Melrose

Buy
Improve
Sell

Melrose Industries PLC

Annual Report
for the year ended 31 December 2015

2015 was another exceptional year for the Company. Melrose has now returned £4.3 billion to shareholders, from a £2.0 billion equity investment.

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

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Key pages:

Cautionary statement
The Strategic Report and certain other sections of this Annual Report contain 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. Accordingly, readers are cautioned not to place undue reliance on any such forward-looking statements. Subject to compliance with applicable laws and regulations, Melrose does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Annual Report.

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.

Some financial and other numerical data in this Annual Report and financial statements has been rounded and, as a result, the numerical figures shown as totals may vary slightly from the exact arithmetic aggregation of the figures that precede them.

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Performance summary

Following the successful disposal of Elster, the Group's continuing operations consist of Brush, which is facing challenging market conditions. During 2015, prior to the disposal, Elster contributed £1,107.4 million to the Group's revenue.

Financial[1]

Revenue

£261.1 million

2013	£345.1m
2014	£324.3m
2015	£261.1m

Headline[2] operating profit

£20.8 million

2013	£52.6m
2014	£47.7m
2015	£20.8m

Headline[2] operating profit margin

8.0%

2013	15.2%
2014	14.7%
2015	8.0%

(1) Continuing business unless otherwise stated.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Assuming every fund raising and capital return was participated in since the first deal, together with dividends paid, an extra £6 would have been invested and £15 received, net £9.

For a shareholder who invested £1 in Melrose in 2005 on its first deal (acquiring McKechnie and Dynacast) and who then participated in all following deals, a net £9 of cash returns[3] have been received, in addition to still having more than £1 invested in Melrose

Melrose has created £2.8 billion of total shareholder value since its inception in 2003

Brush is performing broadly in line with expectations in a tough market

The Board has proposed a final dividend of 2.6p per share (2014: 5.3p) rebased following the Elster disposal to reflect the resulting size of the Group

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Sale of Elster

Cash consideration

£3.3 billion

Return to shareholders

£2.4 billion

Shareholder return on investment

2.3x

Equity rate of return

33%

Cash consideration of £3.3 billion represents a multiple of 3.1 times 2014 revenue and 14.3 times headline(1) EBITDA(2)

As part of the transaction, Melrose disposed of its liabilities under the FKI UK and McKechnie UK defined benefit pension plans, as well as the Elster-related pension obligations. As at the date of disposal, such plans had a net deficit of £112 million and gross liabilities of £849 million

Melrose used the net proceeds of the disposal to return approximately £2.4 billion in cash to shareholders, with the majority of the balance being used to pay down borrowings

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

(2) Headline(1) operating profit before depreciation and amortisation of computer software and development costs.

A strong track record from the first acquisition in May 2005

Melrose is very pleased with the track record achieved over its 12-year history since floating on AIM in 2003.

Melrose has achieved an average annual return on equity investment of 22% since making the first acquisition in 2005, with an increase in operating margins of between five and nine percentage points across the businesses owned.

Business	Bought for[1]	Sold for[1]
Elster	£1.8bn August 2012	£3.3bn December 2015
FKI	£1.0bn July 2008	£1.8bn[2] Up to 2 March 2016
McKechnie and Dynacast	£0.4bn May 2005	£0.8bn Up to June 2012

(1) Enterprise value.
(2) The Company's continuing business, Brush, was also acquired as part of the acquisition of FKI. This calculation includes a consensus value of the Brush business as at 2 March 2016.

As at 2 March 2016, track record for £1 invested in Melrose

Since the first deal in 2005, assuming participation in every fund raising and capital return, together with dividends paid

Investment

£1 Original investment + £6.12 Additional investment in subsequent capital raisings

Total investment £7.12

Returns

£13.24 Capital returns + £1.81 Ordinary dividends + £1.68 Market value of shares held

Total returns £16.73

Net return £9.61

Net return £9.61

A history of value creation

- **2003 October** Floated on AIM
- **2005 December** Entered the FTSE 250 on London's main exchange
- **2007 August** £220 million returned to shareholders
- **2011 August** £373 million returned to shareholders
- **2012 August** Fully underwritten £1.2 billion rights issue
- **2014 February** £595 million returned to shareholders
- **2015 March** £200 million returned to shareholders
- **2016 February** £2.4 billion returned to shareholders

Operational improvements	Shareholder return		Investment in the businesses
Headline(3) operating margin improvement (percentage points)	**Equity rate of return**	**Return on original equity**	**Post-acquisition investment as a percentage of original equity price**
+9ppts	33%	2.3x	25%
+5ppts	33%	3.4x	62%
+6ppts	30%	3.0x	51%

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

Shareholder investment and gain[4]

Since the first deal in 2005

£2.0bn
Total shareholder investment

£4.8bn
Total shareholder value

22%
Average annual return for a shareholder since the first acquisition

2.6x
Average return on equity across all three acquisitions

(4) As at 2 March 2016.

The future

Melrose is well-positioned to create superior shareholder value

Since floating on AIM in 2003, Melrose has raised £2.0 billion from shareholders.

With the latest Return of Capital in February 2016, Melrose has returned approximately £4.3 billion in cash to investors.

Shareholders continue to own Brush, a leading turbogenerator business acquired as part of the purchase of FKI, as well as investing in the Melrose "buy, improve, sell" business model, which management believes can create significant further value from similar deals in the future.

Melrose has a simple and transparent executive remuneration framework that is aligned with shareholders' interests and supports the delivery of the Group's strategy.

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Chairman's statement

"The Board is looking forward to another successful chapter in the Group's history and, in due course, to invite shareholders to invest in the next project."

I am pleased to report our 13th set of annual results since flotation in 2003.

Results for the Group

2015 has been a highly successful year for Melrose and represents another milestone in our proven "buy, improve, sell" strategy. In March, £200.4 million was returned to shareholders following the sale of Bridon in November 2014. In December, we completed the sale of the Elster business to Honeywell International Inc. for a cash consideration of £3.3 billion and, at the same time, divested the related and certain unrelated pension obligations. Further details on this transaction are set out in the Chief Executive's review on the opposite page.

The presentation of this year's results has been dominated by the Elster disposal, which contributed over three quarters of the revenue of the Group in 2014 and, up to the date of disposal, had contributed £1,107.4 million to revenue during 2015.

Melrose's remaining business, Brush, has faced a challenging year. Revenue from continuing businesses for the year was £261.1 million (2014: £324.3 million) and headline operating profit (before exceptional costs, exceptional income and intangible asset amortisation) was £20.8 million (2014: £47.7 million).

Further details of these results are contained in the Finance Director's review on pages 20 to 26.

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

Dividend

Following the sale of Elster and the subsequent £2.4 billion capital return, shareholders have received £4.3 billion of payments over the lifetime of Melrose, comfortably exceeding the £2 billion that they have invested. These payments to shareholders have come largely from significant gains on selling companies, but also from a progressive annual dividend policy.

The Board recognises that the Group has a different shape, owning one business and carrying no debt, and that prior to any new acquisition it is appropriate to rebase the annual dividend per share to reflect the current size and shape of the Group.

The Board proposes to pay a final dividend of 2.6p per share (2014: 5.3p). This will be paid on 16 May 2016 to those shareholders on the register at 8 April 2016, subject to approval at the Annual General Meeting ("AGM") on 11 May 2016.

Board matters

Succession planning is critical to maintaining the effectiveness and quality of the Melrose Board and it remains an area of focus for 2016. Perry Crosthwaite will be retiring from the Board at the conclusion of this year's AGM. Perry has held a non-executive position on the Melrose Board since 2005 and his advice and extensive financial experience have been invaluable to Melrose; we wish him every success in the future. Perry will be replaced as senior non-executive Director by John Grant, who will also continue to hold the position of Chairman of the Audit Committee. A search is underway for a new non-executive Director and an appointment is expected to be made during the year.

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. We continue to see businesses 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 focus on developing our existing business, Brush.

Outlook

The world economy remains uncertain. Across the manufacturing sector this uncertainty is leading to reduced business investment. Brush is not immune to these economic challenges. However, for the reasons set out in the Chief Executive's review, we believe that Brush is well positioned to capitalise on new business opportunities and to benefit from any improvement in market conditions.

The search actively continues for businesses which meet our investment criteria. The Board is looking forward to another successful chapter in the Group's history and, in due course, to invite shareholders to invest in the next project. Recent conditions in the global equity markets have only confirmed your Board's view that 2016 could be an exciting year for Melrose and we are confident that a suitable acquisition will be identified, bringing with it another opportunity to create substantial value for shareholders.

