in 2017, the existing LTIP approved by special resolution of the shareholders in 2012.

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. Members of the Remuneration Committee are engaged in an ongoing dialogue with investors in order to understand more fully their views on Melrose's approach to executive remuneration.



Justin Dowley
Chairman, Remuneration Committee
4 March 2015

Annual Report on Remuneration

Introduction

Melrose's remuneration philosophy is that executive remuneration should be simple and transparent, support the delivery of the business strategy and pay for performance, which is reflected in our remuneration structure:

- fixed elements of remuneration (salary and pension) are positioned at the lower end of a market competitive range;
- annual incentive remuneration (annual bonus) is positioned below the median maximum opportunity for FTSE 250 companies; and
- long-term incentive remuneration (the 2012 Incentive Plan) is intended to directly align executive Directors' remuneration with that of shareholders by connecting remuneration specifically to shareholder value.

The Remuneration Committee strongly believes that this simple and transparent incentive framework is aligned with the Company's strategy for growth and that our remuneration arrangements are tailored to the culture and strategy of the Company.

The Annual Report on Remuneration sets out the amounts earned by Directors in 2014 as a result of the application of our remuneration philosophy and in accordance with the Directors' remuneration policy approved by shareholders at the 2014 AGM, and how that philosophy will be applied in 2015.

The 2012 Incentive Plan

In the interests of transparency and to illustrate how the 2012 Incentive Plan may operate, we have set out above an illustration of how the growth in value of the Company over the period from the start of that plan in March 2012 might translate into value earned by participants in that plan. It is important to note that the following illustration is theoretical only and the value derived under the 2012 Incentive Plan will be entirely determined by reference to the value that will be delivered to shareholders over the period to crystallisation.

Importantly, and as referred to in the Remuneration Policy on page 90, the calculation of the growth in value of the Company for the purposes of the 2012 Incentive Plan shall be determined in accordance with the formula set out in the Company's articles of association. Those articles provide that participants in the plan are entitled to 7.5% of the value created in excess of a minimum growth threshold, being the initial invested capital increased by RPI + 2% per annum. The formula by which growth is calculated, as set out in the Company's articles of association, takes account of every change to the capital structure and dividend payment. In this way, the participants will only receive a share of returns over and above that adjusted level. In the table above, we have shown an illustrative calculation of the increase in the value relevant for the purposes of the 2012 Incentive Plan, calculated in accordance with the principles in the Company's articles of association, but assuming a trigger date of 1 January 2015.

Theoretical value under the LTIP if crystallised on 31 December 2014 rather than on the 2017 scheduled payment date.

2012	
Invested capital from (and including) March 2012 up to (and including) December 2014 (see line 1 in box below)	£1,874,717,568
Index adjustment/Minimum return	£303,586,944
Indexed capital	£2,178,304,512
2014	
Number of issued Ordinary Shares on 31 December 2014	1,071,761,339
Average price of an Ordinary Share for 40 Business Days prior to 31 December 2014	£2.58905
Deemed market capitalisation of Melrose based on average price of an Ordinary Share for 40 Business Days prior to 31 December 2014	£2,774,843,695
Overall increase in value for shareholders since 22 March 2012	£596,539,183
Theoretical value to management and shareholder dilution calculated at 31 December 2014 (illustrative only)	
7.5% of increase in value	**£44,740,439**
Theoretical total number of new shares issued under LTIP[1]	17,280,639
Theoretical dilution to shareholders due to LTIP	**1.6%**

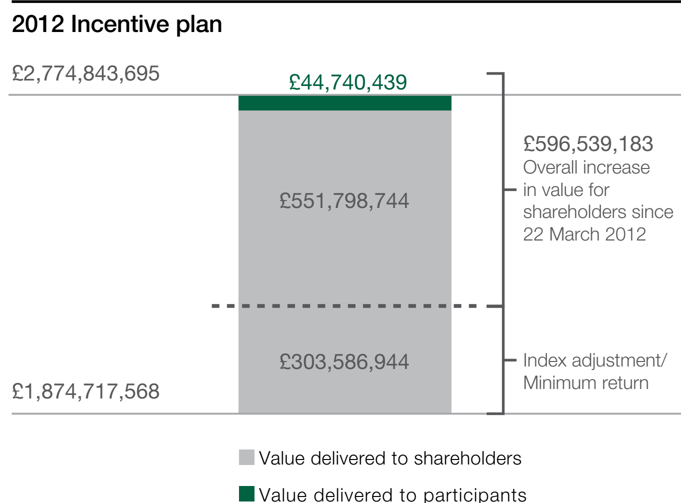
(1) The number of shares to be issued in accordance with this calculation differs to the diluted number of shares of 13.7 million disclosed in note 11. The difference arises due to the requirements of IAS 33 which stipulate that un-recognised future service costs for LTIPs (calculated in accordance with IFRS 2) should be deducted from the calculation of diluted shares for the purposes of Earnings per Share calculations.

Invested capital post return	Initial invested capital March 2012[1]	Dividend May 2012	New share issue August 2012	Dividend October 2012	Dividend May 2013	Dividend October 2013	Capital return February 2014	Dividend May 2014	Dividend October 2014	Total
Net shareholder investment (non adjusted) (£)	1,518,492,691	(32,840,728)	1,199,073,594	(32,932,303)	(63,331,352)	(34,832,243)	(595,314,707)	(53,588,067)	(30,009,317)	1,874,717,568
Net shareholder investment inflated at RPI +2% per annum to December 2014 (£)	1,721,596,172	(36,720,329)	1,336,267,485	(36,270,842)	(67,513,836)	(36,483,382)	(617,749,004)	(54,674,978)	(30,146,774)	2,178,304,512
Implied index adjustment	1.134x	1.118x	1.114x	1.101x	1.066x	1.047x	1.038x	1.020x	1.005x	

(1) Represents the £1,518,492,691 deemed net shareholder investment on an adjusted basis as at 22 March 2012.

Directors' remuneration report
continued

The chart below represents how the illustrative calculation of the increase in the value relevant for the purposes of the 2012 Incentive Plan as referred to above is shared between participants in the 2012 Incentive Plan and shareholders.



Based on this illustration, if the entitlements under the 2012 Incentive Plan were to have been settled in Ordinary Shares of 13/110 pence each (being the nominal value of Ordinary Shares on 1 January 2015), this would have resulted in the issue to the participants of 17,280,639 Ordinary Shares (i.e. £44,740,439/ £2.58905). While it is the Remuneration Committee's intention that entitlements under the 2012 Incentive Plan shall be settled in Ordinary Shares, the entitlements can be settled in alternative ways as set out in the Company's articles of association and as referred to in the Remuneration Policy on page 90. In any event, the number of Ordinary Shares issued to satisfy entitlements under the 2012 Incentive Plan shall not exceed 5% of the aggregate number of shares in issue on 22 March 2012 plus 5% of any additional shares issued by the Company after that date, as described in more detail in the Remuneration Policy on page 90.

Malus has applied to awards granted under the 2012 Incentive Plan since its inception. The rules of the plan provide for compulsory return at nominal value of incentive shares held by bad leavers (defined as any person who ceases to be a Director or employee other than by reason of death, permanent ill health or disability or as a result of a change of control) at the Remuneration Committee's discretion. In addition, the Company's articles of association provide the Remuneration Committee with the discretion to adjust the calculation of the amount to which holders of incentive shares and options shall be entitled, in certain circumstances.

Single total figure of remuneration (audited information)

Year ended 31 December 2014

	Total salary and fees £'000	Taxable benefits £'000	Annual bonus £'000	Long-term incentives[(1)] £'000	Pension related benefits[(2)] £'000	Total £'000
Christopher Miller	435	9	–	–	65	509
David Roper	435	19	–	–	65	519
Simon Peckham	435	21	252	–	65	773
Geoffrey Martin	348	46	202	–	52	648
Miles Templeman[(3)]	23	–	–	–	–	23
Perry Crosthwaite[(4)]	67	–	–	–	–	67
John Grant[(5)]	70	–	–	–	–	70
Justin Dowley[(6)]	68	–	–	–	–	68
Liz Hewitt[(7)]	64	–	–	–	–	64
Total	**1,945**	**95**	**454**	**–**	**247**	**2,741**

(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 2014.

(2) Of the £247,836 attributable to pension contributions, £195,660 was paid as a supplement to base salary in lieu of pension arrangements. The balance of £52,176 was paid into the individual Directors' nominated private pension plans.

(3) Miles Templeman stood down as a non-executive Director of the Company with effect from the AGM on 13 May 2014 and the fees referred to above reflect his fees for the period from 1 January 2014 to 13 May 2014.

(4) Perry Crosthwaite was Chairman of the Remuneration Committee up to the close of the 2014 AGM on 13 May 2014 but was then replaced by Justin Dowley. Perry Crosthwaite received an amount of £1,822 in recognition of his Chairmanship of the Remuneration Committee from 1 January 2014 to 13 May 2014. Perry Crosthwaite was Senior non-executive Director from 13 May 2014 and received an amount of £3,178 in recognition of his holding that position.

(5) Includes £8,181 in recognition of Chairmanship of the Audit Committee.

(6) Justin Dowley became Chairman of the Remuneration Committee following the close of the 2014 AGM on 13 May 2014, in place of Perry Crosthwaite. In recognition of Justin Dowley's Chairmanship of this Committee from 13 May 2014 to 31 December 2014 an amount of £6,365 was paid.

(7) Includes £1,586 in recognition of Chairmanship of the Nomination Committee from the close of the 2014 AGM on 13 May 2014 to 31 December 2014.

Year ended 31 December 2013

	Total salary and fees £'000	Taxable benefits £'000	Annual bonus £'000	Long-term incentives[1] £'000	Pension related benefits[2] £'000	Total £'000
Christopher Miller	422	19	–	–	63	504
David Roper	422	19	–	–	63	504
Simon Peckham	422	20	422	–	63	927
Geoffrey Martin	338	56	338	–	51	783
Miles Templeman	60	–	–	–	–	60
Perry Crosthwaite[3]	65	–	–	–	–	65
John Grant[5]	65	–	–	–	–	65
Justin Dowley[6]	60	–	–	–	–	60
Liz Hewitt[7]	14	–	–	–	–	14
Total	**1,868**	**114**	**760**	**–**	**240**	**2,982**

(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.

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 2014.

Benefits

The range of benefits provided to Directors has not changed since the inception of Melrose and there is no intention to widen the range of benefits Directors may receive. All of the executive Directors received taxable benefits during 2014, being a company car allowance, private fuel allowance and private medical insurance. Geoffrey 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 250 companies to reflect the participation of the executive Directors in the 2012 Incentive Plan. For the year ended 31 December 2014, Simon Peckham's and Geoffrey Martin's (being the only executive Directors participating in the annual bonus plan) maximum bonus opportunity was equal to 100% of base salary and bonuses earned were equal to 58% of base salary.

Directors' remuneration report
continued

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 2014, growth in earnings per share (as adjusted, for the purposes of the annual bonus, for the impact of the disposal of Bridon) was 12%. Applying the multiple of five results in a figure of 60%. Accordingly, 48% of salary was earned for this element.	48% of salary (60% of the maximum for this element of the bonus)
	Strategic element (subject to metrics determined at the start of the year).	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 2014 bonus and the performance in respect of them and resulting bonus outcome are set out below.	10% of salary (50% of the maximum for this element of the bonus)

Metric	Weighting	Extent to which the metric was determined to be satisfied by the Remuneration Committee
"Buy" – identify and secure the acquisition of a business to enhance the existing Elster Gas utilisation operation	1/3	Met in part reflecting the acquisition of Eclipse in October 2014 for £98 million creating an opportunity to strengthen the Elster Gas business and enhance shareholder value.
"Improve" – improve the margins of the continuing Group businesses, year on year	1/3	Met in part reflecting the fact that the margins of the three Elster businesses have been enhanced with only a marginal decrease at the Brush operation.
"Sell" – successfully divest Bridon for appropriate value	1/3	Met in part reflecting the disposal of Bridon in November 2014.

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.

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 2014	Value of Ordinary Shares held as at 31 December 2014 as a multiple of salary for the year ended 31 December 2014[(2)]
Christopher Miller	1,749,756	14,934,282[(1)]	92
David Roper	1,649,756	8,110,074	50
Simon Peckham	1,874,878	8,373,288	51
Geoffrey Martin	1,054,619	4,026,674	31

(1) As at 31 December 2014, the interest of Christopher Miller included 5,719,999 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 a share is 266.8 pence, being the closing mid-market price on 31 December 2014.

As at 31 December 2014, each executive Director held significantly more than the minimum number of Ordinary Shares and so satisfied the guideline.

Internal Company rules on shareholdings are extended to senior management in addition to the executive Directors in order that appropriate remuneration principles are applied to senior management on a similar basis to executive Directors.

				Unvested interests under share schemes	
Director[4]	Type	Ordinary Shares held as at 31 December 2014[1]	Vested interests under share schemes	Subject to performance conditions	Not subject to performance conditions
Christopher Miller	Ordinary Shares	14,934,282[2]	N/A	N/A	N/A
	Option[3]	N/A	N/A	8,500	N/A
David Roper	Ordinary Shares	8,110,074	N/A	N/A	N/A
	Option[3]	N/A	N/A	8,500	N/A
Simon Peckham	Ordinary Shares	8,373,288	N/A	N/A	N/A
	Option[3]	N/A	N/A	8,500	N/A
Geoffrey Martin	Ordinary Shares	4,026,674	N/A	N/A	N/A
	Option[3]	N/A	N/A	8,500	N/A
Perry Crosthwaite	Ordinary Shares	188,165	N/A	N/A	N/A
John Grant	Ordinary Shares	296,431	N/A	N/A	N/A
Justin Dowley	Ordinary Shares	471,769	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 2015 in the same manner as other shareholders. Accordingly, following the consolidation: Christopher Miller held 13,867,545 ordinary shares (including 5,311,426 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 7,530,783 Ordinary Shares, Simon Peckham held 7,775,196 Ordinary Shares, Geoffrey Martin held 3,739,054 Ordinary Shares, Perry Crosthwaite held 174,724 Ordinary Shares, John Grant held 275,257 Ordinary Shares, Justin Dowley held 438,071 Ordinary Shares and Liz Hewitt held 6,082 Ordinary Shares.