Christopher Miller
Chairman
3 March 2016

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Chief Executive's review

"Whilst it is anticipated that the end-market for Brush will remain challenging in 2016, we believe that focus on new product development and continued operational improvements will mean that Brush is well positioned in the marketplace to take advantage of new opportunities and any uplift in the market."

Melrose continues its "buy, improve, sell" strategy of acquiring high-quality manufacturing businesses with the potential for significant development and improvement under Melrose management, undertaking operational improvements, realising the value in such businesses at the appropriate time and returning the value to shareholders.

Following Elster's disposal, the Group now consists of Brush, the last remaining business from the FKI acquisition. The search for new businesses which meet Melrose's investment criteria is a key objective in 2016, together with the continued improvement of its existing business.

Disposals during the year

2015 marks yet another successful year for Melrose. Following an announcement in July 2015, Melrose completed the £3.3 billion disposal of the Elster business to Honeywell International Inc. in December. This represented a return of 2.3 times shareholders' investment, which is a 33% equity rate of return per annum in the three years since acquiring Elster for an enterprise value of £1.8 billion.

In addition, Honeywell International Inc. assumed Melrose's FKI UK and McKechnie UK defined benefit pension plans, as well as the Elster-related pension obligations. These comprised the majority of the Group's pension plans prior to the disposal.

Following the sale, and in accordance with our strategy, we announced our intention to return approximately £2.4 billion to shareholders in February 2016. Including this return and since being first listed on AIM in 2003, Melrose has returned approximately £4.3 billion in cash to shareholders.

Brush

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

Despite a challenging year with difficult end-market conditions, actions taken in 2015 are expected to result in a better performance in the medium-term. Investment also continues in product development, exploring new routes to market, with particular focus on Aftermarket, servicing and larger air-cooled generators. Driving efficiency and maintaining a firm control on costs will remain a focus for the future.

Action was instigated during the first half of 2015 to reduce the manufacturing cost base in line with the decline in sales. These actions were substantially concluded during the second half of the year.

During the course of the year, factory headcount was reduced by around 10% and opportunities were taken to improve capabilities across many areas of the business. During the second half of the year, attention was also given to reducing overheads, although there was no material financial impact in 2015. As a result of these actions, Brush finished the year as a stronger business and is better equipped to deal with the challenging market conditions.

The £30 million capital investment in a greenfield generator manufacturing plant near Shanghai, China, was completed during 2015, with operations commencing in March 2015. The new 14,400m^2 purpose-built facility will produce 2-pole variants of Brush's 24 MVA to 150 MVA turbogenerators. Despite the Chinese Government's commitment to switch from coal to gas-fired power generation, the move in favour of gas has been slower than anticipated. As a result, the development of this business is between 18 months and two years behind original projections.

The Aftermarket business also had a challenging first half of 2015, particularly in North America. It did, however, finish the year strongly. Significant investment has been made in increasing and improving the sales resource to underpin both the new-build and Aftermarket sales revenue. This is particularly important for Brush to aid development in new sectors of the market in a challenging environment. The investment in a rotor balance facility in Pittsburgh, US, nears completion and it is anticipated that the facility will be available for use in early 2016. This will further enhance Brush's North American Aftermarket business.

Switchgear revenue was lower this year than in 2014, mainly due to a greater proportion of large "direct current" projects, which are more susceptible to order placement delays than the standard Switchgear products.

The Transformer business had a much improved year, recovering from the previous Ofgem cycle and with sales finishing well ahead of 2014. Following its launch in 2015, the 132 kV range is gaining traction, with good potential for the future.

Outlook

Whilst it is anticipated that the end-market for Brush will remain challenging in 2016, we believe that focus on new product development and continued operational improvements will mean that Brush is well positioned in the marketplace to take advantage of new opportunities and any uplift in the market.

As a result of current market conditions and more attractive valuations, your Board believes that there could be some exciting acquisition opportunities for Melrose in 2016 and we are confident in our ability to find a deal that will create significant value for shareholders.

Simon Peckham
Chief Executive
3 March 2016

10 Business review

Market overview

This section details the market trends and external factors affecting the growth of Melrose and its existing business, Brush, and explores how both Melrose and Brush are responding to these trends and factors.

Melrose

Market environment for Melrose

Melrose invests in international manufacturing companies and is therefore directly and indirectly impacted by events occurring in the global economy.

The world economy remains very uncertain and generally there has been an increase in nervousness amongst most economic commentators, many of whom are concerned that growth will be harder to achieve over the near term. This caution applies to most major economies of the world.

Some major themes are driving these concerns, including the well-documented events in the Oil & Gas sector, the slowing growth in China and the persisting recessions in Brazil and Russia. Other economic concerns exist and this uncertainty is leading to weaker business investment across the globe. Manufacturing companies are not immune to these concerns and some are more acutely affected than others, such as those closely aligned to the Oil & Gas sector.

06 See Chairman's statement for further discussion on market conditions

Business response

Given this background, Melrose is content to watch developments carefully and to wait for the right opportunity to arise to acquire a business. Melrose recognises that it may face strong competition from a range of market players for these businesses.

The Board notes that, as the economic outlook appears more uncertain, valuations of businesses can decrease, potentially making acquisition opportunities more exciting. Given that the Group has recently reduced significantly in size, as a result of the successful sale of Elster and Return of Capital to shareholders, the uncertain world economic backdrop could be an opportunity for Melrose to find its next successful acquisition at an attractive price. Furthermore, the Board is confident that the necessary funding will be available to finance this.

Brush

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 has impacted 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.

Exceptionally low Oil & Gas prices are having a negative impact on Oil & Gas investment projects, predominantly in the upstream sector of the industry, to which Brush has exposure through its end-users.

External factors

Some Brush businesses have strong UK revenue streams, principally Transformers, the customers of which are regulated by Ofgem, the UK Government regulator for gas and electricity markets.

Brush has seen increased consolidation within its customer base, whereby current or potential customers have acquired generator manufacturing businesses.

In China, the Government's 'Energy Development Strategy Action Plan' underpins the move away from coal-fired energy generation in favour of a gas-fired alternative. This switch is anticipated to be reinforced in the Chinese Government's 13th Five-Year Plan, which is expected to be finalised in March 2016. It is anticipated that this, together with lower gas prices globally, will assist in stimulating growth in gas-fired energy generation.

Business response

During a challenging year, operational improvements have continued to be made, with the expectation that Brush will be well placed to take advantage of new opportunities and any uplift in market conditions.

Prior to the completion of the factory in China, Brush supplied generators to its Chinese customers from its European factories. The newly-constructed Chinese plant will supply both local and international customers. The factory produced and successfully tested its first generator in November 2015, with expected delivery in the second quarter of 2016.

Brush's product development of larger, air-cooled generators is expected to position the business well in future years.

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10 Business review

Brush offices

Business review

Brush

With over 140 years of history and global operations, Brush is the foremost independent solutions provider to global energy sectors

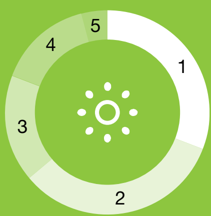
www.brush.eu

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
- Strategically located around the world, with a newly-opened factory in China
- Comprehensive and integrated Aftermarket support tailored to meet customers' needs throughout a generator's operating life
- Switchgear and Transformer products in service with all UK and certain overseas energy supply authorities

Revenue by product

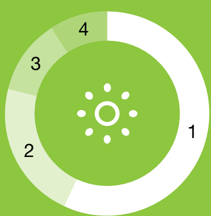
(year ended 31 December 2015)



1. New-build generators	31%
2. Aftermarket	33%
3. Switchgear	17%
4. Transformers	15%
5. Other	4%

Revenue by geographical destination

(year ended 31 December 2015)



1. Europe	57%
2. North America	22%
3. Asia	12%
4. RoW	9%

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 five plants in the UK, Czech Republic, Netherlands, US and China (which commenced operations 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 brand name ("Switchgear"). Finally, Brush's subsidiary, Harrington Generators International, is a specialist UK-based small generator manufacturer supplying the construction, military, telecoms and rail sectors.

2015 was a challenging year for Brush sales, particularly for new-build generators. An already soft market was made significantly worse by the dramatic fall in oil prices affecting the upstream Oil & Gas sector. In the first half of 2015, the aftermarket business ("Aftermarket") was also not immune from these effects. However, ground was made up in Aftermarket during the second half, with revenue finishing moderately behind the previous year.

08 Market overview

Action was instigated during the first half of 2015 to reduce the manufacturing cost base in line with the decline in sales. These actions were substantially concluded during the second half of the year.

During the course of the year, factory headcount was reduced by around 10% and opportunities were taken to improve capabilities across many areas of the business. During the second half of the year, attention was also given to reducing overheads, although there was no material financial impact in 2015. As a result of these actions, Brush finished the year as a stronger business and is better equipped to deal with the challenging market conditions.