(2) As at 31 December 2014, the interest of Christopher Miller included 5,719,999 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.

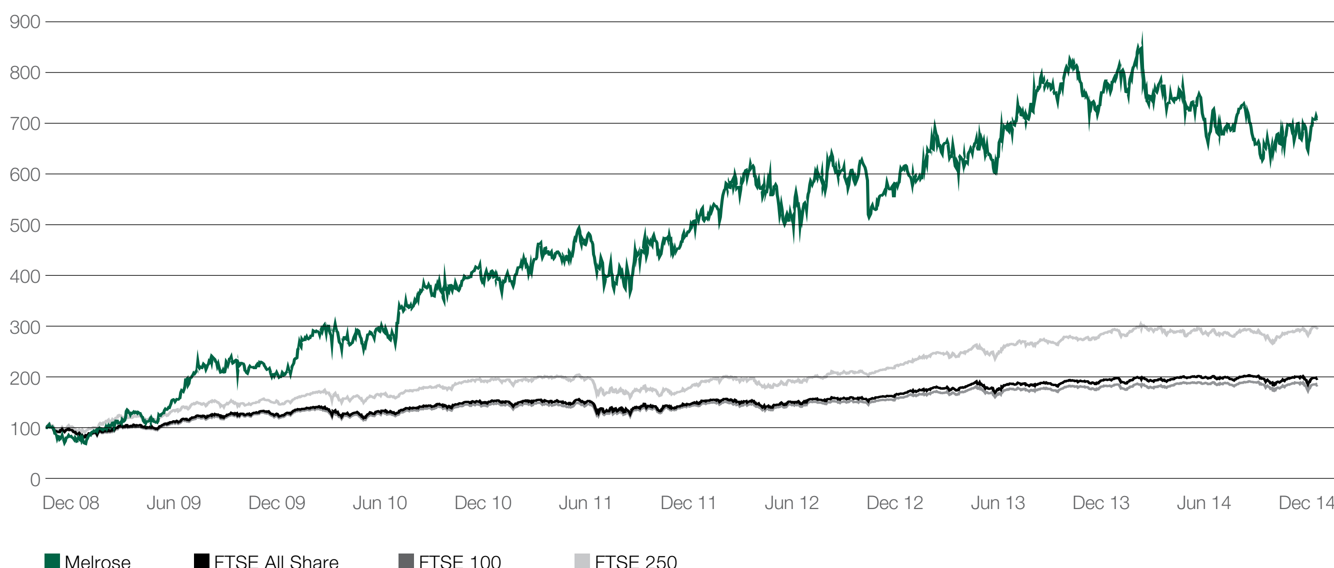
(3) Each of these options is over 2012 Incentive Shares. Although the option can be exercised at any time, the value which may be derived from the shares acquired on exercise will be determined at the relevant "trigger date" as discussed on page 90. 2012 Incentive Shares acquired on or before the trigger 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.

(4) Miles Templeman retired from the Board at the close of the Company's AGM on 13 May 2014. At that date he held 585,828 Ordinary Shares and had no interests in shares under any share schemes.

Performance graph

The total shareholder return graph below shows the value as at 31 December 2014 of £100 invested in the Company on 31 December 2008, compared with £100 invested in the FTSE 100 Index, the FTSE 250 Index or the FTSE All Share Index. The Remuneration Committee considers the FTSE 100 Index, the FTSE 250 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 FTSE 250 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



Directors' remuneration report
continued

Chief Executive Officer Remuneration for previous six years

In accordance with the regulations governing the reporting of Directors' remuneration which came into effect in October 2013, 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 2014	Simon Peckham	773,167	773,167	58%	–
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 Incentive Share 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. Because 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.

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 2014 as a percentage comparison to the financial year ended 2013. 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	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 average percentage change
Basic salary	3%	5%
Benefits[1]	6%	-4%
Annual bonus	-40%	28%

(1) Company car allowance, private fuel allowance and private medical insurance.

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 2013	Year ended 31 December 2014	Percentage change
Remuneration paid to all employees	£471.4 million(1)	£403.0 million(1)	-15.5%
Distributions to shareholders by way of dividend and share buy back	£98.1 million(2)	£678.9 million(3)	692.0%

(1) 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 123 of the 2014 Annual Report and financial statements and the figure for the year ended 31 December 2014 is the year end 31 December 2014 total staff costs as stated in note 7 on page 123. This comparison has been affected by the sale of Bridon in November 2014. In the light of the Company's business model of buy, sell, improve 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.

(3) The figure for year ended 2014 includes the Return of Capital to shareholders in February 2014.

Implementation of Directors' Remuneration Policy for the financial year commencing on 1 January 2015

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 2015.

Executive Directors' salaries have increased by 3% with effect from January 2015, the same as for other head office employees (other than where other such employees' salaries have been increased on a different basis to reflect individual circumstances such as promotions), as shown in the following table.

Executive Director	2014 salary £'000	2015 salary £'000	Percentage increase
Christopher Miller	435	448	3%
David Roper	435	448	3%
Simon Peckham	435	448	3%
Geoffrey Martin	348	358	3%

The overall framework for the executive Directors' annual bonus arrangements for 2015 will remain the same as in 2014, with a maximum bonus opportunity of 100% of salary based on financial performance metrics as regards 80% of the opportunity and strategic performance metrics as regards the balance. The Remuneration Committee considers that the strategic performance measures are commercially sensitive but will disclose the nature of those measures on a retrospective basis on a similar basis to the disclosure on page 84 in respect of the annual bonus for the year ending 31 December 2014. As noted on page 80, annual bonus awards for 2015 (as well as payments in respect of the 2014 annual bonus) will be subject to a clawback arrangement giving the Remuneration Committee the ability to require repayment of some or all of any bonus earned in the event of: (1) material misstatement of financial results; (2) miscalculation of any performance measure on which the bonus earned was calculated; and (3) serious misconduct by the relevant participant. The Remuneration Committee will have discretion to apply clawback to any bonus earned for 2015 at any time up until the 2018 Annual General Meeting.

Non-executive Directors' basic fees have been increased by 3% with effect from January 2015. The non-executive Director fee levels for 2014 and 2015 are set out in the table below.

Fee element	Previous fee	Fee with effect from January 2015
Basic non-executive Director fee	£61,900 (with effect from January 2014)	£63,800
Additional fee for holding the Chairmanship of the Remuneration Committee	£10,000 (with effect from the 2014 AGM)	£10,000
Additional fee for holding the Chairmanship of the Audit Committee	£10,000 (with effect from the 2014 AGM)	£10,000
Additional fee for holding the Chairmanship of the Nomination Committee	£2,500 (with effect from the 2014 AGM)	£2,500
Additional fee for holding the position of Senior non-executive Director	£5,000 (with effect from the 2014 AGM)	£5,000

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 that 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.

Directors' remuneration report
continued

The members of the Remuneration Committee
The members of the Remuneration Committee during the year were Perry Crosthwaite (Committee Chairman from 1 January 2014 until the close of the 2014 AGM on 13 May 2014), Justin Dowley (Committee Chairman with effect from 13 May 2014), John Grant and Liz Hewitt. Miles Templeman was a member of the Remuneration Committee from 1 January 2014 until his retirement from the Board following the conclusion of the 2014 AGM on 13 May 2014. 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 three times.

Advisers to the Remuneration Committee
During the year, the Remuneration Committee received advice on the remuneration reporting regulations and preparation of the Directors' remuneration report 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 £12,500, 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 74 of the Annual Report and financial statements).

The Remuneration Committee is satisfied that the advice provided by Deloitte LLP in relation to the remuneration reporting regulations and the Directors' remuneration report 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 13 May 2014:

	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 2013	678,912,088	95.78%	29,894,346	4.22%	708,806,434	25,276,317
Resolution to approve the Directors' remuneration policy	528,635,478	77.39%	154,418,839	22.61%	683,054,317	51,028,433

The Remuneration Committee noted the strong support given by shareholders to the Directors' remuneration report. Taking into account the level of votes cast against the Directors' remuneration policy, the Remuneration Committee will consider the comments given by shareholders in relation to the Company's long-term incentive structure prior to the introduction of a new scheme in 2017. Members of the Remuneration Committee are engaged in an ongoing dialogue with investors in order to understand more fully their views on Melrose's approach to executive remuneration.

Directors' remuneration policy
This part of the report sets out the Company's Directors' remuneration policy, which was approved by shareholders at the 2014 Annual General Meeting and took binding effect from the conclusion of that meeting, save that: (1) the illustrations of the application of the remuneration policy included in the Directors' remuneration report for the year ended 31 December 2013 have not been repeated in this year's report because, in accordance with the reporting regulations, they illustrated the application of the remuneration policy in the first year to which the remuneration policy applied (2014) and we have included an alternative illustration of the potential LTIP value on pages 81 to 82; and (2) to provide consistency with the remainder of this report cross references have been updated where necessary.

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.

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 94.	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.

Directors' remuneration report
continued

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 94.	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 2014 are set out on page 85. 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 94.[1]

(1) Further information on the Remuneration Committee's approach to malus and clawback is set out on page 80.

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-executive 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 Shares 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.

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 88 to 91, 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 90 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 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
John Grant	1 August 2006	8 October 2012	Conclusion of the 2015 AGM unless extended or renewed
Justin Dowley	1 September 2011	8 October 2012	Conclusion of the 2015 AGM unless extended or renewed
Liz Hewitt	N/A	8 October 2013	Conclusion of the 2016 AGM unless extended or renewed[2]

(1) Miles Templeman retired at the conclusion of the 2014 AGM
(2) Assuming 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 reward provided to employees is taken into account when setting policy for executive Directors' remuneration. There is no consultation with employees on Director 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 a special resolution of shareholders in 2012.

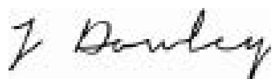
Payments outside the policy in this report

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 4 March 2015 and signed on its behalf by:



Justin Dowley
Chairman, Remuneration Committee
4 March 2015

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
4 March 2015

Simon Peckham
Chief Executive
4 March 2015

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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 2014 and of the Group's profit 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 the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and the Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated 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 49 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, which are the same risks identified in the prior year, 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	
Legal, environmental, restructuring, property and warranty provisions as at 31 December 2014 totalled £177.0 million. The recognition and valuation of the expected outcome of these provisions requires the exercise of management judgement and the use of estimates giving rise to inherent subjectivity in the amounts recorded in the financial statements. Note 3 includes this as one of the significant accounting judgements and key sources of estimation uncertainty and note 20 includes further details on the provisions.	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, applicability of relevant laws and regulations 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.
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. The exceptional operating costs and exceptional operating income for the year ended 31 December 2014 are £34.3 million and £5.4 million respectively and are therefore significant to the statutory net profit for the year. Note 2 includes the Group's accounting policy for exceptional items and note 6 include further details on the exceptional items.	A sample of exceptional items (including all material items) has been agreed to source documentation and evaluated by the component and Group audit teams as to their nature in order to assess whether they are in line with the Group's accounting policy and also to assess consistency of management's application of the policy with previous accounting periods. In particular we evaluated the reversal of any items originally booked as exceptional and confirmed that the reversal of any fair value items recorded on acquisition is appropriately classified as exceptional items. We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items.

Risk	How the scope of our audit responded to the risk
Goodwill and intangibles	
The carrying value of goodwill and intangible assets as at 31 December 2014 is £2,405.3 million. The assumptions include future projected cash flows, the perpetual growth rate and the appropriate discount rate. This is included in note 3 as one of the significant accounting judgements and key sources of estimation uncertainty and note 12 includes more details on goodwill and intangibles.	We assessed the assumptions used in the impairment model for goodwill and intangible assets, 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.
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. In addition, the value of the tax provisions recorded in respect of a number of uncertain tax positions requires judgements in respect of the likely outcome of negotiations with and enquiries from various tax authorities. Accordingly tax provisioning is included in note 3 as one of the significant accounting judgements and key sources of estimation uncertainty and note 21 includes details of the deferred tax assets recognised.	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. We considered those assumptions, including the expected timing of business 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 description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 73.

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 materiality for the Group to be £11 million (2013: £13 million), which is 5.2% (2013: 5.7%) of headline profit before tax and below 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 (2013: £250,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

An overview of the scope of our audit

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

The Group's 66 (2013: 72) locations are organised into the 4 (2013: 5) continuing divisions described in the Business Review on pages 28 to 35 of this Annual Report. Our Group audit scope focused primarily on audit work at 29 (2013: 25) locations. The difference to last year is due to changes in composition of the Group.

23 of these were subject to a full audit (2013: 18), whilst the remaining 6 (2013: 7) were subject to full scope 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 23 locations subject to full audit represent business units within each of the Group's continuing reportable segments and accounted for 64% (2013: 63%) of the continuing Group's revenue, 69% (2013: 70%) of the total operating segments' continuing headline operating profit (i.e. before central costs). The 6 locations subject to full audit procedures account for 23% (2013: 24%) of the continuing Group's revenue and 23% (2013: 21%) of the continuing Group's headline operating profit (i.e. before central costs). Full audit or full audit procedures undertaken at the 29 locations or performed centrally by the Group audit team accounted for 94% (2013: 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 audit procedures at the 29 locations were performed at lower levels of materiality determined by reference to the relative scale of the business division concerned and no higher than £5.2 million.

The senior statutory auditor or other senior members of the Group audit team visited 12 of the largest locations for the audit (2013: 12). 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 4 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 analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:
- 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.

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 ten 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 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, ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
4 March 2015

Consolidated Income Statement

	Notes	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m
Continuing operations			
Revenue	4,5	**1,377.5**	1,466.4
Cost of sales		**(875.0)**	(952.0)
Gross profit		**502.5**	514.4
Headline[2] operating expenses		**(259.7)**	(277.2)
Share of headline[2] results of joint ventures	14	**3.2**	2.8
Intangible asset amortisation		**(54.7)**	(57.1)
Exceptional operating costs	6	**(34.3)**	(19.3)
Exceptional operating income	6	**5.4**	28.9
Total net operating expenses	7	**(340.1)**	(321.9)
Operating profit		**162.4**	192.5
Headline[2] operating profit	5	**246.0**	240.0
Finance costs	7	**(48.2)**	(70.2)
Finance income	7	**14.7**	21.7
Profit before tax		**128.9**	144.0
Headline[2] profit before tax		**212.5**	191.5
Headline[2] tax		**(57.4)**	(50.5)
Exceptional tax[3]		**15.6**	8.9
Total tax	8	**(41.8)**	(41.6)
Profit for the year from continuing operations		**87.1**	102.4
Headline[2] profit for the year from continuing operations		**155.1**	141.0
Discontinued operations			
Profit for the year from discontinued operations	9	**107.6**	462.2
Profit for the year		**194.7**	564.6
Attributable to:			
Owners of the parent		**193.9**	562.7
Non-controlling interests		**0.8**	1.9
		194.7	564.6
Earnings per share			
From continuing operations			
– Basic	11	**7.9**	7.9
– Diluted	11	**7.8**	7.8
From continuing and discontinued operations			
– Basic	11	**17.8**	44.4
– Diluted	11	**17.5**	43.7

(1) Restated to include the results of Bridon within discontinued operations (note 9).
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Includes exceptional tax and tax on exceptional items and intangible asset amortisation.

Consolidated Statement of Comprehensive Income

	Notes	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Profit for the year		**194.7**	564.6
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement (loss)/gain on retirement benefit obligations	23	**(35.5)**	20.1
Income tax credit/(charge) relating to items that will not be reclassified	8	**8.7**	(0.6)
		(26.8)	19.5
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		**(93.2)**	(25.9)
Currency translation on non-controlling interests		**–**	(0.3)
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	9	**(7.6)**	(12.1)
(Losses)/gains on cash flow hedges		**(11.9)**	10.0
Transfer to Income Statement on cash flow hedges		**5.6**	3.0
Income tax credit relating to items that may be reclassified	8	**–**	0.6
		(107.1)	(24.7)
Other comprehensive expense after tax		**(133.9)**	(5.2)
Total comprehensive income for the year		**60.8**	559.4
Attributable to:			
Owners of the parent		**60.0**	557.8
Non-controlling interests		**0.8**	1.6
		60.8	559.4

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m
Net cash from operating activities from continuing operations	26	**111.4**	53.6
Net cash from operating activities from discontinued operations	26	**5.1**	82.4
Net cash from operating activities		**116.5**	136.0
Investing activities			
Disposal of businesses	9	**374.8**	950.4
Disposal costs		**(8.5)**	(25.0)
Net cash disposed	9	**(14.6)**	(37.2)
Purchase of property, plant and equipment		**(54.3)**	(38.5)
Proceeds from disposal of property, plant and equipment		**3.9**	6.2
Purchase of computer software and development costs		**(7.9)**	(3.7)
Dividends received from joint ventures	14	**3.3**	2.7
Interest received		**14.7**	21.7
Acquisition of businesses and non-controlling interests	12	**(97.6)**	(12.8)
Cash acquired on acquisition of businesses	12	**1.5**	–
Dividends paid to non-controlling interests		**(0.4)**	(6.3)
Net cash from investing activities from continuing operations		**214.9**	857.5
Net cash used in investing activities from discontinued operations	26	**(4.1)**	(20.2)
Net cash from investing activities		**210.8**	837.3
Financing activities			
Return of Capital		**(595.3)**	–
Movement in borrowings		**226.1**	(834.0)
Costs of amending borrowing facilities		**(3.6)**	–
Dividends paid	10	**(83.6)**	(98.1)
Net cash used in financing activities from continuing operations		**(456.4)**	(932.1)
Net cash used in financing activities from discontinued operations	26	**–**	–
Net cash used in financing activities		**(456.4)**	(932.1)
Net (decrease)/increase in cash and cash equivalents		**(129.1)**	41.2
Cash and cash equivalents at the beginning of the year	26	**200.4**	156.5
Effect of foreign exchange rate changes	26	**(0.8)**	2.7
Cash and cash equivalents at the end of the year	17,26	**70.5**	200.4

(1) Restated to include the cash flows of Bridon within discontinued operations (note 9).

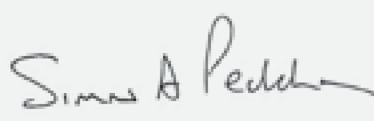
As at 31 December 2014, the Group's net debt was £501.3 million (31 December 2013: £140.8 million). A reconciliation of the movement in net debt is shown in note 26.

Consolidated Balance Sheet

	Notes	31 December 2014 £m	31 December 2013 £m
Non-current assets			
Goodwill and other intangible assets	12	**2,405.3**	2,612.0
Property, plant and equipment	13	**199.6**	241.2
Interests in joint ventures	14	**11.8**	12.6
Deferred tax assets	21	**68.7**	70.3
Derivative financial assets	24	**1.2**	8.1
Trade and other receivables	16	**3.3**	0.3
		2,689.9	2,944.5
Current assets			
Inventories	15	**166.5**	234.5
Trade and other receivables	16	**257.5**	292.8
Derivative financial assets	24	**3.9**	5.1
Cash and cash equivalents	17	**70.5**	200.4
		498.4	732.8
Total assets	5	**3,188.3**	3,677.3
Current liabilities			
Trade and other payables	18	**320.5**	399.2
Interest-bearing loans and borrowings	19	**0.9**	–
Derivative financial liabilities	24	**10.1**	7.2
Current tax liabilities		**48.8**	43.6
Provisions	20	**71.7**	74.4
		452.0	524.4
Net current assets		**46.4**	208.4
Non-current liabilities			
Trade and other payables	18	**0.4**	1.5
Interest-bearing loans and borrowings	19	**570.9**	341.2
Derivative financial liabilities	24	**0.2**	–
Deferred tax liabilities	21	**267.3**	299.6
Retirement benefit obligations	23	**218.5**	219.3
Provisions	20	**105.3**	103.4
		1,162.6	965.0
Total liabilities	5	**1,614.6**	1,489.4
Net assets		**1,573.7**	2,187.9
Equity			
Issued share capital	25	**1.3**	1.3
Merger reserve		**595.3**	1,190.6
Capital redemption reserve		**595.3**	–
Other reserves		**(757.1)**	(757.1)
Hedging reserve		**(0.5)**	5.8
Translation reserve		**(130.7)**	(29.9)
Retained earnings		**1,267.5**	1,775.3
Equity attributable to owners of the parent		**1,571.1**	2,186.0
Non-controlling interests		**2.6**	1.9
Total equity		**1,573.7**	2,187.9

The financial statements were approved and authorised for issue by the Board of Directors on 4 March 2015 and were signed on its behalf by:

Geoffrey Martin
Group Finance Director



Simon Peckham
Chief Executive

Consolidated Statement of Changes in Equity

	Issued share capital £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2013	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
Profit for the year	–	–	–	–	–	–	193.9	193.9	0.8	194.7
Other comprehensive expense	–	–	–	–	(6.3)	(100.8)	(26.8)	(133.9)	–	(133.9)
Total comprehensive (expense)/income	–	–	–	–	(6.3)	(100.8)	167.1	60.0	0.8	60.8
Return of Capital[1]	–	(595.3)	595.3	–	–	–	(595.3)	(595.3)	–	(595.3)
Dividends paid	–	–	–	–	–	–	(83.6)	(83.6)	(0.4)	(84.0)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	4.0	4.0	–	4.0
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	0.3	0.3
At 31 December 2014	**1.3**	**595.3**	**595.3**	**(757.1)**	**(0.5)**	**(130.7)**	**1,267.5**	**1,571.1**	**2.6**	**1,573.7**

(1) On 7 February 2014, following the approval by shareholders of a Return of Capital of 47 pence per share, 'B' and 'C' shares with a total value of £595.3 million were created resulting in a corresponding reduction in the Merger reserve. Following the capital return payments, these 'B' and 'C' shares were redeemed and £595.3 million was transferred to the Capital redemption reserve (note 25).

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 the back cover. 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 28 to 35.

The consolidated financial statements of the Group for the year ended 31 December 2014 were authorised in accordance with a resolution of the Directors of Melrose Industries PLC on 4 March 2015.

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 2013 in these financial statements has been restated to include the results and cash flows of Bridon within discontinued operations and exclude them from continuing operations. Bridon was previously disclosed within the Lifting segment.

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

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

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

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

IFRS 10: Consolidated financial statements
IFRS 11: Joint arrangements
IFRS 12: Disclosure of interests in other entities
IAS 27 (revised): Separate financial statements
IAS 28 (revised): Investments in associates and joint ventures (2011)
Amendments to IAS 32: Offsetting financial assets and financial liabilities
Amendments to IAS 39: Novation of derivatives and continuation of hedge accounting
Amendments to IFRS 10, IFRS 12 and IAS 27: Investment entities

1.3 New Standards and Interpretations in issue but not yet effective

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

IFRS 9: Financial instruments
Amendments to IFRS 11: Accounting for acquisitions of interests in joint operations
IFRS 14: Regulatory deferral accounts
IFRS 15: Revenue from contracts with customers
Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 19: Defined benefit plans: Employee contributions
Amendments to IAS 27: Equity method in separate financial statements
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture
Annual improvements to IFRSs: 2012–14 Cycle

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

Notes to the financial statements continued

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 49 of the Finance Director's review.

Business combinations and goodwill

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

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

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

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

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

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

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

Joint ventures

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

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.

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 such terms are generally recognised on delivery to the customer. No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs or the possible return of goods.

Provision of services

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

Construction contracts

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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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.

Headline operating profit

Headline operating profit is stated before exceptional operating costs, exceptional operating income and intangible asset amortisation. Headline operating profit is considered by the Directors to be the best measure of performance.

Borrowing costs

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

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

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

Issue costs of loans

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

Customer relationships	20 years or less
Brands and intellectual property	20 years or less
Computer software	5 years or less
Development costs	5 years or less

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

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

Research and development costs
Research costs are expensed as incurred.

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

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

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

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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.

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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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.

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

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

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

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

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

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

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

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

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

Share-based payments

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

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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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

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

In applying the Group's accounting policies as set out in note 2, management has made critical accounting judgements regarding the fair value of assets acquired and liabilities assumed at acquisition, the valuation of intangibles, the impairment of non-current assets, the quantification of provisions, the valuation of retirement benefit obligations and in respect of taxation. 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

Following the acquisition of Eclipse, Inc. ("Eclipse"), management has made judgements regarding the fair value of assets acquired and liabilities assumed particularly in relation to provisions and intangible assets. The fair value of these assets and liabilities are shown in note 12.

Valuation of intangibles

In accordance with IFRS 3: "Business combinations" intangible assets acquired in a business combination are recognised at fair value. These fair values have been estimated using income based valuation methods. These valuation methods estimate the price that an asset could be sold for in an arm's length transaction on the basis of the asset's expected future income stream. These estimates are based upon market data in order to reconstruct the measurement process a typical market participant would implement.

The valuation of intangible assets requires management to estimate the net present value of future cash flows arising from customer relationships after estimating the attrition factor relevant to the customer relationship and other factors such as access to the workforce, which are appropriate to the determination of the additional cash flows. The valuation of intangible assets in respect of brands and intellectual property requires management to estimate future cash flows using a "relief from royalty" model.

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 (not including computer software and development costs) at the Balance Sheet date was £2,380.7 million (31 December 2013: £2,587.9 million). At 31 December 2014 and 2013, 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 2014, the Group's retirement benefit obligation deficit was £218.5 million (31 December 2013: £219.3 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.

Notes to the financial statements continued

4. Revenue

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

	Notes	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m
Continuing operations			
Revenue from the sale of goods		**1,296.8**	1,379.2
Revenue recognised on long-term contracts		**5.5**	0.6
Revenue from the provision of services		**75.2**	86.6
Revenue	5	**1,377.5**	1,466.4
Finance income	7	**14.7**	21.7
Total revenue from continuing operations as defined by IAS 18		**1,392.2**	1,488.1
Discontinued operations			
Revenue from the sale of goods		**203.4**	647.5
Revenue recognised on long-term contracts		**0.3**	5.9
Revenue from the provision of services		**4.3**	5.8
Revenue	5, 9	**208.0**	659.2
Finance income		**–**	0.1
Total revenue from discontinued operations as defined by IAS 18		**208.0**	659.3
Total revenue as defined by IAS 18		**1,600.2**	2,147.4

(1) Restated to include the results of Bridon 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:

- Energy segment

- 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. 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 five year Melrose Incentive Plan (granted on 11 April 2012) and the divisional management LTIPs that are in operation across the Group.

Following the disposal of Bridon, the Lifting segment has ceased to exist and the results of this business have been included within discontinued operations.

The discontinued segment comprises the Bridon, Truth, Marelli, Crosby, Acco and Harris businesses in 2013 and Bridon in 2014.

Transfer prices between business units are set on an arm's 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 2014 and the comparative year. Note 6 gives details of exceptional costs and income.

Segment revenues and results

		Segment revenue from external customers	
	Notes	**Year ended 31 December 2014 £m**	Restated[1] year ended 31 December 2013 £m
Continuing operations			
Energy		**327.3**	350.1
Gas		**687.0**	688.9
Electricity		**215.7**	247.5
Water		**147.5**	179.9
Elster total		**1,050.2**	1,116.3
Total continuing operations	4	**1,377.5**	1,466.4
Discontinued operations	4, 9	**208.0**	659.2
Total revenue		**1,585.5**	2,125.6

(1) Restated to include the revenues of Bridon within discontinued operations (note 9).

		Segment result	
	Notes	**Year ended 31 December 2014 £m**	Restated[1] year ended 31 December 2013 £m
Continuing operations			
Energy headline[2] operating profit		**65.4**	73.1
Gas		**161.4**	152.4
Electricity		**22.8**	21.5
Water		**23.4**	23.0
Elster central		**(2.1)**	(2.7)
Elster headline[2] operating profit		**205.5**	194.2
Central – corporate		**(13.9)**	(14.3)
Central – LTIPs[3]		**(11.0)**	(13.0)
Headline[2] operating profit		**246.0**	240.0
Intangible asset amortisation		**(54.7)**	(57.1)
Exceptional operating costs	6	**(34.3)**	(19.3)
Exceptional operating income	6	**5.4**	28.9
Operating profit		**162.4**	192.5
Finance costs	7	**(48.2)**	(70.2)
Finance income	7	**14.7**	21.7
Profit before tax		**128.9**	144.0
Tax	8	**(41.8)**	(41.6)
Profit for the year from discontinued operations	9	**107.6**	462.2
Profit for the year		**194.7**	564.6

(1) Restated to include the results of Bridon within discontinued operations (note 9).
(2) As defined on the Income Statement.
(3) Long Term Incentive Plans.