Despite difficult trading conditions, Brush has still increased investment in product development across its business streams. Brush is well positioned for the medium-term and to exploit new routes to market, particularly those associated with Aftermarket.

The £30 million capital investment in a greenfield generator manufacturing plant near Shanghai, China, was completed during 2015, with operations commencing in March 2015. The new 14,400m^2 purpose-built facility will produce 2-pole variants of Brush's 24 MVA to 150 MVA turbogenerators.

Despite the Chinese Government's commitment to switch from coal to gas-fired power generation, the move in favour of gas has been slower than anticipated. As a result, the development of this business is between 18 months and two years behind original projections.

The Aftermarket business also had a challenging first half of 2015, particularly in North America. It did, however, finish the year strongly. Significant investment has been made in increasing and improving the sales resource to underpin both the new-build and Aftermarket sales revenue. This is particularly important for Brush to aid development in new sectors of the market in a challenging environment. The investment in a rotor balance facility in Pittsburgh, US, nears completion and it is anticipated that the facility will be available for use in early 2016. This will further enhance Brush's North American Aftermarket business.

Switchgear revenue was lower this year than in 2014, mainly due to a greater proportion of large "direct current" projects, which are more susceptible to order placement delays than the standard Switchgear products.

The Transformer business had a much improved year, recovering from the previous Ofgem cycle and with sales finishing well ahead of 2014. Following its launch in 2015, the 132 kV range is gaining traction, with good potential for the future.

Outlook

The difficult end-market conditions experienced in 2015 are expected to continue in 2016. Notwithstanding this, the medium and long-term prospects for the power market and in particular the aeroderivative gas turbine sector, where Brush has a strong position, remain positive. Brush will continue to focus on further operational improvements and new product development to position the business for medium and long-term success.

Total revenue[(1)]
(year ended 31 December 2015)

£261.1m -17%[(3)]

2014: £324.3m

Headline[(2)] operating profit
(year ended 31 December 2015)

£38.5m -38%[(3)]

2014: £65.0m

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

Our strategy and business model

Melrose aims to acquire high-quality manufacturing businesses, with strong fundamentals and the potential for significant development and improvement under Melrose management.

Through investing in businesses, changing management focus and operational improvements, Melrose seeks to increase and realise the value in such businesses at the appropriate time and to return the proceeds to shareholders.

Capital raised from markets

Profit generated by improved performance

Buy

- Good manufacturing businesses whose performance can be improved
- Use low leverage, with predominantly equity financing

Improve

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

Melrose business principles

Governance

Melrose is led by an experienced management team which has a strong track record in the successful implementation of the Melrose strategy.

The Board remains committed to maintaining the high standards of corporate governance required to ensure that Melrose can continue to deliver its strategy to the benefit of shareholders.

Aligned interests

The Melrose management own a substantial shareholding in the Company and are subject to minimum share retention restrictions. The Melrose team also partake in long-term incentive arrangements which link remuneration directly to shareholder value, ensuring interests are directly aligned with those of shareholders.

Operational and financial efficiency

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

Examples of operational improvements can be found on pages 14 and 15 of this Annual Report.

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30 Risks and uncertainties

Sell

- Identify the optimal commercial time to sell, often between three and five years, but with flexibility to adapt to market changes and opportunities
- Return value to shareholders from significant disposals

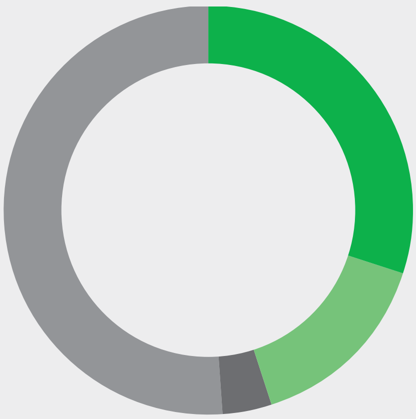
Melrose Group
Profit generated

Returns to shareholders

Amount of investment in the businesses

Investment in the business to improve operations	27%
Equity price of business acquired	73%

How has Melrose created value?



Selling for a higher multiple than paid	30%
Cash generation	15%
Sales growth	4%
Margin growth	51%

Our strategy in action
Improve

Brush

Despite a difficult trading environment for Brush with the ongoing slowdown in the Oil & Gas sector, operational improvements have continued to be made, with the expectation that the business will be well placed to take advantage of new opportunities and any uplift in market conditions.

www.brush.eu

Generators
Resources have been applied to research and development, with a prototype 270 MW large air-cooled generator having been produced during the year.

The newly-built Chinese factory commenced operations in 2015, with delivery of its first generator expected in 2016.

Furthermore, efforts have been spent in reconstructing the new-build sales force, with nine new sales managers and directors recruited from across the US, Europe and Asia. The new team has been in place since October 2015 and consists of strong industry professionals, with established networks and a drive to succeed.

Transformers
The Transformers business had a much-improved year, with sales finishing well ahead of 2014.

Investments in research and development have led to the launch of 132 kV transformers, supporting the demand for large transformers from a range of industries, including energy and transport, whilst upgrades in manufacturing and testing facilities have led to reductions in lead times by up to a fifth.

Switchgear
Steps have been taken to realise cost reductions, complemented by strategic efforts to target processes.

Aftermarket
Investments in a state-of-the-art balance pit at Brush's Pittsburgh facility commenced in 2015, with completion expected in early 2016. The investment allows Brush to offer technology which can help to dramatically improve machine reliability, whilst also reducing repair times and complementing Brush's current Aftermarket offerings.

Investments have also been made in the development of a new robotic generator maintenance fleet, to deliver rapid and detailed internal inspections of generators without the time-consuming disassembly process previously required. Four of Brush's maintenance teams are now equipped with the new technology, with further roll-outs planned for 2016.

In collaboration with established local maintenance providers, Brush has taken steps to open service locations in Oman and Singapore, to increase Aftermarket offerings in the Middle East and Asia. The first project for the Singapore workshop took place in autumn 2015, with operations expected to commence in Oman in 2016.

Total revenue(1)

£261.1m

2014: £324.3m

Headline(2) operating profit

£38.5m

2014: £65.0m

(1) Continuing businesses only.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.

Elster

2012–2015

Prior to its sale in December 2015, Melrose continued to seek operational improvements in the Elster businesses.

Since acquiring Elster in 2012, Melrose reorganised the group into three separately-managed business units, Elster Gas, Elster Electricity and Elster Water, and invested heavily to improve each of them.

Over the three years of ownership, Melrose achieved:

- an increase in headline[(1)] operating profits of 88%;
- improvements in headline[(1)] operating margins of nine percentage points, a 70% improvement;
- average headline[(1)] operating profit conversion to cash (pre capex) of 91%; and
- the acquisition of Eclipse, a manufacturer of gas combustion components and systems to complement Elster's expertise in industrial gas combustion applications.

Operational highlights during the year prior to the disposal include a number of significant manufacturing footprint projects, product launches and the continued roll-out of Smart meters.

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

Our strategy in action
Sell

Disposal of Elster

In July 2015, Melrose announced the disposal of the Elster business, a world leader in measuring and improving the flow of natural gas, electricity and water, to Honeywell International Inc. for cash consideration of £3.3 billion. The shareholders of Melrose approved the disposal on 21 August 2015 and, following receipt of necessary regulatory approvals, the sale was completed in December 2015.

As part of the terms of the disposal, the Elster-related pension obligations remained with Elster and, in addition, Honeywell assumed the FKI UK and McKechnie UK defined benefit pension plans. In total, as at the date of the disposal, pension liabilities with a net accounting deficit of £112 million were transferred to Honeywell.

Following the sale and in accordance with the Melrose strategy, Melrose returned approximately £2.4 billion of the sale proceeds to shareholders, the equivalent of 240 pence per share. The sale and Return of Capital represents another successful investment period for Melrose.

£3.3bn
Cash consideration

£1.5bn
Net cash generated

2.3x
Increase in equity value

33%
Average annual equity return

"The disposal of Elster represents an excellent outcome for Melrose shareholders and another milestone in our track record. Through investing heavily and improving operational performance we have created substantial value for shareholders, more than doubling their money in three years. I am pleased that we are able to deliver this return to shareholders earlier than we had originally anticipated and have every confidence that Elster will continue its success story under the ownership of Honeywell."

Christopher Miller, Chairman


ELSTER

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.

KPIs include the results of continuing and discontinued businesses, including Elster, which was owned until 29 December 2015. Additional business level KPIs are also used, which are relevant to their particular circumstances.

Financial KPIs

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

17.0p[3]

2013	13.7p
2014	15.3p
2015	17.0p

Method of calculation
Group headline[1] profit after tax, attributable to owners of the parent of businesses in existence during the year ended 31 December 2015, divided by the related diluted number of shares in issue.