Notes to the financial statements continued

5. Segment information continued

	Total assets		Total liabilities	
	31 December 2014 £m	Restated[1] 31 December 2013 £m	**31 December 2014 £m**	Restated[1] 31 December 2013 £m
Continuing operations				
Energy	**502.5**	497.7	**136.3**	146.5
Gas	**2,054.8**	2,038.7	**506.1**	470.3
Electricity	**337.1**	343.0	**107.8**	117.7
Water	**183.7**	201.6	**84.1**	92.6
Elster central	**5.3**	6.3	**52.8**	60.5
Elster total	**2,580.9**	2,589.6	**750.8**	741.1
Central – corporate	**104.9**	249.4	**700.9**	488.7
Central – LTIPs[2]	**–**	–	**26.6**	21.6
Total continuing operations	**3,188.3**	3,336.7	**1,614.6**	1,397.9
Discontinued operations	**–**	340.6	**–**	91.5
Total	**3,188.3**	3,677.3	**1,614.6**	1,489.4

(1) Restated to include the total assets and total liabilities of Bridon within discontinued operations (note 9).
(2) Long Term Incentive Plans.

	Capital expenditure[1]		Depreciation[1]	
	Year ended 31 December 2014 £m	Restated[2] year ended 31 December 2013 £m	**Year ended 31 December 2014 £m**	Restated[2] year ended 31 December 2013 £m
Continuing operations				
Energy	**30.1**	16.8	**6.3**	5.9
Gas	**16.9**	14.1	**15.4**	15.4
Electricity	**11.1**	6.9	**5.8**	6.7
Water	**3.9**	3.7	**3.3**	4.5
Elster central	**–**	0.3	**0.1**	–
Elster total	**31.9**	25.0	**24.6**	26.6
Central – corporate	**0.2**	0.6	**0.9**	0.7
Total continuing operations	**62.2**	42.4	**31.8**	33.2
Discontinued operations	**4.1**	18.9	**6.8**	15.2
Total	**66.3**	61.3	**38.6**	48.4

(1) Including computer software and development costs.
(2) Restated to include the capital expenditure(1) and depreciation(1) of Bridon 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 2014 £m	Restated(2) year ended 31 December 2013 £m	**31 December 2014 £m**	Restated(2) 31 December 2013 £m
Continuing operations				
UK	**159.2**	189.9	**239.7**	276.9
Europe	**507.9**	509.8	**1,399.8**	1,522.4
North America	**408.4**	461.7	**859.1**	706.7
Other	**302.0**	305.0	**106.3**	109.8
Total continuing operations	**1,377.5**	1,466.4	**2,604.9**	2,615.8
Discontinued operations	**208.0**	659.2	**–**	237.4
Total	**1,585.5**	2,125.6	**2,604.9**	2,853.2

(1) Revenue is presented by destination.
(2) Restated to include the revenue and non-current assets of Bridon within discontinued operations (note 9).

6. Exceptional costs and income

Exceptional costs	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Continuing operations		
Restructuring costs	**(30.6)**	(18.8)
Acquisition and disposal costs	**(3.7)**	(0.5)
Total exceptional costs	**(34.3)**	(19.3)

During 2014, the continuing Group incurred £30.6 million (2013: £18.8 million) of costs relating to restructuring programmes which are expected to deliver cost savings in the future.

The costs in both years were weighted towards the recently acquired Elster businesses, notably towards Gas in 2014. The most significant proportion of restructuring within the Gas business relates to the major closure of the Essen plant in Belgium and relocation of its Integrated Metering Solutions business, which builds metering stations, to Saudi Arabia and Malaysia. In addition, as a consequence of the closure of Essen, research and development and the production of ultrasonic meters was moved to Mainz, Germany in the year. Initial restructuring costs following the acquisition of Eclipse were also incurred in 2014.

The restructuring costs incurred in 2013 were proportionally weighted to the Elster Electricity and Water businesses and whilst restructuring costs have been incurred within these businesses in 2014 they are focused on European operations rather than the large restructures in the North America businesses incurred in previous years.

The Group also incurred £3.7 million (2013: £0.5 million) of expenses on acquisition and disposal related activities during the year.

Exceptional income	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Continuing operations		
Release of surplus leasehold property cost provision	**5.4**	–
Release of items previously booked as fair value adjustments	**–**	28.9
Total exceptional income	**5.4**	28.9

During the year a historical onerous lease dispute was successfully resolved for less than expected resulting in the release of £5.4 million from provisions as exceptional income.

During 2013 certain warranty and legal issues, inherited with the acquisition of Elster, were successfully resolved for less than expected resulting in the release of £28.9 million of provisions as exceptional income.

Notes to the financial statements continued

7. Revenues and expenses

Net operating expenses comprise:	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m	**Year ended 31 December 2014 £m**	Restated[1] year ended 31 December 2013 £m	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Selling and distribution costs	**(105.1)**	(114.1)	**(28.3)**	(57.0)	**(133.4)**	(171.1)
Administration expenses	**(209.3)**	(220.2)	**(23.4)**	(61.8)	**(232.7)**	(282.0)
Share of headline[2] results of joint ventures (note 14)	**3.2**	2.8	**–**	–	**3.2**	2.8
Other operating costs – exceptional (note 6)	**(34.3)**	(19.3)	**(1.8)**	(0.7)	**(36.1)**	(20.0)
Other operating income – exceptional (note 6)	**5.4**	28.9	**–**	–	**5.4**	28.9
Total net operating expenses	**(340.1)**	(321.9)	**(53.5)**	(119.5)	**(393.6)**	(441.4)

(1) Restated to include the results of Bridon within discontinued operations (note 9).
(2) As defined on the Income Statement.

Operating profit is stated after charging/(crediting):	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m	**Year ended 31 December 2014 £m**	Restated[1] year ended 31 December 2013 £m	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Depreciation and impairment	**27.2**	30.4	**6.7**	15.3	**33.9**	45.7
Cost of inventories	**875.0**	952.0	**140.0**	439.8	**1,015.0**	1,391.8
Amortisation of customer relationships, brands and intellectual property (note 12)	**54.7**	57.1	**6.3**	13.8	**61.0**	70.9
Amortisation and impairment of computer software and development costs (note 12)	**7.3**	5.2	**0.1**	0.3	**7.4**	5.5
Operating lease expense	**6.5**	7.0	**4.1**	6.8	**10.6**	13.8
Staff costs[2]	**350.1**	382.5	**52.9**	88.9	**403.0**	471.4
Research and development costs[2]	**19.5**	18.7	**0.1**	0.5	**19.6**	19.2
Profit on disposal of property, plant and equipment	**(0.2)**	(1.1)	**–**	–	**(0.2)**	(1.1)
Impairment recognised on trade receivables	**1.6**	2.7	**–**	0.6	**1.6**	3.3

(1) Restated to include the results of Bridon within discontinued operations (note 9).
(2) Staff costs include £33.6 million (2013: £36.3 million) of research and development related costs in continuing operations.

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**1.4**	1.4
Fees payable to the auditor for the audit of the Eclipse acquisition Balance Sheet	**0.1**	–
Total fees payable for the audit of the Company's annual accounts	**1.5**	1.4
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	**1.3**	1.4
Total audit fees	**2.8**	2.8
Audit-related assurance services:		
Review of the half year interim statement	**0.1**	0.2
Non-statutory audit of certain of the Company's businesses	**0.6**	1.0
Total audit-related assurance services	**0.7**	1.2
Total audit and audit-related assurance services	**3.5**	4.0
Taxation compliance services	**0.2**	0.1
Other taxation advisory services	**0.5**	0.9
Corporate finance services	**0.3**	–
Other services	**0.1**	0.3
Total audit and non-audit fees	**4.6**	5.3

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 pages 74 and 75. No services were provided pursuant to contingent fee arrangements.

	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m
Staff costs during the year (including executive Directors)		
Wages and salaries	**279.6**	297.2
Social security costs	**50.4**	62.1
Pension costs (note 23)		
– defined benefit plans	**2.2**	3.4
– defined contribution plans	**6.9**	6.8
LTIPs[2]	**11.0**	13.0
Total continuing staff costs	**350.1**	382.5
Discontinued staff costs[3]	**52.9**	88.9
Total staff costs	**403.0**	471.4

(1) Restated to include the results of Bridon within discontinued operations (note 9).
(2) Long Term Incentive Plans.
(3) Includes £1.9 million (2013: £7.9 million) of defined contribution pension costs.

	Year ended 31 December 2014 Number	Restated[1] year ended 31 December 2013 Number
Average monthly number of persons employed (including executive Directors)		
Energy	**2,594**	2,691
Gas	**3,699**	3,827
Electricity	**1,395**	1,391
Water	**985**	1,104
Central – corporate	**34**	35
Total continuing operations	**8,707**	9,048
Discontinued operations	**1,529**	4,695
Total average number of persons employed	**10,236**	13,743

(1) Restated to include the employees of Bridon within discontinued operations (note 9).

	Notes	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m
Finance costs and income			
Interest on bank loans and overdrafts		**(35.0)**	(56.0)
Amortisation of costs of raising finance		**(4.0)**	(4.7)
Net interest cost on pensions		**(7.8)**	(8.9)
Unwind of discount on provisions	20	**(1.4)**	(0.6)
Total finance costs		**(48.2)**	(70.2)
Finance income		**14.7**	21.7
Total continuing operations		**(33.5)**	(48.5)
Discontinued operations[2]	9	**(0.4)**	(0.4)
Total net finance costs		**(33.9)**	(48.9)

(1) Restated to include the results of Bridon within discontinued operations (note 9).
(2) Includes £0.4 million (2013: £0.3 million) net interest cost in relation to pensions.

Notes to the financial statements continued

8. Tax

Analysis of charge/(credit) in year:	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m	**Year ended 31 December 2014 £m**	Restated[1] year ended 31 December 2013 £m	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Current tax	**46.2**	33.9	**4.6**	43.1	**50.8**	77.0
Deferred tax (note 21)	**(4.4)**	7.7	**(1.2)**	(5.1)	**(5.6)**	2.6
Total income tax charge	**41.8**	41.6	**3.4**	38.0	**45.2**	79.6
Tax charge on headline[2] profit before tax	**57.4**	50.5	**5.5**	42.0	**62.9**	92.5
Exceptional tax charge	**3.9**	8.1	**–**	–	**3.9**	8.1
Tax (credit)/charge on net exceptional items	**(3.6)**	3.7	**(0.5)**	–	**(4.1)**	3.7
Tax credit in respect of intangible asset amortisation	**(15.9)**	(20.7)	**(1.6)**	(4.0)	**(17.5)**	(24.7)
Total income tax charge	**41.8**	41.6	**3.4**	38.0	**45.2**	79.6

(1) Restated to include the results of Bridon within discontinued operations (note 9).
(2) As defined on the Income Statement.

The tax charge for the year ended 31 December 2014 includes an exceptional tax charge of £3.9 million (2013: £8.1 million) predominantly relating to the tax costs arising on an internal reorganisation of the Electricity business (2013: internal reorganisation of the Water business).

The charge for the year can be reconciled to the profit per the Income Statement as follows:

	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m
Profit on ordinary activities before tax:		
Continuing operations	**128.9**	144.0
Discontinued operations (note 9)	**14.1**	99.5
	143.0	243.5
Tax on profit on ordinary activities at weighted average rate 28.49% (2013: 29.89%)	**40.7**	72.8
Tax effect of:		
Net permanent differences/non-deductible items	**1.3**	5.8
Effect of rate change on deferred tax liabilities on intangible assets	**–**	(3.9)
Temporary differences not recognised in deferred tax	**3.7**	(2.2)
Tax credits, withholding taxes and other rate differences	**(1.5)**	1.4
Prior year tax adjustments	**(2.9)**	(2.4)
Exceptional tax charge	**3.9**	8.1
Total tax charge for the year	**45.2**	79.6

(1) Restated to include the results of Bridon within discontinued operations (note 9).

The reconciliation has been performed at a blended Group tax rate of 28.49% (2013: 29.89%) 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 £8.7 million (2013: £nil) has been recognised directly in the Consolidated Statement of Comprehensive Income. This represents a tax credit of £8.7 million (2013: £0.6 million charge) in respect of retirement benefit obligations and a tax charge of £nil (2013: £0.6 million credit) in respect of movements on cash flow hedges.

9. Discontinued operations

Disposal of businesses

On 12 November 2014, the Group completed the disposal of Bridon, which was acquired as part of the FKI acquisition in 2008, for gross cash consideration of £374.8 million. The costs charged during the year associated with the disposal were £9.9 million. The profit on disposal was £96.9 million after the recycling of cumulative translation differences of £7.6 million. The Bridon business was previously classified within the Lifting segment and is now shown within discontinued operations in both years.

Discontinued operations in 2013 also contain the results and cash flows of the Crosby and Acco businesses, which were disposed of on 22 November 2013, the Marelli business, disposed of on 1 August 2013, the Truth business, disposed of on 3 July 2013, and the Harris business, disposed of on 31 December 2013.

Financial performance of discontinued operations:

	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m
Revenue	**208.0**	659.2
Operating costs	**(185.4)**	(544.8)
Headline[2] operating profit	**22.6**	114.4
Intangible asset amortisation	**(6.3)**	(13.8)
Exceptional items	**(1.8)**	(0.7)
Net finance costs	**(0.4)**	(0.4)
Profit before tax	**14.1**	99.5
Headline[2] tax	**(5.5)**	(42.0)
Exceptional tax[3]	**2.1**	4.0
Profit after tax	**10.7**	61.5
Cumulative translation differences recycled on disposals	**7.6**	12.1
Gain on disposal of net assets of discontinued operations	**89.3**	388.6
Profit for the year from discontinued operations	**107.6**	462.2
Attributable to:		
Owners of the parent	**107.6**	462.2
Non-controlling interests	**–**	–
	107.6	462.2

(1) Restated to include the results of Bridon within discontinued operations.
(2) As defined on the Income Statement.
(3) Includes exceptional tax and tax on exceptional items and intangible asset amortisation.

Notes to the financial statements continued

9. Discontinued operations continued

The major classes of assets and liabilities disposed of within this business were as follows:

	Lifting £m
Goodwill and other intangible assets	167.1
Property, plant and equipment	62.3
Inventories	54.7
Trade and other receivables	51.8
Cash and cash equivalents	14.6
Total assets	350.5
Trade and other payables	44.1
Retirement benefit obligations	3.6
Provisions	1.4
Tax and deferred tax	25.8
Total liabilities	74.9
Net assets	275.6
Cash consideration net of costs(1)	364.9
Cumulative translation difference recycled on disposals	7.6
Profit on disposal of businesses	**96.9**

(1) Net of £9.9 million of disposal costs.

10. Dividends

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
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
Final dividend for the year ended 31 December 2013 paid of 5.0p	**53.6**	–
Interim dividend for the year ended 31 December 2014 paid of 2.8p	**30.0**	–
	83.6	98.1

Proposed final dividend for the year ended 31 December 2014 of 5.3 pence per share (2013: 5.0 pence per share) totalling £52.7 million (2013: £53.6 million).

The final dividend of 5.3 pence was proposed by the Board on 4 March 2015 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 2014 £m	Restated[1] year ended 31 December 2013 £m
Profit for the purposes of earnings per share	**193.9**	562.7
Less: profit for the year from discontinued operations (note 9)	**(107.6)**	(462.2)
Earnings for basis of earnings per share from continuing operations	**86.3**	100.5

(1) Restated to include the results of Bridon within discontinued operations (note 9).

	Year ended 31 December 2014 Number	Year ended 31 December 2013 Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share (million)	**1,092.0**	1,266.6
Further shares for the purposes of diluted earnings per share (million)	**13.7**	20.1
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share (million)	**1,105.7**	1,286.7

On 7 February 2014 the number of Ordinary Shares was consolidated in a ratio of 11 to 13, which reduced the number of Ordinary Shares in issue from 1,266.6 million to 1,071.8 million.

Earnings per share	Year ended 31 December 2014 pence	Restated[1] year ended 31 December 2013 pence
Basic earnings per share		
From continuing and discontinued operations	**17.8**	44.4
From continuing operations	**7.9**	7.9
From discontinued operations	**9.9**	36.5
Diluted earnings per share		
From continuing and discontinued operations	**17.5**	43.7
From continuing operations	**7.8**	7.8
From discontinued operations	**9.7**	35.9

(1) Restated to include the results of Bridon within discontinued operations (note 9).

Headline[1] proforma[2] diluted earnings per share

Following the disposals in 2013 and 2014 and the related Returns of Capital and associated share consolidations, headline[1] proforma[2] diluted earnings per share is calculated using the headline[1] profit after tax, of businesses in existence at each year end, attributable to the owners of the parent and the number of shares in issue following the related share consolidation.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Headline[1] profit after tax, of businesses in existence at each year end, attributable to owners of the parent[3]	**154.3**	164.2

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated using the businesses in existence at each year end, using the diluted number of shares in issue following the related Return of Capital and associated share consolidation.
(3) Includes £25.1 million of headline(1) profit after tax in respect of Bridon in the year ended 31 December 2013.

	Year ended 31 December 2014	Year ended 31 December 2013
Number of shares in issue following the Return of Capital (million)	**995.2**	1,071.8
Further shares for the purpose of diluted earnings per share (million)	**13.7**	20.1
Number of shares for the purpose of diluted headline[1] proforma[2] earnings per share (million)	**1,008.9**	1,091.9
Headline[1] proforma[2] diluted earnings per share (pence)	**15.3**	15.0

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated using the businesses in existence at each year end, using the diluted number of shares in issue following the related Return of Capital and associated share consolidation.

Notes to the financial statements continued

12. Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Brands and intellectual property £m	Computer software and development costs £m	Total £m
Cost					
At 1 January 2013	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
Additions	–	–	–	7.9	7.9
Acquisition of businesses	64.6	27.1	24.0	0.3	116.0
Disposals	–	–	–	(1.4)	(1.4)
Disposal of businesses	(86.6)	(20.7)	(106.7)	(2.3)	(216.3)
Exchange adjustments	(59.1)	(37.0)	(3.7)	0.2	(99.6)
At 31 December 2014	**1,520.9**	**836.9**	**181.7**	**33.7**	**2,573.2**
Amortisation					
At 1 January 2013	–	(41.0)	(79.5)	(2.7)	(123.2)
Charge for the year	–	(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)
Charge for the year	–	(48.2)	(12.8)	(5.3)	(66.3)
Impairments[(1)]	–	–	–	(2.1)	(2.1)
Disposals	–	–	–	1.4	1.4
Disposal of businesses	–	13.1	34.0	2.1	49.2
Exchange adjustments	–	3.8	1.0	(0.3)	4.5
At 31 December 2014	**–**	**(117.6)**	**(41.2)**	**(9.1)**	**(167.9)**
Net book value					
At 31 December 2014	**1,520.9**	**719.3**	**140.5**	**24.6**	**2,405.3**
At 31 December 2013	1,602.0	781.2	204.7	24.1	2,612.0
At 1 January 2013	1,866.2	836.5	319.8	26.3	3,048.8

(1) The impairment of computer software and development costs comprises £2.1 million (2013: £nil) in relation to the Gas segment.

The most significant identified intangible asset is included within the Gas segment, is in relation to customer relationships, has a carrying amount as at 31 December 2014 of £582.8 million (31 December 2013: £647.5 million) and has a remaining amortisation period of 17 years and 8 months.

The goodwill generated as a result of major acquisitions represents the premium paid in excess of the fair value of all net assets, including intangible assets, identified at the point of acquisition. The carrying value of goodwill represents the initial value that the Directors believed could be added to the acquired businesses through the application of their specialist turnaround experience.

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

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

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

	31 December 2014 £m	Restated[1] 31 December 2013 £m
Continuing operations		
Energy	**201.7**	207.4
Gas	**1,088.2**	1,072.0
Electricity	**156.0**	157.9
Water	**75.0**	78.5
Elster total	**1,319.2**	1,308.4
Total continuing operations	**1,520.9**	1,515.8
Discontinued operations	**–**	86.2
	1,520.9	1,602.0

(1) Restated to include the goodwill of Bridon 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 2014

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	201.7	10.3%	4 years	Revenue growth, operating margins	2.4%
Gas	Value in use	1,088.2	9.8%	5 years	Revenue growth, operating margins	2.2%
Electricity	Value in use	156.0	9.9%	3 years	Revenue growth, operating margins	2.4%
Water	Value in use	75.0	9.8%	3 years	Revenue growth, operating margins	2.5%

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%
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%

(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.

Notes to the financial statements continued

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 and operating margins:

Revenue growth assumptions in the forecast period are based on financial budgets and mid-term plans approved by management, taking into account industry growth rates and management 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.

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 operating costs are based on inflation forecasts and supply and demand factors.

Energy

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

Elster

Elster Gas designs and manufactures gas measurement, process heat control and gas safety control equipment. The key drivers for revenues and operating margins 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. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors.

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 and operating margins are i) global demand for electricity metering requirements, both traditional and Smart, and 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. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors.

Elster Water designs and manufactures a comprehensive range of water metering solutions. The key driver for revenues and operating margins 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. Forecasts for other operating 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 businesses

On 31 October 2014, the Group acquired 100% of the issued share capital and obtained control of Eclipse, Inc. ("Eclipse") for cash consideration of £97.6 million.

Eclipse is a long established manufacturer of low-temperature industrial gas combustion equipment, which complements Elster Gas' expertise in high-temperature industrial gas combustion applications.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below. Fair values are provisional as of 31 December 2014 and are based on the information held to date.

	Fair value £m
Eclipse	
Property, plant and equipment	5.5
Intangible assets, computer software and development costs	51.4
Inventories	5.4
Trade and other receivables	13.5
Cash and cash equivalents	1.5
Trade and other payables	(17.2)
Provisions	(9.2)
Deferred tax	(12.2)
Retirement benefit obligations	(4.6)
Current tax	(0.8)
Non-controlling interests	(0.3)
Net assets	**33.0**
Goodwill	64.6
Total consideration	97.6
Satisfied by:	
Cash consideration	**97.6**

Acquisition related costs (included in exceptional operating costs) amount to £2.3 million.

The fair value of financial assets include gross trade and other receivables of £14.3 million. The best estimate at acquisition date of the contractual cash flows not to be collected is £0.8 million.

Eclipse contributed £12.2 million to revenue and £1.4 million to headline operating profit for the two month period between the date of acquisition and the Balance Sheet date.

If the acquisition of Eclipse had been completed on the first day of the financial year, Group revenues would have been approximately £1,441 million and Group headline operating profit would have been approximately £249 million.

The goodwill arising on acquisition of Eclipse is attributable to the anticipated profitability and cash flows arising from the businesses acquired, synergies as a result of the complementary nature of the business with Elster Gas, the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group. None of the goodwill is expected to be deductible for income tax purposes.

Contingent liabilities of £4.5 million have been acquired in respect of warranty and legal claims and recognised within provisions. The majority of expenditure is expected to be incurred over the next five years.

The non-controlling interests acquired are measured on the proportion of the fair value of their net assets.

Notes to the financial statements continued

13. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2013	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
Additions	15.2	43.2	58.4
Acquisition of businesses	3.1	2.4	5.5
Disposals	(2.9)	(9.6)	(12.5)
Disposal of businesses	(21.7)	(76.2)	(97.9)
Exchange adjustments	(2.3)	(5.6)	(7.9)
At 31 December 2014	**86.5**	**191.9**	**278.4**
Accumulated depreciation and impairment			
At 1 January 2013	(12.2)	(82.9)	(95.1)
Charge for the year	(4.6)	(38.3)	(42.9)
Impairments(1)	–	(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)
Charge for the year	(4.1)	(29.2)	(33.3)
Impairments(1)	–	(0.6)	(0.6)
Disposals	2.6	6.2	8.8
Disposal of businesses	3.0	32.6	35.6
Exchange adjustments	0.4	1.9	2.3
At 31 December 2014	**(9.6)**	**(69.2)**	**(78.8)**
Net book value			
At 31 December 2014	**76.9**	**122.7**	**199.6**
At 31 December 2013	83.6	157.6	241.2
At 1 January 2013	117.4	201.4	318.8

(1) The impairment of plant and equipment comprises £0.6 million (2013: £nil) in relation to the Electricity segment, £nil (2013: £1.8 million) in relation to the Water segment, £nil (2013: £0.6 million) in relation to the Energy segment and £nil (2013: £0.4 million) in relation to discontinued operations.

14. Interests in joint ventures

	31 December 2014 £m	31 December 2013 £m
Aggregated amounts relating to joint ventures:		
Share of assets	**23.6**	24.0
Share of liabilities	**(11.8)**	(11.4)
Interests in joint ventures	**11.8**	12.6
Share of joint venture revenues	**33.6**	36.6
Share of headline[1] results of joint ventures	**3.2**	2.8
Dividends received from joint ventures	**(3.3)**	(2.7)

(1) As defined on the Income Statement.

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 2014 £m	31 December 2013 £m
Raw materials	**63.4**	75.1
Work in progress	**57.0**	89.2
Finished goods	**46.1**	70.2
	166.5	234.5

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 £5.5 million (2013: £8.7 million) whilst reversals of previous write downs of inventory amounted to £4.1 million (2013: £5.3 million).

Construction contracts

	31 December 2014 £m	31 December 2013 £m
Contracts in progress at the Balance Sheet date:		
Amounts due from contract customers included in other receivables	**4.3**	4.7
	4.3	4.7
Contract costs incurred plus recognised profit less recognised losses to date	**4.3**	14.8
Less: progress billings	**–**	(10.1)
	4.3	4.7

The average life of contracts is 1-2 years (31 December 2013: 1-2 years).

Notes to the financial statements continued

16. Trade and other receivables

Current	31 December 2014 £m	31 December 2013 £m
Trade receivables	**230.9**	257.2
Allowance for doubtful receivables	**(7.4)**	(8.2)
Amounts due from joint ventures	**–**	1.0
Other receivables	**24.6**	27.5
Prepayments	**9.4**	15.3
	257.5	292.8

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 2014 £m	31 December 2013 £m
Other receivables	**3.3**	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:

	Energy £m	Elster £m	Central £m	Restated[1] discontinued £m	Total £m
At 1 January 2013	0.3	9.5	0.1	2.7	12.6
Disposal of businesses	–	–	–	(2.6)	(2.6)
Income Statement charge	0.6	2.1	–	0.6	3.3
Utilised	(0.1)	(4.8)	(0.1)	(0.2)	(5.2)
Exchange differences	–	0.1	–	–	0.1
At 31 December 2013	0.8	6.9	–	0.5	8.2
Disposal of businesses	–	–	–	(0.5)	(0.5)
Acquisition of businesses	–	0.8	–	–	0.8
Income Statement (credit)/charge	(0.4)	2.0	–	–	1.6
Utilised	(0.2)	(2.3)	–	–	(2.5)
Exchange differences	–	(0.2)	–	–	(0.2)
At 31 December 2014	**0.2**	**7.2**	**–**	**–**	**7.4**

(1) Restated to include the results of Bridon 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 2014 £m	31 December 2013 £m
0 – 30 days	**1.2**	0.4
31 – 60 days	**–**	0.2
60+ days	**6.2**	7.6
	7.4	8.2

Included in the Group's trade receivables balance are overdue trade receivables with a carrying amount of £35.4 million (31 December 2013: £42.7 million) against which an appropriate provision of £7.4 million (31 December 2013: £8.2 million) is held.

The balance deemed recoverable of £28.0 million (31 December 2013: £34.5 million) is past due as follows:

	31 December 2014 £m	31 December 2013 £m
0 – 30 days	**21.6**	23.9
31 – 60 days	**4.7**	7.2
60+ days	**1.7**	3.4
	28.0	34.5

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 2014 £m	31 December 2013 £m
Cash and cash equivalents	**70.5**	200.4

Cash and cash equivalents comprises cash at bank and in hand which earns interest at floating rates based on daily bank deposit rates and short-term deposits which are made for varying periods of between one day and one month and earn interest at the respective short-term deposit rates. The carrying amount of these assets is considered to be equal to their fair value.