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

Headline[1] operating profit

£264.5m

2013	£240.0m
2014	£246.0m
2015	£264.5m

Method of calculation
Headline[1] operating profit for the businesses in existence during the year ended 31 December 2015.

Strategic objective
To improve profitability of Group operations.

Net debt to headline[1] EBITDA[4]

n/a[5]

2013	0.5x
2014	1.7x
2015	n/a

Method of calculation
Net debt at average exchange rates divided by headline[1] EBITDA[4] for existing businesses at each year end.

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

Cash conversion

83%

2013	96%
2014	90%
2015	83%

Method of calculation
Percentage of headline[1] EBITDA[4] conversion to cash for businesses in existence during the year ended 31 December 2015, 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.

Headline[1] operating profit margin

19.3%

2013	16.4%
2014	17.9%
2015	19.3%

Method of calculation
Headline[1] operating profit as a percentage of revenue, for the businesses in existence during the year ended 31 December 2015.

Strategic objective
To improve profitability of Group operations.

Interest cover

15.3x

2013	11.8x
2014	15.3x
2015	15.3x

Method of calculation
Calculated as headline[1] EBITDA[4] as a multiple of interest payable on bank loans and overdrafts for the Group during each year.

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

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Non-financial KPIs

Final dividend per share

2.6p

2013	5.0p
2014	5.3p
2015	2.6p

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.

For discussions on the dividend policy going forward, please refer to the Chairman's statement on page 06.

Health and safety

Method of calculation
A variety of different health and safety KPIs are used by the businesses owned by the Group from time to time, 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
Brush, the Group's current business, measures three key health and safety KPIs:

Major accident frequency rate:
Records the number of lost time accidents that have resulted in more than three days off work (defined as 'major' accidents), per 200,000 hours worked:

2013	0.4
2014	0.3
2015	0.3

Accident frequency rate:
Records the number of all lost time accidents, both major and minor, per 200,000 hours worked:

2013	0.7
2014	0.5
2015	0.3

Accident severity rate:
Records the average number of days an employee takes off work following an accident at work:

2013	12
2014	22
2015	14

Further information in relation to the various health and safety initiatives undertaken by Brush during 2015 can be found within the Corporate Social Responsibility report on pages 40 and 41.

Environment and energy usage

Method of calculation
Due to the decentralised nature of the Group and differing operations of businesses which the Company may acquire, there are no standardised environmental KPIs used throughout the Group. A range of environmental measures are utilised, including energy consumption, CO_2 emissions, water consumption, water contamination, waste disposal, solid and liquid waste generation, recycling and volatile organic compound emissions.

Strategic objective
Melrose fully understands the importance of the Group's environmental responsibilities and is committed to ensuring that operations have the minimum possible adverse effect on the environment.

Performance
Information in relation to the various environmental initiatives undertaken by Brush during 2015 can be found within the Corporate Social Responsibility report on pages 42 and 43. The Group is required to disclose greenhouse gas emissions data for the year ended 31 December 2015. Such data can be found within the Corporate Social Responsibility report on page 43.

Other non-financial KPIs

Due to the diverse nature of the Group, each business acquired by the Group 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 36 to 44.

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Calculated using the businesses in existence during the year ended 31 December 2015 using the related diluted number of shares in issue.
(3) Headline[1] proforma diluted earnings per share for the year ended 31 December 2015 at 2014 exchange rates is 17.9p.
(4) Headline[1] operating profit before depreciation and amortisation of computer software and development costs.
(5) All external debt had been repaid as at 31 December 2015.

Finance Director's review

The presentation of the results this year is impacted by the disposal of the Elster division. Elster contributed over three quarters of the revenue and headline operating profit of the Group in 2014, and, in accordance with IFRS 5, is shown as discontinued in these accounts.

Group trading results for the year

The revenue and headline operating profit in continuing operations consist only of the Brush business and Melrose central costs. However, in accordance with IFRS 5, the finance charges shown in continuing operations include the interest on the debt which was used to finance the Elster Group.

As a consequence, below operating profit, the statutory results are not fully reflective of the underlying performance of the continuing Group and consequently on the face of the Income Statement the term headline has only been used where suitable. However exceptional charges within finance costs and tax are disclosed within the notes to the financial statements.

The term 'headline' describes operating profit calculated before exceptional items and intangible asset amortisation.

For continuing operations, the split of revenue, headline operating profit and headline operating profit margin for 2015 and 2014 was as follows:

	2015 Revenue £m	2015 Headline operating profit/ (loss) £m	2015 Headline operating profit margin %	2014 Revenue £m	2014 Headline operating profit/ (loss) £m	2014 Headline operating profit margin %
Brush	**261.1**	**38.5**	**14.7**	324.3	65.0	20.0
Central – corporate	**–**	**(12.7)**	**n/a**	–	(11.9)	n/a
Central – LTIPs(1)	**–**	**(5.0)**	**n/a**	–	(5.4)	n/a
Continuing Group	**261.1**	**20.8**	**8.0**	324.3	47.7	14.7

(1) Long-term incentive plans.

The performance of Brush is discussed in detail in the Chief Executive's review.

Central costs comprise £12.7 million (2014: £11.9 million) of Melrose corporate costs and a Long-Term Incentive Plan ("LTIP") accrual of £5.0 million (2014: £5.4 million). This LTIP accrual includes £4.0 million in respect of the Melrose share-based Incentive Plan (2014: £4.0 million) and a net charge of £1.0 million (2014: £1.4 million) for the cash-based Brush management incentive plan.

After exceptional costs, exceptional income and intangible asset amortisation, the continuing Group operating profit was £4.8 million (2014: £37.0 million) and the loss before tax was £30.7 million (2014: profit of £12.5 million).

Disposal of Elster

On 29 December 2015, Melrose completed the disposal of Elster to Honeywell International Inc. ("Honeywell") for cash consideration of £3.3 billion, on a cash free and debt free basis. In addition to the Elster defined benefit pension plans, Honeywell assumed the Group's FKI UK and McKechnie UK defined benefit pension plans which together had combined gross liabilities of £848.7 million and a net IAS 19 deficit of £111.9 million at the date of disposal. The profit on the disposal in the year was £1,256.3 million.

Elster contributed £1,107.4 million to revenue and achieved an operating profit after exceptional items and intangible asset amortisation of £229.4 million in 2015.

Elster was an extremely successful investment for Melrose. Since it was acquired in August 2012 the enterprise value increased from £1.8 billion to £3.3 billion, and the equity value increased by 2.3 times.

New Group holding company, returns of capital and number of shares

In line with the Group strategy, a large part of the proceeds of recent disposals have been returned to shareholders.

On 16 March 2015, following the sale of Bridon, £200.4 million was returned to shareholders. This return was made via a redeemable share scheme alongside a 13 for 14 share consolidation which reduced the number of ordinary shares by 7%, from 1,071.8 million to 995.2 million.

Later in the year, to enable a significant amount of the Elster disposal proceeds to be returned to shareholders promptly and efficiently, a corporate reorganisation was performed whereby a new holding company was introduced to the Melrose Group.

"Elster was an extremely successful investment for Melrose. Since it was acquired in August 2012 the enterprise value increased from £1.8 billion to £3.3 billion, and the equity value increased by 2.3 times."

Geoffrey Martin
Group Finance Director

Shareholder approval for the introduction of the new holding company was received on 29 October 2015 followed by a scheme of arrangement being sanctioned by the High Court of England and Wales on 18 November 2015. The scheme of arrangement became effective on 19 November 2015 following which Melrose Industries PLC became the new holding company.

A proportion of the merger reserve, created on inception of this new holding company, was capitalised on 26 January 2016 to create B shares to assist the Group in returning £2,388 million (equivalent to 240 pence per ordinary share) to shareholders. Alongside this Return of Capital, a 7 for 48 share consolidation was performed which reduced the number of shares by 85%, from 995.2 million to 145.1 million. The diluted number of shares at this date was 165.8 million.

Following this latest Return of Capital, Melrose has returned approximately £4.3 billion in cash to shareholders and created net shareholder value of approximately £2.8 billion including shareholders' existing investment in Melrose.

Finance costs and income

The continuing net finance costs in 2015 were £35.5 million (2014: £24.5 million).

Included within this charge was £17.8 million (2014: £18.5 million) of interest on external debt, overdrafts and cash balances. This included interest on the external debt used to finance the acquisition of Elster and an exceptional £0.7 million charge relating to the early close-out of interest rate swap arrangements following the repayment of all external debt facilities.