18. Trade and other payables

Current	**31 December 2014 £m**	31 December 2013 £m
Trade payables	**153.0**	195.3
Other payables	**91.9**	111.8
Other taxes and social security	**11.5**	13.0
Deferred government grants	**0.1**	2.2
Accruals	**64.0**	76.9
	320.5	399.2

Trade payables are non interest-bearing. Normal settlement terms vary by country and the average credit period taken for trade purchases is 88 days (2013: 100 days). Other payables are non interest-bearing and have an average term of approximately 60 days.

Non-current	**31 December 2014 £m**	31 December 2013 £m
Other payables	**0.1**	1.1
Accruals	**0.3**	0.4
	0.4	1.5

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

Notes to the financial statements continued

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 2014 £m	31 December 2013 £m	**31 December 2014 £m**	31 December 2013 £m	**31 December 2014 £m**	31 December 2013 £m
Floating rate obligations						
Bank borrowings – US Dollar loan[1]	**–**	–	**244.5**	175.1	**244.5**	175.1
Bank borrowings – Euro loan[2]	**–**	–	**150.7**	–	**150.7**	–
Bank borrowings – Sterling loan[3]	**–**	–	**191.0**	180.0	**191.0**	180.0
Bank borrowings – Brazilian Real	**0.9**	–	**0.6**	2.4	**1.5**	2.4
	0.9	–	**586.8**	357.5	**587.7**	357.5
Unamortised finance costs	**–**	–	**(15.9)**	(16.3)	**(15.9)**	(16.3)
Total interest-bearing loans and borrowings	**0.9**	–	**570.9**	341.2	**571.8**	341.2

(1) Interest rate LIBOR +1.30%, final maturity July 2019 (31 December 2013: interest rate LIBOR +2.25%, final maturity June 2017).
(2) Interest rate EURIBOR +1.30%, final maturity July 2019 (31 December 2013: interest rate EURIBOR +2.25%, final maturity June 2017).
(3) Interest rate LIBOR +1.30%, final maturity July 2019 (31 December 2013: interest rate LIBOR +2.25%, final maturity June 2017).

As at 1 January 2014, the Group held a five year multi-currency facility split between a £355 million term loan and a £989 million revolving credit facility. These facilities were due to mature on 29 June 2017. On 11 July 2014, the existing facility was "Amended and Extended", resulting in lower margins, greater flexibility and the facility being extended by two years, maturing on 11 July 2019.

As at 1 January 2014, the term loan was split into two tranches of £180 million and US $290 million. As part of the Amend and Extend exercise the US $290 million term loan was converted into a US Dollar denominated revolving credit facility. The Sterling denominated term loan is subject to mandatory repayments of 5% on July 2017, July 2018 and January 2019, adjusted for any term loan repayments made prior to these dates.

As at 1 January 2014, the revolving credit facility was split between a £741.5 million Sterling denominated multi-currency facility and a €300 million Euro denominated facility. At 31 December 2014 the Sterling and Euro denominated facilities remain unchanged and exist along with the US $290 million facility which was converted from a term loan to a revolving credit facility during the year.

The £180 million term loan facility was fully drawn at 31 December 2014. The drawdowns under the revolving credit facility as of this date were £11 million, US $381 million and €194 million.

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.

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 ranges between 0.75% and 1.90% (31 December 2013: range between 1.40% to 2.65%). The margin as at 31 December 2014 was 1.30% (31 December 2013: 2.25%).

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	Other financial liabilities £m	Total financial liabilities £m
Within one year	10.6	10.1	308.9	329.6
In one to two years	13.0	0.2	0.4	13.6
In two to five years	625.7	–	–	625.7
Effect of financing rates	(77.5)	–	–	(77.5)
31 December 2014	**571.8**	**10.3**	**309.3**	**891.4**
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

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 2013	21.2	54.1	21.6	56.1	24.8	177.8
Acquisition of businesses	0.4	3.3	–	5.5	–	9.2
Utilised	(5.0)	(2.9)	(3.0)	(17.6)	(21.1)	(49.6)
Net charge to headline[(1)] operating profit	–	0.1	7.0	7.8	0.1	15.0
Net charge to exceptional items[(2)]	(5.4)	–	–	–	31.6	26.2
Disposal of businesses	(0.2)	–	–	–	(1.2)	(1.4)
Unwind of discount (note 7)	0.3	0.1	1.0	–	–	1.4
Exchange differences	0.2	(0.5)	–	(0.5)	(0.8)	(1.6)
At 31 December 2014	**11.5**	**54.2**	**26.6**	**51.3**	**33.4**	**177.0**
Current	2.7	6.0	11.0	20.2	31.8	71.7
Non-current	8.8	48.2	15.6	31.1	1.6	105.3
	11.5	54.2	26.6	51.3	33.4	177.0

(1) As defined on the Income Statement.
(2) Net of £31.6 million of exceptional costs relating to restructuring and a £5.4 million surplus leasehold property costs provision released to exceptional income.

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 four 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 three 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 2013: 3%).

Notes to the financial statements continued

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.

	Notes	Deferred tax assets	Deferred tax liabilities			
		Tax losses and other assets £m	Accelerated capital allowances and other liabilities £m	Deferred tax on intangible assets £m	Total deferred tax liabilities £m	Total net deferred tax £m
At 1 January 2013		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)
(Charge)/credit to income	8	(15.5)	3.6	17.5	21.1	5.6
Credit to other comprehensive income		8.7	–	–	–	8.7
Disposal of businesses		–	1.1	20.0	21.1	21.1
Acquisition of businesses	12	5.7	–	(17.9)	(17.9)	(12.2)
Exchange differences		(0.5)	–	8.0	8.0	7.5
At 31 December 2014		**68.7**	**(7.5)**	**(259.8)**	**(267.3)**	**(198.6)**

As at 31 December 2014, the Group had gross unused losses of £183.6 million (31 December 2013: £217.1 million) available for offset against future profits. At 31 December 2014, a £10.4 million deferred tax asset (31 December 2013: £9.7 million) in respect of £40.9 million (31 December 2013: £42.0 million) of these gross losses was recognised in the Balance Sheet. No asset was recognised in respect of the remaining losses due to the divisional and geographic split of anticipated future profit streams 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 £24.7 million (31 December 2013: £25.6 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 £33.6 million (31 December 2013: £35.0 million) relates to other temporary differences.

As at 31 December 2014, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries was £474 million (31 December 2013: £364 million) on which deferred tax liabilities not recognised were £4.3 million (31 December 2013: £3.3 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 Plan

The Company has 50,000 options (31 December 2013: 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 Remuneration report on pages 78 to 95.

The estimated value of the 2012 Incentive Shares at 31 December 2014 was £44.7 million (31 December 2013: £73.0 million). Using a Black Scholes option pricing model, the estimated fair value attributable to this plan, at 31 May 2017, is £63.4 million (31 December 2013: £101.7 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%
Expected life as at inception	5.0 years
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 (2013: £4.0 million) in the year ended 31 December 2014 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 £6.9 million (2013: £6.8 million) represent 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.

The most significant defined benefit pension plans are:

- The FKI UK Pension Plans, which comprise two separate independent plans; the FKI UK Pension Plan and the Brush Group (2013) Pension Plan, 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. At 31 December 2013 the FKI UK Pension Plans also contained the Bridon Group (2013) Pension Plan, which was disposed with Bridon on 12 November 2014.
- The McKechnie UK Pension Plan, which is defined benefit in type and is a funded plan (other than £5.0 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. During the year certain vested participants accepted lump sum offers resulting in an adjustment to past service cost of £3.5 million.

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. During the year the Group terminated certain Elster US unfunded retiree medical and welfare plans, reducing gross liabilities by £4.3 million.

The costs of the Group's defined benefit plans are 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 December 2013 and updated at 31 December 2014 by independent actuaries. The McKechnie UK Pension Plan valuation is based on a full valuation at 31 December 2011, updated at 31 December 2014 by independent actuaries. The FKI US Pension Plan valuation is based on the US full actuarial valuation as of 31 December 2013, updated at 31 December 2014 by independent actuaries.

The Group contributed £26.6 million (2013: £20.0 million) to the FKI UK Pension Plans, which included £8.1 million (2013: £0.6 million) to the disposed Bridon Group (2013) Pension Plan, and contributed £5.2 million (2013: £5.2 million) to the McKechnie UK Pension Plan in the year ended 31 December 2014. In 2015 the Group expects to contribute £20.0 million to the FKI UK Pension Plans and £5.2 million to the McKechnie UK Pension Plan.

In total, the Group expects to contribute approximately £31.4 million to its defined benefit plans in the year ended 31 December 2015.

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 2014					
	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	n/a	n/a	n/a	2.30	3.00
Rate of increase in pensions in payment	3.00	3.00	n/a	n/a	1.50	n/a
Discount rate	3.50	3.50	3.90	3.90	1.90	3.90
RPI inflation assumption	2.10	2.10	n/a	n/a	1.50	2.25

Notes to the financial statements continued

23. Retirement benefit obligations continued

	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 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 2014 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 2013: 21.9 years) if they are male and for a further 24.2 years (31 December 2013: 24.1 years) if they are female. For a member who retires in 2034 at age 65, the assumptions are that they will live for a further 23.2 years (31 December 2013: 23.3 years) after retirement if they are male and for a further 25.7 years (31 December 2013: 25.6 years) after retirement if they are female.

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

Other plans

The mortality assumptions adopted as at 31 December 2014 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 2014 £m	31 December 2013 £m
Present value of funded defined benefit obligations	**(1,231.0)**	(1,187.6)
Fair value of plan assets	**1,125.2**	1,070.8
Funded status	**(105.8)**	(116.8)
Present value of unfunded defined benefit obligations	**(112.7)**	(102.5)
Net liabilities	**(218.5)**	(219.3)

The plan liabilities and assets at 31 December 2014 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	(778.3)	(208.3)	(195.2)	(48.4)	(110.7)	(2.8)	**(1,343.7)**
Plan assets	695.6	209.9	176.5	30.8	10.0	2.4	**1,125.2**
Net (liabilities)/assets	(82.7)	1.6	(18.7)	(17.6)	(100.7)	(0.4)	**(218.5)**

(1) The FKI UK Plans comprise two separate plans; the FKI UK Pension Plan and the Brush Group (2013) Pension Plan. The net liabilities of these plans are £54.3 million (31 December 2013: £70.8 million) and £28.4 million (31 December 2013: £29.4 million) respectively. At 31 December 2013 the FKI UK Plans also contained the Bridon Group (2013) Pension Plan, the net liabilities of this plan at that date were £9.0 million.

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

	31 December 2014 £m	31 December 2013 £m
Equities	**380.7**	381.6
Government bonds	**315.2**	215.8
Corporate bonds	**337.9**	318.6
Property	**21.8**	18.5
Insurance contracts	**11.9**	13.5
Other	**57.7**	122.8
Total	**1,125.2**	1,070.8

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 2014 £m	Year ended 31 December 2013 £m
At beginning of year	**1,290.1**	1,304.6
Acquisition of businesses	**4.6**	–
Disposal of businesses	**(68.4)**	(35.6)
Current service cost	**2.2**	3.4
Past service cost	**(3.5)**	–
Losses on curtailments	**–**	0.7
Interest cost on obligations	**55.0**	54.2
Terminations	**(4.3)**	–
Remeasurement losses/(gains) – demographic	**14.4**	(18.5)
Remeasurement losses – financial	**151.6**	2.9
Remeasurement (gains)/losses – experience	**(29.7)**	35.2
Benefits paid out of plan assets	**(71.8)**	(54.1)
Benefits paid out of Group assets for unfunded plans	**(4.4)**	(4.7)
Currency translation differences	**7.9**	2.0
At end of year	**1,343.7**	1,290.1

The defined benefit plan liabilities are 5% (31 December 2013: 5%) in respect of active plan participants, 41% (31 December 2013: 44%) in respect of deferred plan participants and 54% (31 December 2013: 51%) in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2014 is 15.5 years (31 December 2013: 15.3 years).

Notes to the financial statements continued

23. Retirement benefit obligations continued

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
At beginning of year	**1,070.8**	1,043.3
Disposal of businesses	**(64.8)**	(25.4)
Interest income on plan assets	**46.8**	45.0
Return on plan assets, excluding interest income	**100.8**	39.7
Contributions	**34.8**	28.9
Benefits paid out of plan assets	**(71.8)**	(54.1)
Plan administrative costs	**(3.6)**	(2.8)
Currency translation differences	**12.2**	(3.8)
At end of year	**1,125.2**	1,070.8

The actual return on plan assets was a gain of £147.6 million (2013: £84.7 million).

Income Statement disclosures

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

	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m
Continuing operations		
Included within headline[2] operating profit:		
– current service cost	**2.2**	3.4
– past service cost	**(3.5)**	–
– plan administrative costs	**3.3**	2.8
– terminations	**(4.3)**	–
Included within net finance costs:		
– interest cost on obligations	**52.6**	52.2
– interest income on plan assets	**(44.8)**	(43.3)
Discontinued operations		
Included within headline[2] operating profit:		
– plan administrative costs	**0.3**	–
Included within net finance costs:		
– interest cost on obligations	**2.4**	2.0
– interest income on plan assets	**(2.0)**	(1.7)
Included within exceptional items		
– curtailment loss	**–**	0.7

(1) Restated to include the results of Bridon within discontinued operations (note 9).
(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 2014 £m	Year ended 31 December 2013 £m
Return on plan assets, excluding amounts included in net interest expense	**100.8**	39.7
Actuarial (losses)/gains arising from changes in demographic assumptions	**(14.4)**	18.5
Actuarial losses arising from changes in financial assumptions	**(151.6)**	(2.9)
Actuarial gains/(losses) arising from experience adjustments	**29.7**	(35.2)
Net remeasurement (loss)/gain on retirement benefit obligations	**(35.5)**	20.1

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%	19.3	0.5
	Decrease by 0.10%	(19.9)	(0.5)
RPI inflation assumption[1]	Increase by 0.10%	(12.2)	n/a
	Decrease by 0.10%	11.8	n/a
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(44.6)	n/a
	Decrease by 1 year	44.6	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 2014 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 2014 and 31 December 2013:

	Energy £m	Elster £m	Restated[1] Central £m	Restated[1] discontinued £m	Total £m
31 December 2014					
Financial assets					
Cash and cash equivalents	–	–	70.5	–	70.5
Net trade receivables	67.3	156.1	0.1	–	223.5
Derivative financial assets	0.3	2.4	2.4	–	5.1
Financial liabilities					
Interest-bearing loans and borrowings	–	(1.5)	(570.3)	–	(571.8)
Derivative financial liabilities	(3.9)	(1.9)	(4.5)	–	(10.3)
Other financial liabilities	(72.4)	(216.6)	(20.3)	–	(309.3)
31 December 2013					
Financial assets					
Cash and cash equivalents	–	–	200.4	–	200.4
Net trade receivables	64.6	141.3	0.1	43.0	249.0
Derivative financial assets	1.1	0.9	9.7	1.5	13.2
Financial liabilities					
Interest-bearing loans and borrowings	–	(2.4)	(338.8)	–	(341.2)
Derivative financial liabilities	(3.4)	(1.1)	(2.5)	(0.2)	(7.2)
Other financial liabilities	(82.4)	(228.4)	(31.3)	(43.4)	(385.5)

(1) Restated to include the financial assets and financial liabilities of Bridon within discontinued operations (note 9).

Notes to the financial statements continued

24. Financial instruments and risk management continued

Credit risk

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

	Energy £m	Elster £m	Central £m	Restated[1] discontinued £m	Total £m
31 December 2014					
Financial assets					
Cash and cash equivalents	–	–	70.5	–	70.5
Net trade receivables	67.3	156.1	0.1	–	223.5
Derivative financial assets	0.3	2.4	2.4	–	5.1
31 December 2013					
Financial assets					
Cash and cash equivalents	–	–	200.4	–	200.4
Net trade receivables	64.6	141.3	0.1	43.0	249.0
Derivative financial assets	1.1	0.9	9.7	1.5	13.2

(1) Restated to include the financial assets of Bridon 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 counterparties 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 2014, the Group held foreign exchange forward contracts to mitigate expected exchange rate fluctuations on cash flows on sales to customers and purchases from suppliers. These instruments operate as cash flow hedges unless the amounts involved are small. The terms of the material currency pairs with total principals in excess of Sterling £1.0 million equivalent are as follows:

	31 December 2014 Selling currency millions	**31 December 2014 Average hedged rate**	31 December 2013 Selling currency millions	31 December 2013 Average hedged rate
Sell Australian Dollar/Buy Sterling	**–**	**–**	AUD 1.9	GBP/AUD 1.76
Sell Brazilian Real/Buy US Dollar	**BRL 4.2**	**USD/BRL 2.60**	BRL 4.3	USD/BRL 2.33
Sell Canadian Dollar/Buy US Dollar	**CAD 62.0**	**USD/CAD 1.13**	CAD 1.8	USD/CAD 1.05
Sell Czech Koruna/Buy Euro	**CZK 78.1**	**EUR/CZK 27.64**	CZK 77.0	EUR/CZK 25.84
Sell Czech Koruna/Buy Sterling	**–**	**–**	CZK 188.3	GBP/CZK 32.69
Sell Euro/Buy Czech Koruna	**EUR 10.6**	**EUR/CZK 27.48**	EUR 9.1	EUR/CZK 26.10
Sell Euro/Buy Romanian Leu	**EUR 2.2**	**EUR/RON 4.49**	–	–
Sell Euro/Buy Russian Rouble	**EUR 3.9**	**EUR/RUB 62.07**	EUR 5.5	EUR/RUB 45.21
Sell Euro/Buy Sterling	**EUR 8.4**	**GBP/EUR 1.22**	EUR 33.0	GBP/EUR 1.18
Sell Euro/Buy US Dollar	**EUR 2.7**	**EUR/USD 1.28**	EUR 1.5	EUR/USD 1.34
Sell Norwegian Krone/Buy Sterling	**–**	**–**	NOK 54.9	GBP/NOK 9.59
Sell Russian Rouble/Buy Euro	**RUB 237.9**	**EUR/RUB 61.47**	RUB 70.0	EUR/RUB 44.76
Sell South African Rand/Buy Euro	**–**	**–**	ZAR 22.8	EUR/ZAR 13.80
Sell South African Rand/Buy Sterling	**ZAR 20.4**	**GBP/ZAR 18.51**	ZAR 23.3	GBP/ZAR 16.67
Sell Sterling/Buy Czech Koruna	**GBP 34.5**	**GBP/CZK 33.27**	GBP 43.1	GBP/CZK 30.93
Sell Sterling/Buy Euro	**GBP 41.9**	**GBP/EUR 1.25**	GBP 53.5	GBP/EUR 1.18
Sell Sterling/Buy Singapore Dollar	**–**	**–**	GBP 1.9	GBP/SGD 1.97
Sell Sterling/Buy US Dollar	**GBP 5.4**	**GBP/USD 1.64**	GBP 11.5	GBP/USD 1.57
Sell US Dollar/Buy Czech Koruna	**–**	**–**	USD 4.2	USD/CZK 19.38
Sell US Dollar/Buy Euro	**USD 4.3**	**EUR/USD 1.30**	USD 6.1	EUR/USD 1.34
Sell US Dollar/Buy Mexican Peso	**USD 8.8**	**USD/MXN 13.73**	–	–
Sell US Dollar/Buy Sterling	**USD 32.8**	**GBP/USD 1.64**	USD 61.5	GBP/USD 1.58

The foreign exchange contracts all mature between January 2015 and May 2016.

The fair value of the contracts at 31 December 2014 was a net liability of £4.3 million (31 December 2013: net asset of £0.4 million).

Hedge of net investments in foreign entities

Included in interest-bearing loans at 31 December 2014 were the following amounts which were designated as hedges of net investments in the Group's subsidiaries in Europe and the USA and were being used to reduce the exposure to foreign exchange risks.

Borrowings in local currency:

	31 December 2014 £m	31 December 2013 £m
US Dollar	**157.2**	144.9
Euro[1]	**150.7**	–

(1) At 31 December 2013 there were no borrowings in Euros due to disposal proceeds received being used to temporarily pay down debt prior to the Return of Capital in February 2014.

Notes to the financial statements continued

24. Financial instruments and risk management continued

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 2014 the Group had a temporary excess position on Sterling interest rate swaps as a result of paying down debt under the Revolving Credit Facilities from the proceeds of the disposal that occurred in the year. This position was reversed following the capital return in March 2015. Adjusting for the capital return, the sensitivity would decrease profit after tax by £0.2 million for Sterling, £1.4 million for US Dollar and £0.1 million for Euros.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Sterling	**1.3**	2.7
US Dollar	**(0.8)**	(0.1)
Euro	**(0.2)**	1.8
	0.3	4.4

Interest rate risk management

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

Following the Return of Capital in February 2014, the Group protected 78% of its gross debt against interest rate fluctuations through fixing the interest expense on US $246.8 million, £336.8 million and €200.0 million of debt with the use of interest rate swaps.

As a result of the "Amend and Extend" exercise the Group completed in July 2014 and the impact of the disposal of Bridon, the Group closed out all Euro and Sterling interest rate swaps. In order to hedge up to 75% of interest rate exposure on the gross debt post the Return of Capital in March 2015, the Group took out new Euro, Sterling and additional US Dollar swaps. The fixed finance cost is 0.06% (31 December 2013: 0.72%) on Euro swaps, 1.05% (31 December 2013: 0.91%) on Sterling swaps and the weighted blended fixed rate for US Dollar swaps is 0.92% (31 December 2013: 0.70%), plus the bank margin of 1.30%.

The interest rate swaps are designated as cash flow hedges and were highly effective throughout 2014. The fair value of the contracts at 31 December 2014 was a net liability of £0.9 million (31 December 2013: net asset of £5.6 million).

Foreign currency risk

The Group's policy for managing foreign currency risk is set out in the Finance Director's review on page 48.

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 Canadian Dollar against Sterling compared to the year end spot rate. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with a notable impact are noted here:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
US Dollar	**(1.5)**	(0.8)
Euro	**2.4**	0.5
Canadian Dollar	**(1.0)**	–

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 Canadian Dollar against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant.

The 2013 high sensitivity on Euro was due to a currency swap for €235 million that was put in place ahead of the 2013 year end to temporarily repay Euro debt with a proportion of the disposal proceeds in that year until the debt was redrawn ahead of the capital return on 28 February 2014. Adjusting for the currency swap, the sensitivity on Euro at 31 December 2013 was £3.0 million. The Group operates in a range of different currencies, and those with a notable impact are noted here:

	31 December 2014 £m	31 December 2013 £m
US Dollar	**2.2**	1.5
Euro	**3.7**	20.8
Canadian Dollar	**(0.4)**	0.4

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 £10.8 million (31 December 2013: £9.3 million) and £12.7 million (31 December 2013: £nil) 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

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

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

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

Recurring fair value measurements	**31 December 2014 Current £m**	**31 December 2014 Non-current £m**	**31 December 2014 Total £m**	31 December 2013 Current £m	31 December 2013 Non-current £m	31 December 2013 Total £m
Derivative financial assets						
Foreign currency forward contracts	**3.9**	**–**	**3.9**	5.1	–	5.1
Interest rate swaps	**–**	**1.2**	**1.2**	–	8.1	8.1
Total recurring financial assets	**3.9**	**1.2**	**5.1**	5.1	8.1	13.2
Derivative financial liabilities						
Foreign currency forward contracts	**(8.0)**	**(0.2)**	**(8.2)**	(4.7)	–	(4.7)
Interest rate swaps	**(2.1)**	**–**	**(2.1)**	(2.5)	–	(2.5)
Total recurring financial liabilities	**(10.1)**	**(0.2)**	**(10.3)**	(7.2)	–	(7.2)

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

25. Issued capital and reserves

Share capital	**31 December 2014 £m**	31 December 2013 £m
Allotted, called-up and fully paid		
1,071,761,339 (31 December 2013: 1,266,627,036) Ordinary Shares of 13/110p each (31 December 2013: 0.1p each)	**1.3**	1.3
	1.3	1.3

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

On 7 February 2014 at a General Meeting of the Company, shareholders approved a resolution to return £595.3 million to shareholders.

Notes to the financial statements continued

25. Issued capital and reserves continued

The Return of Capital took place by increasing the authorised share capital by £595.3 million through the issue of 509,123,150 ‘B’ shares and 757,503,886 ‘C’ shares of 47.0 pence each and capitalising £595.3 million of the Merger reserve to pay up in full the ‘B’ and ‘C’ shares.

Shareholders had the option to receive the cash value inherent in the ‘B’ and ‘C’ shares by way of income or the choice of two capital options. As a result of the elections made by shareholders in respect of the Return of Capital:

- 493,363,270 ‘B’ shares were redeemed and subsequently cancelled with immediate effect from 17 February 2014.
- 15,759,880 ‘B’ shares were redeemed on 30 April 2014 and subsequently cancelled.
- 757,503,886 ‘C’ shares were paid a dividend on 28 February 2014 and these ‘C’ shares were subsequently cancelled.

In conjunction with the Return of Capital, on 7 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 Return of Capital. On 7 February 2014 the number of Ordinary Shares in issue became 1,071,761,339 each with a nominal value of 13/110 pence.

Translation reserve

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

Hedging reserve

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

Merger reserve, Capital redemption reserve and Other reserves

The Merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acquisition of subsidiaries. The Capital redemption reserve arises upon the redemption of the Company’s own shares. Other reserves comprise accumulated adjustments in respect of Group reconstructions.

26. Cash flow statement

	Year ended 31 December 2014 £m	Restated[1] year ended 31 December 2013 £m
Reconciliation of headline[2] operating profit to cash generated by continuing operations		
Headline[2] operating profit from continuing operations	**246.0**	240.0
Adjustments for:		
Depreciation of property, plant and equipment	**26.6**	28.0
Amortisation of computer software and development costs	**5.2**	5.2
Restructuring costs paid and movements in other provisions	**(30.5)**	(66.2)
Operating cash flows before movements in working capital	**247.3**	207.0
Decrease in inventories	**20.9**	26.3
(Increase)/decrease in receivables	**(13.8)**	0.7
Decrease in payables	**(35.6)**	(37.5)
Cash generated by operations	**218.8**	196.5
Tax paid	**(35.1)**	(43.1)
Interest paid	**(38.9)**	(53.1)
Acquisition costs	**(2.3)**	(11.4)
Defined benefit pension contributions paid	**(31.1)**	(31.9)
Incentive scheme payments	**–**	(3.4)
Net cash from operating activities from continuing operations	**111.4**	53.6

(1) Restated to include the results of Bridon within discontinued operations (note 9).
(2) As defined on the Income Statement.

Cash flow from discontinued operations	Year ended 31 December 2014 £m	Restated[(1)] year ended 31 December 2013 £m
Cash generated from discontinued operations	**17.4**	101.9
Tax paid	**(4.2)**	(17.7)
Interest paid	**–**	(0.1)
Defined benefit pension contributions paid	**(8.1)**	(1.7)
Net cash from operating activities from discontinued operations	**5.1**	82.4
Purchase of property, plant and equipment	**(3.9)**	(20.1)
Purchase of computer software and development costs	**(0.2)**	(0.2)
Interest received	**–**	0.1
Net cash used in investing activities from discontinued operations	**(4.1)**	(20.2)
Net cash used in financing activities from discontinued operations	**–**	–

(1) Restated to include the results of Bridon within discontinued operations (note 9).

Net debt reconciliation

	31 December 2013 £m	Cash flow £m	Acquisitions £m	Disposals £m	Other non-cash movements £m	Foreign exchange difference £m	31 December 2014 £m
Cash	200.4	(382.4)	(98.4)	351.7	–	(0.8)	**70.5**
Debt due within one year	–	–	–	–	(0.9)	–	**(0.9)**
Debt due after one year	(341.2)	(226.1)	–	–	0.5	(4.1)	**(570.9)**
Net debt	(140.8)	(608.5)	(98.4)	351.7	(0.4)	(4.9)	**(501.3)**

27. Commitments and contingencies

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

	31 December 2014 £m	31 December 2013 £m
Amounts payable:		
Within one year	**6.9**	9.3
After one year but within five years	**9.3**	20.1
Over five years	**2.6**	28.4
	18.8	57.8

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. The reduction in minimum rentals payable under non-cancellable operating leases during the year was primarily as a result of the disposal of Bridon.

Capital commitments

At 31 December 2014, there were commitments of £19.2 million (31 December 2013: £13.8 million) relating to the acquisition of new plant and machinery.