In addition, a £15.9 million (2014: £4.0 million) charge relating to the amortisation of banking fees was incurred in 2015. This included an exceptional charge of £12.4 million relating to the acceleration of future year's charges following the sale of Elster and the repayment of all external debt facilities on 29 December 2015.

Also included in net finance costs is a net interest cost on net pension liabilities of £1.6 million (2014: £1.4 million) and a charge for the unwinding of discounts on long-term provisions of £0.2 million (2014: £0.6 million).

Tax

The tax credit on continuing items for the year was £14.4 million (2014: a charge of £4.3 million).

The main reason for the tax credit arising on continuing items in the year was an exceptional tax credit of £14.5 million related to the recognition during the year of deferred tax assets on additional UK tax losses. As a result of the sale of Elster, future UK taxable profits of the Group are expected to arise in companies where losses are brought forward. In addition, a tax credit of £0.8 million on exceptional operating costs and a £2.1 million tax credit on intangible asset amortisation were incurred.

The overall tax rate, after exceptional items, intangible asset amortisation and discontinued operations, was 18.7% (2014: 31.6%). This is lower than the weighted average statutory tax rate of 31.5% (2014: 28.5%) primarily because of the additional deferred tax asset recognition.

The total gross tax losses within the continuing Group are shown below:

Tax losses	Recognised £m	Unrecognised £m	Total £m
UK	114.8	65.6	180.4
Rest of World	–	3.6	3.6
Total 2015	**114.8**	**69.2**	**184.0**
Total 2014	40.9	142.7	183.6

No significant taxes are expected to arise as a result of the Elster disposal.

Cash taxes of £2.8 million (2014: £3.4 million) were paid by continuing Group operations and £51.2 million (2014: £35.9 million) was paid by discontinued operations.

The deferred tax liability in respect of intangible assets of £13.7 million (2014: £259.8 million) is not expected to represent a future cash tax payment of the business and will unwind as the intangible assets are amortised.

Finance Director's review continued

Exceptional operating costs and amortisation of intangible assets

During the year exceptional operating costs of £7.9 million (2014: £7.5 million) were incurred of which £5.9 million were in respect of a restructuring programme across the Brush business to align the cost base with the reduced revenue. A further £1.7 million related to the costs of the corporate reorganisation whereby a new holding company was introduced to the Group, along with costs incurred in returning capital to shareholders. The remaining charge of £0.3 million was in respect of acquisition and disposal-related activities.

The charge for amortisation of intangible assets, in continuing operations, in the year was £8.1 million (2014: £8.6 million).

Earnings per share ("EPS")

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 includes discontinued operations. The diluted EPS for continuing operations in the year was a loss of 1.6p (2014: gain of 0.7p), whereas including discontinued operations, and thereby including the performance and the profit on the disposal of Elster, was a gain of 137.1p (2014: 17.5p). These are calculated after exceptional costs, exceptional income and amortisation of intangible assets.

Given the significant change in the size of the Group post the sale of Elster and following the share consolidation in January 2016, the best measure of underlying performance is based on the following 2015 proforma:

	Proforma Income Statement 2015 £m
Revenue	
Brush	261.1
Headline operating profit	
Brush	38.5
Central costs and LTIPs	(17.7)
Continuing Group	**20.8**
Interest	(1.8)
Profit before tax	**19.0**
Tax	(5.7)
Profit after tax	**13.3**
Number of shares in issue (million) (following the share consolidation)	145.1
Proforma EPS	**9.2p**
Diluted number of shares (million)	165.8
Proforma Diluted EPS	**8.0p**

This proforma Income Statement uses the continuing Group results, excluding net external bank interest charges now that the Group is in a relatively small net cash position, and an estimated continuing Group tax rate of 30%.

Cash generation and management

The Group moved from net debt to a cash position in the year, summarised as follows:

Movement in net (debt)/cash	£m
Opening net debt	(501.3)
Cash flow from trading (after all costs including tax)	(14.6)
Net cash flow from disposals	3,262.5
Amount paid to shareholders (return of capital and dividends)	(281.0)
Foreign exchange and other non-cash movements	(14.2)
Closing net cash	**2,451.4**

The net cash position of the Group at 31 December 2015 was prior to returning any Elster disposal proceeds to shareholders. The proforma cash position of the Group after this return, and following contributions paid early to the Brush UK Pension Plan of £8.8 million, would have been £54.1 million. This is considered to be a better reflection of the ongoing cash position of the continuing Group.

Assets and liabilities

The summary Melrose Group assets and liabilities are shown below:

	2015 £m	2014 £m
Fixed assets (tangible, intangible and goodwill)	385.9	2,600.7
Net working capital	53.4	106.4
Retirement benefit obligations	(17.2)	(218.5)
Provisions	(30.0)	(172.8)
Deferred tax and current tax	2.2	(247.4)
Other[1]	(0.3)	6.6
Total	**394.0**	**2,075.0**

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

These assets and liabilities are funded by:

	2015 £m	2014 £m
Cash/(debt)	2,451.4	(501.3)
Equity	(2,845.4)	(1,573.7)
Total	**(394.0)**	**(2,075.0)**

The assets and liabilities of the Group have changed significantly during 2015 following the disposal of Elster. The Group has sold £1.9 billion of net assets during the year, repaid net debt and moved into a net cash position of £2.5 billion. The cash position has decreased by £2.4 billion following the Return of Capital in February 2016.

Goodwill, intangible assets and impairment review
The total value of goodwill as at 31 December 2015 was £198.1 million (31 December 2014: £1,516.7 million) and intangible assets was £73.7 million (31 December 2014: £859.8 million). These balances reduced significantly in the year following the disposal of Elster.

The remaining goodwill and intangible assets relate to Brush and have been tested for impairment as at 31 December 2015. The Board is comfortable that no impairment is required.

Provisions
Total provisions as at 31 December 2015 were £30.0 million (31 December 2014: £172.8 million). The largest movement in the year was the transfer of £86.4 million of Elster-related provisions to liabilities held for sale at 30 June 2015. These provisions were subsequently disposed of on 29 December 2015.

The following table details the movement in provisions in the year:

	Total £m
At 31 December 2014	**172.8**
Cash spent on the utilisation of provisions	(51.7)
Net charge to headline operating profit	2.0
Charge to exceptional items	5.9
Net release to discontinued operations	(9.2)
Transfer to held for sale	(86.4)
Other (including foreign exchange)	(3.4)
At 31 December 2015	**30.0**

The net charge to continuing headline operating profit in the period was £2.0 million which included the Brush LTIP charge along with normal net warranty expenses in the year.

The charge to exceptional items of £5.9 million related to the restructuring programme performed across the Brush business.

Other movements on provisions in the year relate to the net effect of the unwinding of discounting on long-term provisions and the relevant foreign exchange impact.

Pensions
On 29 December 2015, Honeywell assumed all Elster-related pension plans, along with the FKI UK and the McKechnie UK Pension Plans. Taken together these pension plans had gross liabilities of £848.7 million, gross assets of £736.8 million and a net deficit of £111.9 million at the date of disposal and therefore represented 87% of the previous Melrose defined benefit pension deficit.

Two defined benefit pension plans remain in the Group, namely the Brush Group (2013) Pension Plan and the Brush Aftermarket North America, Inc. Group Pension Plan (formerly the FKI US Pension Plan). These plans are closed both to new members and current members' future service.

The Brush Group (2013) Pension Plan had a net IAS 19 accounting surplus as at 31 December 2015 of £1.4 million (31 December 2014: deficit of £28.4 million). This plan had assets of £197.1 million (31 December 2014: £197.4 million) and liabilities of £195.7 million at 31 December 2015 (31 December 2014: £225.8 million). The Brush Aftermarket North America, Inc. Group Pension Plan had a net IAS 19 accounting deficit as at 31 December 2015 of £18.6 million (31 December 2014: £18.7 million). This plan had assets of £146.4 million (31 December 2014: £176.5 million) and liabilities of £165.0 million at 31 December 2015 (31 December 2014: £195.2 million). During the year lump sums were offered to all terminated vested participants with deferred benefits in the Brush US Pension Plan. Approximately 40% of those offered accepted, resulting in a reduction in gross liabilities of £20.0 million, and a benefit of £2.2 million to the overall pension charge for the year, shown within central costs.

Finance Director’s review continued

The values of the two remaining plans were updated at 31 December 2015 by independent actuaries to reflect the latest key assumptions. A summary of the assumptions used are shown below:

	2015 UK %	2015 US %	2014 UK %	2014 US %
Discount rate	3.7	4.1	3.5	3.9
Inflation (RPI)	3.0	n/a	3.1	n/a

Based on the mortality assumptions used in the Brush UK plan, a male aged 65 in 2015 is expected to live for a further 21.4 years (31 December 2014: 21.6 years) whilst a woman aged 65 would live a further 23.6 years (31 December 2014: 23.8 years).

For the Brush US plan, a male aged 65 in 2015 is expected to live for a further 20.3 years (31 December 2014: 21.1 years) whilst a woman aged 65 would live a further 22.3 years (31 December 2014: 23.3 years).

The average lifetime of a member in the Brush plans is expected to increase by 1.6 years (8%) for a male and 1.8 years (8%) for a female aged 65 in 2035.

It is noted that a 0.1 percentage point decrease in the discount rate would increase the pension liabilities of the Group by £5.1 million, or 1%, and a 0.1 percentage point increase to inflation would increase the liabilities by £3.0 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 £11.1 million, or 3%.

Following agreement with the Brush Group (2013) Pension Plan Trustees, the Group has contributed £8.8 million early to the Brush UK Plan in the year ending 31 December 2016 which has increased the surplus by this amount. Consequently, no contributions to the Plan are expected to be made in the year ending 31 December 2017. Annual contributions to the Brush US Plan are approximately £0.1 million per annum.

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

Following the receipt of the Elster disposal proceeds, the Group’s external financing facilities were repaid such that the Group had no external debt at 31 December 2015 and the net cash position of the Group was £2,451.4 million, compared to a net debt position of £501.3 million a year earlier.

The Sterling multi-currency revolving credit facility was reduced to £200 million and remained undrawn at the year end. The Sterling term loan, along with the Euro and US Dollar-denominated revolving credit facilities were cancelled.

The reduced 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. The first of these covenants is set at a maximum 3.5x leverage for each of the half-yearly measurement dates for the remainder of the term. At 31 December 2015, the Group was in a net cash position and therefore the debt cover covenant test was not relevant. The interest cover covenant is set at 4.0x or higher throughout the life of the facility and was 15.3x at 31 December 2015, affording significant headroom.

In addition to the £200 million banking facility, there are a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Group. These uncommitted facilities are lightly used.

The combination of having a positive cash position and the size of the reduced committed bank facility allows the Directors to conclude 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. At 31 December 2015, £2,425 million of the Group’s cash balance was held in AAA-rated Sterling denominated money market funds and the balance of the cash was held with banks with strong credit ratings.

Finance cost risk management

The interest rates that the Group was exposed to during the year were variable and linked to interbank rates of interest plus a margin determined by reference to the Group's debt cover ratio. Previously, when the Group had net debt, it was appropriate that financial instruments were entered into to protect against movement in interest rates. Now that the Group has net cash this protection is not necessary and the interest rate swaps were closed out prior to the year end.

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: transaction, translation and disposal-related risk, 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 exchange rate 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
2015	1.53	1.47
2014	1.65	1.56
Euro		
2015	1.38	1.36
2014	1.24	1.29
Czech Koruna		
2015	37.6	36.6
2014	34.2	35.7

The translation rate risk, being the effect on the results in the year due to the translation movement of exchange rates from one year to the next, is shown below. The table illustrates the translation movement in revenue and headline operating profit if the 2014 average exchange rates had been used to calculate the 2015 results rather than the 2015 average exchange rates.

The translation difference in 2015	£m
Revenue decrease	7.2
Headline operating profit decrease	1.7

For reference, in respect of the continuing 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	0.6
For every 10 cent strengthening of the Euro against Sterling	0.1
For every 10 per cent strengthening of the Czech Koruna against Sterling	1.4

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

Sensitivity of profit to translation and full transaction exchange rate risk	Increase/ (decrease) in headline operating profit £m
For every 10 cent strengthening of the US Dollar against Sterling	2.7
For every 10 cent strengthening of the Euro against Sterling	(0.5)
For every 10 per cent strengthening of the Czech Koruna against Sterling	1.4

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.

Finance Director's review continued

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 can own 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 section 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 adequate financial resources and has a consistent cash generation record, and, as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

Geoffrey Martin

Geoffrey Martin
Group Finance Director
3 March 2016

Longer-term viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the "Going Concern" provision.

A period of three years is believed to be appropriate for this assessment since this is consistent with the Group's financing cycle, whereby on average the Group has refinanced debt in line with this timescale.

The Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities, as they fall due, up to December 2018.

The Directors' assessment has been made by reference to the Group's financial position as at 31 December 2015, its prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and their management, all of which are described in the Strategic Report.

The Directors' assessment of the Group's viability is supported by comprehensive and detailed analysis and modelling. The model underpinning this statement is stress-tested, proven and is frequently used by management when determining working capital requirements for transactions and corporate restructuring. The model includes three years of forecast data from the Group's business assets and incorporates agreed sensitivities for economic risk, foreign exchange risk and liquidity risk(1) (each of which have been considered both individually and in combination by the Board), together with expected achievable mitigating actions, from the working capital model to create severe, but plausible, scenarios.

In preparing this statement, the following qualifications and assumptions are made:

(i) the viability model is based on the Group as at the date of this Annual Report with no consideration of any further acquisitions or future disposals of continuing businesses. We note future acquisitions would be based on the same proven business model applied previously, with related bank debt and equity raised to support the acquisition with sufficient headroom to cover business risks; and

(ii) financing arrangements and bank covenant testing are in line with the current facility which is committed for the period under review.

(1) For further details on the economic risk, foreign exchange risk and liquidity risk, and the mitigating actions being taken by management, please refer to the Risks and uncertainties section of the Strategic Report on pages 30 to 35.

Risk management

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.

The Board's risk management assessment undertaken in 2015 has resulted in a number of changes to our principal risks and uncertainties. These changes are detailed in the principal risks and uncertainties table on pages 30 to 35.

Risk management strategy and 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 to achieve its strategic objectives. It also recognises the need to define a risk appetite for the Group, to maintain sound risk management and internal control systems and to monitor its risk exposures and mitigations to ensure that the nature and extent of risks taken by the Group are consistent and aligned with its strategic objectives.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and that these systems, which are subject to regular monitoring and review, have been in place for the year under review and up to the date of approval of the Annual Report and financial statements.

The Board further confirms that the systems, processes and controls in place accord with the guidance contained in the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial Business Reporting".

The Audit Committee monitors the effectiveness of the risk management and internal control processes implemented across the Group, through regular updates and discussions with management and a review of the key findings presented by the external and internal auditors. The Board is responsible for considering the Audit Committee's recommendations and ensuring implementation by management of those recommendations it deems appropriate for the business. A description of the Audit Committee's activities during the year on risk management can be found on page 60.

During 2015, in accordance with provision C.2.3 of the UK Corporate Governance Code, the Board instructed the Audit Committee to undertake a robust review of the effectiveness of the Group's risk management and internal control systems, covering all material controls including financial, operational and compliance controls. The Audit Committee reported its findings to the Board. From this review of the risk management and internal control systems, the Board did not identify, nor was it advised of, any failings or weakness which it would determine to be significant. The Board concluded that the Group's risk management and internal control systems and processes were operating effectively and therefore a confirmation in respect of necessary actions to be undertaken has not been considered appropriate.

The Group operates on a decentralised basis and the Board has established an organisational structure with clear reporting procedures, lines of responsibility and delegated authority, as depicted in the diagram on the following page. Consistent with this, the Group operates a top-down/bottom-up approach to risk management, comprising Board and senior management oversight coupled with bottom-up risk management embedded in the day-to-day activities of its individual businesses.

Risk appetite

The Board has undertaken a comprehensive exercise to consider its risk appetite across a number of key business risk areas. The results of this review indicate the relative appetite of the Board across the risk factors at a specific point in time. Any material changes in risk factors will impact the Board's assessment of its risk appetite.

The Board has a higher risk appetite towards its strategic and operational risks and a balanced appetite towards macro-economic and political risk. The Board seeks to minimise all health and safety risks and has a low risk appetite in relation to legal, compliance and regulatory risk. Similarly, a conservative appetite is indicated by the Board with respect to pension and finance-related risks.

The results of the risk appetite review will support the Board's decision making processes during 2016. It is the intention to undertake a review of the Board's risk appetite at least annually.

2015 risk management actions

In 2014, the Board initiated a root and branch audit and review of the risk management framework and the underlying processes in operation in every business across the Melrose Group. The results of this review were presented to the Board and an action plan setting out key risk management priorities was agreed.