Notes to the financial statements continued

28. Related parties

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

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

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

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24: "Related party disclosures". Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on pages 82 and 83.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Short-term employee benefits	**2.7**	3.0
Share-based payments	**2.7**	2.7
	5.4	5.7

29. Post Balance Sheet events

At a General Meeting of the Company held on 20 February 2015, shareholders approved a Return of Capital of 18.7 pence per Ordinary Share totalling £200.4 million.

'B' and 'C' shares with a total value of £200.4 million have been created resulting in a corresponding reduction in the Merger reserve. When the capital return payments are made on 16 March 2015, the 'B' and 'C' shares will be redeemed and £200.4 million will be transferred to the Capital redemption reserve.

As a result of the approval of the capital return, on 20 February 2015 the number of Ordinary Shares in issue was consolidated in a ratio of 13 for 14 in order to maintain comparability of the Company's share price before and after the capital return. On 20 February 2015 the number of Ordinary Shares in issue became 995,206,966 each with a nominal value of 7/55 pence.

Further details of the capital return are provided on pages 64 and 65 in the Directors' report.

30. Contingent liabilities

As a result of acquisitions made by the Group, 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 where they existed at the time of acquisition and hence were recognised in accordance with IFRS 3: "Business combinations". Where a provision has been recognised, information regarding the different categories of such liabilities and the amount and timing of outflows is included within note 20.

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 2014 £m	31 December 2013 £m
Fixed assets			
Investment in subsidiaries	3	**2,713.1**	2,711.9
		2,713.1	2,711.9
Creditors: amounts falling due within one year			
Creditors	4	**(787.7)**	(100.8)
Net current liabilities		**(787.7)**	(100.8)
Net assets		**1,925.4**	2,611.1
Capital and reserves			
Issued share capital	5	**1.3**	1.3
Merger reserve	6	**595.3**	1,190.6
Capital redemption reserve	6	**595.3**	–
Retained earnings	6	**733.5**	1,419.2
Shareholders' funds	7	**1,925.4**	2,611.1

The financial statements were approved by the Board of Directors on 4 March 2015 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 current and prior year.

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 49 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 104 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 2014 of £10.8 million (2013: £5.1 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 2014	2,711.9
Additions – share-based payments	1.2
At 31 December 2014	**2,713.1**

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
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
Eclipse, Inc.	USA	Engineering company	100
Elster Solutions LLC	USA	Engineering company	100
Elster Solutions GmbH	Germany	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 Solutions Limited	Great Britain	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 2014 £m	31 December 2013 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	**787.0**	100.0
Accruals and other payables	**0.7**	0.8
	787.7	100.8

The Directors consider that amounts owed to Group undertakings approximate to their fair value.

5. Issued share capital

Share capital	31 December 2014 £m	31 December 2013 £m
Allotted, called up and fully paid		
1,071,761,339 (31 December 2013: 1,266,627,036) Ordinary Shares of 13/110p each (31 December 2013: 0.1p each)	**1.3**	1.3
	1.3	1.3

On 7 February 2014 at a General Meeting of the Company, shareholders approved a resolution to return £595.3 million to shareholders.

The Return of Capital took place by increasing the authorised share capital by £595.3 million through the issue of 509,123,150 'B' shares and 757,503,886 'C' shares of 47.0 pence each and capitalising £595.3 million of the Merger reserve to pay up in full the 'B' and 'C' shares.

Shareholders had the option to receive the cash value inherent in the 'B' and 'C' shares by way of income or the choice of two capital options. As a result of the elections made by shareholders in respect of the Return of Capital:

- 493,363,270 'B' shares were redeemed and subsequently cancelled with immediate effect from 17 February 2014.
- 15,759,880 'B' shares were redeemed on 30 April 2014 and subsequently cancelled.
- 757,503,886 'C' shares were paid a dividend on 28 February 2014 and these 'C' shares were subsequently cancelled.

In conjunction with the Return of Capital, on 7 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 Return of Capital. On 7 February 2014 the number of Ordinary Shares in issue became 1,071,761,339 each with a nominal value of 13/110 pence.

6. Reserves

Reserves	Issued share capital £m	Merger reserve £m	Capital redemption reserve £m	Retained earnings £m
At 1 January 2013	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
Return of Capital	–	(595.3)	595.3	(595.3)
Dividends paid	–	–	–	(83.6)
Loss for the year	–	–	–	(10.8)
Credit to equity for equity-settled share-based payments	–	–	–	4.0
At 31 December 2014	**1.3**	**595.3**	**595.3**	**733.5**

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 1 January 2013	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
Return of Capital	(595.3)
Dividends paid	(83.6)
Loss for the year	(10.8)
Credit to equity for equity-settled share-based payments	4.0
At 31 December 2014	**1,925.4**

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 20 February 2015, shareholders approved a Return of Capital of 18.7 pence per Ordinary Share totalling £200.4 million.

'B' and 'C' shares with a total value of £200.4 million have been created resulting in a corresponding reduction in the Merger reserve. When the capital return payments are made on 16 March 2015, the 'B' and 'C' shares will be redeemed and £200.4 million will be transferred to the Capital redemption reserve.

As a result of the approval of the capital return, on 20 February 2015 the number of Ordinary Shares in issue was consolidated in a ratio of 13 for 14 in order to maintain comparability of the Company's share price before and after the capital return. On 20 February 2015 the number of Ordinary Shares in issue became 995,206,966 each with a nominal value of 7/55 pence.

Further details of the capital return are provided on pages 64 and 65 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 manager, solicitor, accountant, fund manager or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, another appropriately authorised 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 14 May 2015 for the following purposes. Resolutions 1 to 14 (inclusive) will be proposed as ordinary resolutions and resolutions 15 to 17 (inclusive) as special resolutions.

Ordinary resolutions

1. To receive the Company's audited financial statements for the financial year ended 31 December 2014, together with the Directors' report, strategic 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 2014, as set out on pages 78 to 95 (save for pages 88 to 95) of the Company's 2014 Annual Report.
3. To declare a final dividend of 5.3p per Ordinary Share for the year ended 31 December 2014.
4. To re-elect Christopher Miller as a Director of the Company.
5. To re-elect David Roper as a Director of the Company.
6. To re-elect Simon Peckham as a Director of the Company.
7. To re-elect Geoffrey Martin as a Director of the Company.
8. To re-elect Perry Crosthwaite as a Director of the Company.
9. To re-elect John Grant as a Director of the Company.
10. To re-elect Justin Dowley as a Director of the Company.
11. To re-elect Liz Hewitt as a Director of the Company.
12. 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.
13. To authorise the Audit Committee to determine the remuneration of the auditor of the Company.
14. That, in accordance with section 551 of the Companies Act 2006 (the "Act"), the directors of the Company (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 2016, but, in each case, so that the Company may make offers or agreements before the authority expires which would or might require shares to be allotted or Rights to be granted after the authority expires, and so that the Directors may allot shares or grant Rights in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Special resolutions

15. That, subject to the passing of resolution 14, in accordance with 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 14 as if section 561 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 14, 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 14 up to an aggregate nominal amount of £126,662,

    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 2016, 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.

16. That the Company be and is generally and unconditionally authorised to make one or more market purchases (within the meaning of 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 99,520,696;

    (B) the minimum price which may be paid for an Ordinary Share is 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 2016;

    (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.

17. 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
2 April 2015

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 14 (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 15 to 17 (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 2014 Annual Report and financial statements
The Directors are required to lay the Company's financial statements, the strategic report 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").

Resolution 2 – Approval of Directors' remuneration report
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 78 to 80 of the 2014 Annual Report, summarises, for the year ended 31 December 2014, 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 81 to 88 of the 2014 Annual Report, provides details of the remuneration paid to Directors in respect of the year ended 31 December 2014, 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 88 to 95 of the 2014 Annual Report, provides details of the Company's policy on Directors' remuneration (including the policy on payments for loss of office). This policy was approved by shareholders at the AGM on13 May 2014, the approval being valid for three years from that date. As the policy is unchanged, shareholder approval of the policy is not required at this AGM. 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. Approval would also be sought from shareholders if, at any time in the next two years, the Company wished to make any changes to the policy.

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).

Resolution 3 – Declaration of final dividend
The Board is recommending, and the shareholders are being asked to approve, the declaration of a final dividend of 5.3 pence per Ordinary Share for the year ended 31 December 2014. The final dividend will, subject to shareholder approval, be paid on 18 May 2015 to the holders of Ordinary Shares whose names are recorded on the register of members of the Company at the close of business on 17 April 2015.

Resolutions 4 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 will stand for re-election at the AGM. Biographical details of each Director can be found on pages 62 and 63 of the 2014 Annual Report. All of the non-executive Directors standing for re-election are considered independent under the Code.

Resolution 12 – 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 13 – Authority to agree auditor's remuneration
This resolution seeks authority for the Audit Committee to determine the level of the auditor's remuneration.

Resolution 14 – 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 2 April 2015.

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 2 April 2015, 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 2016. 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 15 – 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 £126,662, representing approximately 10% of the Company's issued Ordinary Share capital as at 2 April 2015.

The Directors intend to adhere to the guidelines set out in the Pre-Emption Group's Statement of Principles (as updated in March 2015) and not to allot shares for cash on a non-pre-emptive basis pursuant to the authority in Resolution 15 (B):

- in excess of an amount equal to 5% of the Company's issued Ordinary Share capital; or
- in excess of an amount equal to 7.5% of the Company's issued Ordinary Share capital in a rolling three-year period,

in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

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 2016. 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 16 – 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 99,520,696 Ordinary Shares, representing 10% of the Company's issued Ordinary Share capital as at 2 April 2015.

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 2016. 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.

Resolution 17 – 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.

Notice of Annual General Meeting
continued

Explanatory notes as to the proxy, voting and attendance procedures at the Annual General Meeting (AGM)

1. The holders of Ordinary Shares in the Company are entitled to attend the AGM 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 AGM. 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 AGM (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 6.00 pm on 12 May 2015 (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 2 April 2015, the Company's issued share capital consists of 995,206,966 Ordinary Shares of 7/55 pence each, carrying one vote each.
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 11.00 am on 12 May 2015. 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 AGM; 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. Voting at the AGM will be by poll. The Chairman will invite each shareholder, corporate representative and proxy present at the meeting to complete a poll card indicating how they wish to cast their votes in respect of each resolution. In addition, the Chairman will cast the votes for which he has been appointed as proxy. Poll cards will be collected at the end of the meeting. Once the results have been verified by the Company's registrar, Equiniti, they will be notified to the UK Listing Authority, announced through a Regulatory Information Service and will be available to view on the Company's website.
14. A copy of this notice, and other information required by section 311A of the Act, can be found at **www.melroseplc.net**.
15. 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.
16. 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.
17. 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 12 May 2015.

Adoption of Financial Reporting Standard (FRS) 101 – Reduced Disclosure Framework

Following the publication of FRS 100 Application of Financial Reporting Requirements by the Financial Reporting Council, Melrose Industries PLC is required to change its accounting framework for its entity financial statements, which is currently UK GAAP, for its financial year which commenced on 1 January 2015. The Board considers that it is in the best interests of the Group for Melrose Industries PLC to adopt FRS 101 Reduced Disclosure Framework. No disclosures in the current UK GAAP financial statements would be omitted on adoption of FRS 101. A shareholder or shareholders holding in aggregate 5% or more of the total allotted shares in Melrose Industries PLC may serve objections to the use of the disclosure exemptions on Melrose Industries PLC, in writing, to its registered office (11th Floor, Colmore Plaza, 20 Colmore Circus Queensway, Birmingham, West Midlands B4 6AT) not later than 30 June 2015.

Company and shareholder information

As at 31 December 2014, there were 9,828 holders of Ordinary Shares of 13/110 pence each in the capital of the Company. Their shareholdings are analysed below and show shareholding numbers as at 31 December 2014.

Shareholder analysis

Range of holdings	Number of holdings	Percentage of total shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares in issue
1-5,000	8,058	82.0	9,765,985	0.9
5,001-50,000	1,228	12.5	15,741,004	1.5
50,001-500,000	310	3.1	52,274,483	4.9
Over 500,000	232	2.4	993,979,867	92.7
Total	**9,828**	**100.0**	**1,071,761,339(1)**	**100.0**
Held by				
Individuals	5,852	59.5	35,231,306	3.3
Institutions	3,976	40.5	1,036,530,033	96.7
Total	**9,828**	**100.0**	**1,071,761,339(1)**	**100.0**

(1) Following the Return of Capital to shareholders and the subsequent Share Capital Consolidation, details of which can be found on pages 64 and 65 of the Directors' report, the total number of issued Ordinary Shares in the capital of the Company was 995,206,966, with a nominal value of 7/55 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 2015

Ex-dividend date for final dividend	16 April 2015
Record date for final dividend	17 April 2015
Annual General Meeting	14 May 2015
Payment date of final dividend	18 May 2015
Announcement of interim results	August 2015
Intended payment of interim dividend	October 2015
Preliminary announcement of 2015 results	March 2016

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Commerzbank AG
HSBC Bank plc
J.P. Morgan Limited
Lloyds TSB Bank plc
Royal Bank of Canada
The Royal Bank of Scotland plc
BayernLB
Fifth Third Bank
ICBC
Mizuho
Santander UK PLC
Unicredit
Wells Fargo Bank International

A range of shareholder information is available at Equiniti's website **www.shareview.co.uk**, where you can also register for a Shareview Portfolio to access information about your holding and undertake a number of activities, including changing a dividend mandate and updating your address. To register, you will need your 11 digit Shareholder Reference Number (SRN), which can be found on your proxy form or dividend voucher.

Gifting your shares
If you have a small number of shares and the dealing costs or minimum fee make it uneconomical to sell them, you may like to donate them to benefit charities through ShareGift, a registered charity. Further information is available on the ShareGift website at **www.sharegift.org** or call +44 (0) 207 930 3737.

Share Fraud Warning
Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. For more detailed information on this kind of activity or to report a scam, please call the Financial Conduct Authority's Consumer Helpline on 0800 111 6768 or visit **www.fca.org.uk/consumers/scams**

Notes

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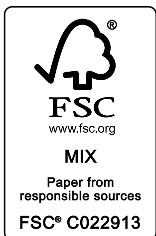

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