During 2015, the Board, supported by the Company Secretary and BDO LLP, delivered on these priorities and an enhanced risk management framework was implemented across the Group. Specific actions undertaken during the year include:

- reviewing and reaffirming the Board's risk appetite;
- updating and relaunching the Melrose Risk Management Strategy;
- developing and implementing an enhanced risk management governance framework across the Group. This framework defines the Melrose principles for risk management and sets the standards for the identification, evaluation, prioritisation, recording, review and reporting of risks and their management or mitigation throughout the organisation;

Risk management framework

Identification	Evaluation	Mitigation	Analysis	Review and monitoring
Financial and non-financial risks recorded in controlled risk registers	Risk exposure reviewed and risks prioritised	Risk owners identified and action plans implemented	Risks analysed for impact and probability to determine gross exposure	Robust mitigation strategy subject to regular and rigorous review

- cascading throughout the Group a new risk register template and a risk profile mapping application. These provide the Board with greater levels of detail and visibility on the risk management systems and processes in place, and illustrate each principal risk facing the Group from both a gross risk (pre-mitigation) and net risk (post–mitigation) position. The risk mapping application provides Directors with a clear risk profile for the Group and enables the Board to determine the degree to which this profile is aligned with its risk appetite;
- rolling out a Group-wide education and training programme focused on instilling and embedding a culture of effective risk management;
- providing a series of risk management workshops, attended by risk champions from each business unit, which provide a forum for sharing, learning and refining risk tools and processes; and
- reviewing and improving the Group's processes around the assessment of principal risks and the monitoring and reporting of the Group's risk management performance.

Assessment of principal risks

During the year the Board undertook a robust, in-depth and comprehensive assessment of the principal risks facing the Group and specifically those that might threaten the delivery of its strategic business model, its future performance, solvency or liquidity.

A summary of the principal risks and uncertainties that could impact on the Group's performance is shown on pages 30 to 35. Further information detailing the internal control and risk management policies and procedures operated within the Group is shown on pages 56 and 57 of the Corporate Governance Report.

Risk management priorities for 2016

Sound progress has been made during 2015 in respect of the Group's risk management processes. However, the Board recognises that Melrose cannot be complacent. In 2016, management will continue to focus on refining the risk management framework and on embedding a culture of effective risk management across the Group to ensure that risks and opportunities are identified and managed to ensure the delivery of long-term value creation. Further resources will also be devoted to strengthening the mechanisms for providing independent assurance on the effectiveness of the Group's risk management governance, processes and controls.

30 Risks and uncertainties
54 Corporate Governance Report

Risk management responsibilities

The Board, having overall responsibility for risk management, has approved a formalised, but pragmatic, Group risk management framework.

Top down at the Group level, risk oversight and assessment	**Board** Overall responsibility for risk management	• Agrees the Group's risk strategy and defines its risk appetite • Reviews reports and recommendations from Audit Committee on risk governance • Maintains oversight of key risks and mitigation plans
	Audit Committee Monitors the effectiveness of the Group's internal control processes	• Oversees the risk management processes and controls • Supports the Board in monitoring risk exposure against risk appetite
	Melrose senior management and business unit senior managers	• Set the risk management processes and controls • Consider emerging risks • Oversee and challenge risk mitigation plans
Bottom up risk exposure identification and assessment at the business unit level	**Operational managers and financial controllers**	• Risk identification, assessment and monitoring at the business unit level • Implementing risk mitigation plans and controls • Embedding risk awareness and culture throughout the business

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. The content of the table, however, is not intended to be an exhaustive list of all the risks and uncertainties that may arise and nor is the order of the list intended to be any indication of priority.

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 by both the management of the business and the Melrose Board.

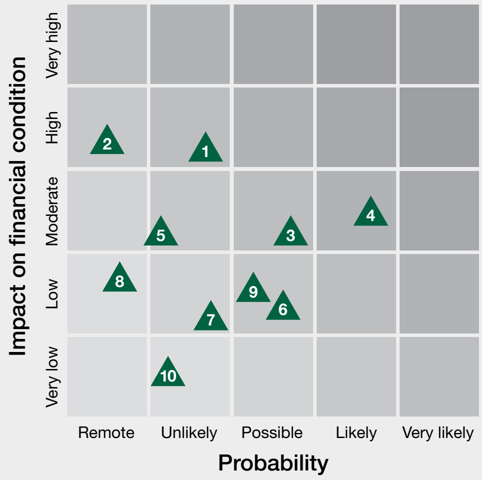
Key risk	Description and impact
Strategic risk	
Acquisition of new businesses and improvement strategies	The success of the Group's acquisition strategy depends on identifying available and suitable targets, obtaining any consents or authorisations required to carry out an acquisition and procuring the necessary financing, be this from equity, debt or a combination of the two. In making acquisitions, there is a risk of unforeseen liabilities being later discovered which were not uncovered or known at the time of the due diligence process. Further, as per the Group's strategy to buy and improve good but under-performing manufacturing businesses, once an acquisition is completed, there are risks that the Group will not succeed in driving strategic operational improvements to achieve the expected post-acquisition trading results or value which were originally anticipated, that the acquired products and technologies may not be successful or that the business 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 shareholder investment 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, sell" cycle, the expected timing of any disposal of businesses 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 businesses' operations there may be long-term liabilities which could be retained by the Group following a disposal. Insufficient allowance for such retained liabilities may affect the Group's financial position.
Diversity of operations	Following the sale of Elster, the Melrose Group's operations are less diversified, both commercially and geographically, and comprise only Brush. Weak performance in Brush, or in any particular part of Brush's businesses, would have an adverse impact on the financial condition of the Group.

(1) Comprises executive Directors and Melrose senior management.

Strategic risk profile

Our updated view of the current strategic risk profile is shown below.
The residual risk scores have been calculated on a post-mitigation basis.

No	Risk rating	Risk title	Risk trend since last annual report
1	High	**Acquisition of new businesses and improvement strategies**	↑ Increase
2	Moderate	**Timing of disposals**	↓ Decrease
3	Moderate	**Diversity of operations**	↑ Increase
4	High	**Economic and political**	→ No change
5	Moderate	**Loss of key management**	→ No change
6	Moderate	**Legal, regulatory and environmental**	↓ Decrease
7	Low	**Information security and cyber threat**	→ No change
8	Low	**Foreign exchange rate**	↓ Decrease
9	Low	**Pensions**	↓ Decrease
10	Low	**Liquidity**	↓ Decrease



Mitigation	Responsibility	Risk trend	Trend commentary	Strategic priorities
• Structured and focused due diligence undertaken. • Focus on acquisition targets that have strong headline fundamentals, high-quality products, leading market share but which 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)	↑	Following the disposal of Elster, the Group is currently on the lookout for its next acquisition.	**Buy** **Improve** Sell
• Directors are experienced in judging and regularly reviewing the appropriate time in a business cycle for a 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)	↓	Following the disposal of the Elster business with minimal retained liabilities, the Group's focus is on the 'buy' and 'improve' stages of its strategy.	Buy Improve **Sell**
• Brush is itself a diversified group comprising Turbogenerators, Transformers, Switchgear and Aftermarket. These businesses serve different markets, different geographies and different customers. Anticipated further development of the Aftermarket business will result in greater diversification and thereby reduce the risk of over-concentration.	Executive management(1)	↑	Whilst the Elster disposal has resulted in less diversity within the Group, the Melrose Board and management are actively reviewing acquisition opportunities which will mitigate the risks of over-concentration.	Buy **Improve** Sell

Risks and uncertainties continued

Key risk	Description and impact
Operational risk	
Economic and political	The Group operates, through manufacturing and/or sales facilities, in numerous countries and is affected by global economic conditions. Businesses are also affected by government spending priorities and the willingness of governments to commit substantial resources. Current global economic and financial market conditions, including any fluctuation in commodity prices (in particular, the prices of oil and gas), the potential for a significant and prolonged global recession and any uncertainty in the political environment 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 the Group's businesses.
Loss of key management	The success of the Group is built upon strong management teams. As a result, the loss of key personnel could have a significant impact on performance, at least for a time. The loss of key personnel or the failure to plan adequately for succession or develop new talent may impact the reputation of the 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, the competitive advantage will erode, leading to weaker growth potential or returns.
Compliance and ethical risk	
Legal, regulatory and environmental	There is a risk that the Group may not always be in complete compliance with laws, regulations or permits, for example concerning environmental 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 Group or Directors. For example, the Group's operations are subject to anti-bribery and anti-corruption, anti-money laundering, competition, anti-trust and trade compliance laws and regulations. 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.

(1) Comprises executive Directors and Melrose senior management.

Mitigation	Responsibility	Risk trend	Trend commentary	Strategic priorities
• 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. • Finance for acquisitions is readily available to the Group from banking syndicates. This has proven to be available to the Group even during periods of economic downturn, for example during the global financial crisis in 2008.	Executive management[1]	→	The fall in oil prices has resulted in a challenging year for Brush sales, with difficult end-market conditions expected to continue in 2016. However, the Board notes that economic uncertainty, lower levels of investment and a downturn in corporate earnings can depress business valuations and this may increase the number of potential acquisition opportunities for Melrose.	Buy Improve Sell
• Succession planning within the Group and its businesses is coordinated 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 attract and retain such individuals.	Executive management[1]	→	Succession planning remains a core focus for the Nomination Committee and the Board. Succession planning of executive Directors and senior management, together with visibility of potential successors within the Group, has been selected as an area for targeted management focus during 2016.	Buy Improve Sell
• Regular monitoring of legal and regulatory matters at both a Group and business level. Consultation with external advisers where necessary. • A robust control framework is in place underpinned by comprehensive corporate governance and compliance procedures at both a Group and business level. • Due diligence processes during the acquisition stage seek to identify legal, regulatory and environmental risks. At the business level, controls are in place to prevent such risks from crystallising. • Any environmental risks that crystallise are subject to mitigation by specialist consultants engaged for this purpose. External consultants assist the Group in complying with new and emerging environmental regulations. • Insurance cover mitigates certain levels of risk.	Executive management[1]	↓	Among other initiatives, during 2015, the Group implemented a revised compliance framework across its businesses, complemented by an online compliance training platform and a best-practice whistleblowing line. As part of the Elster disposal, a number of legal and regulatory provisions were transferred, together with their corresponding actual or contingent liabilities.	Buy Improve Sell

Risks and uncertainties continued

Key risk	Description and impact
Compliance and ethical risk (continued)	
Information security and cyber threat	Information security and cyber threats are currently a priority across all industries and remain a key UK Government agenda item. Like many businesses, Melrose recognises that the Group may have a potential exposure in this area.
Financial risk	
Foreign exchange	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 of the Group. 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	Any shortfall in the Group's pension schemes may require additional funding. Following the disposal of the Elster business, through which the Group also disposed of the FKI UK and McKechnie UK defined benefit pension plans, the Group has retained the Brush UK and US plans. As at 31 December 2015, these Brush plans had a net liability of £17.2 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. Alternatively, if the plans are managed on an ongoing basis, there is a risk that the plans' assets, such as investments in equity and debt securities, will not be sufficient to cover the value of the retirement benefits to be provided under the plans. 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 had no external debt as at 31 December 2015. The ability to raise debt or to refinance existing 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. In addition, the Group may be unable to refinance its debt when it falls due.

(1) Comprises executive Directors and Melrose senior management.

Mitigation	Responsibility	Risk trend	Trend commentary	Strategic priorities
• Management is working with information security consultants to better understand the extent to which the Group is exposed to cyber security risk and to ensure appropriate mitigations are in place. • Management has developed an information security strategy to mitigate the Group's exposure to cyber risk. This strategy, which follows the UK Government's recommended steps to cyber security, covers the following security areas: – network security; – malware protection; – active monitoring of information systems and networks; – user education and awareness; – home and mobile working; – incident management; – maintaining a secure configuration of information systems; – removable media controls; and – managing user privileges.	Executive management[1]	→	In response to the increased sophistication of information security and cyber threats, the Group has worked, and continues to work, with external consultants to implement a Group-wide strategy to aid the prevention, identification and mitigation of any threats.	Buy Improve Sell
• 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]	↓	Consideration for the Elster disposal was provided in Sterling. For repayments of the Group's Euro and US Dollar denominated facilities, which were predominantly used to finance Elster operations, exchange rate risk was mitigated by entering into a contingent foreign exchange trade upon the signing of the disposal agreement, which matured only upon completion. Potential acquisition targets are analysed for their transactional and translational exposures.	Buy Improve Sell
• The Group's key funded pension plans are now closed to new entrants and future service accrual. Long-term funding arrangements are agreed with the plans and reviewed following completion of actuarial valuations. • Active management of pension plan assets.	Executive management[1]	↓	As part of the Elster disposal, Melrose divested its responsibility for the FKI UK and McKechnie UK defined benefit pension plans, as well as all Elster-related pension obligations. As at the date of the Elster disposal, such plans had a net deficit of £112 million and gross liabilities of £849 million.	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]	↓	Following the sale of Elster, Melrose is debt free, with access to a £200 million multi-currency revolving credit facility, maturing in July 2019. Should circumstances change and, in line with the Group's strategy, the Group requires access to further funding, it is anticipated that funding shall remain accessible from financial institutions or from the market by means of a rights issue.	Buy Improve Sell

Corporate Social Responsibility

Whilst Melrose supports and monitors the corporate social responsibility policies, practices and initiatives across its businesses, the Group operates on a decentralised basis. Consequently, responsibility for the adoption of policies, practices and initiatives sits at a local business unit level. This ensures that rigorous and targeted policies and procedures are implemented that meet local regulatory requirements and guidance, whilst also taking into account the size and nature of the businesses.

Following the divestment of Elster on 29 December 2015, the Melrose Group consists of Brush and, consequently, the information set out in this Corporate Social Responsibility Report focuses on the initiatives taken by that business during 2015. However, Melrose will implement the policies, practices and initiatives set out in this report within any new business it acquires, where appropriate.

1. Employment policies
2. Employee involvement, consultation and development
3. Employee initiatives
4. Gender diversity
5. Health and safety
6. Health and safety initiatives
7. The environment
8. Environmental initiatives
9. Greenhouse gas emissions
10. Energy Savings Opportunity Scheme
11. Supply chain assurance
12. Human rights and ethical standards

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.

As part of the Group's decentralised approach, each of Melrose's businesses is responsible for setting and measuring its own employment and employee-related KPIs and, as such, these can 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.

Equal opportunities for appropriate training, career development and promotion are available to all employees within the Group regardless of any 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 will be made to enable disabled persons to carry out a specific role.

Furthermore, as a Group-wide policy and so far as particular disabilities permit, Melrose and each of its businesses will, where practicable, make every effort to provide continued employment in the same role for employees who are disabled during their period of employment or, where necessary, provide such employees with a suitable alternative role, together with appropriate training.

It is the Group's policy 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 persons are treated fairly, so that they can contribute to business success, to society and to economic growth.

Business Disability Forum
Building disability-smart organisations

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

Corporate Social Responsibility continued

2. Employee involvement, consultation and development

The Group places great importance on good labour relations, employee engagement and employee development. The responsibility for the implementation and management of employment practices rests with local management, in a manner appropriate to each business.

A culture of clear communication and employee consultation and engagement is inherent across the Group. 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 to 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.

Extensive training is available to all staff and is actively encouraged to ensure that a high standard of skill is maintained across the Group. Inter-departmental training programmes are also put in place across the Group to ensure that skills are shared between operations. The importance of training extends beyond on-the-job training and also focuses on enhancing personal development. In addition, apprenticeship programmes help to assist with training a new generation of employees and to ensure knowledge is retained within the businesses. Employees across the Group are encouraged to think innovatively and to have regard for both financial and economic factors affecting the Group.

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

3. Employee initiatives

During 2015, Brush implemented a range of employee-related initiatives. Some of these are listed below:

- Brush US initiated a Tuition Reimbursement Program to all full-time employees. The Group believes that by supporting its employees in self-development and educational efforts, through partial reimbursements for expenses associated with continuing education courses through accredited institutions of learning or certificated programmes, it will help to secure increased responsibility and growth within an individual's professional career, as well as enhancing the business's ability to meet customer needs. An employee is eligible for participation in this programme providing they have completed at least six full-time months of employment and the courses are job and/or industry-related.
- Brush US also introduced inter-departmental training throughout the business. Among other things, the training covers: operations, human resources, project management and health and safety. Through this training, employees have the opportunity to increase their knowledge of the whole of the business, which assists with inter-departmental communication. It also affords employees the opportunity to apply for vacancies within other departments or divisions.

"The Group places great importance on good labour relations, employee engagement and employee development."

Brush employees' charitable achievements

Mud run for Cancer Research

Supporting victims of cancer, Alison Barker, from Brush's Harrington Generators International, took part in the Race for Life Pretty Muddy run, a 5km mud-filled obstacle course. With the support and encouragement of colleagues, friends and family, Alison successfully completed the course and raised over £600 for Cancer Research.

Wolf Run

A team of colleagues from across Turbogenerators, Transformers and Switchgear recently took part in the Wolf Run, a 10km off-road challenge which involves running, climbing, jumping, crawling and swimming through the obstacles on the course. The team raised £1,650 for the MS Society, a charity dedicated to helping people who suffer from multiple sclerosis.

"There was a real sense of achievement completing the race as a team. I'm so grateful to the rest of the runners for taking part and to everyone who supported and sponsored us."

Sarah Allen, Wolf Run team member,
Generator Development Manager

- Brush UK has continued to invest in its apprentice programme, with 41 apprentices taken on during 2015. The business has concentrated on enhancing the development of its apprentices by working in partnership with the Prince's Trust. The apprentices were asked to raise funds for the Prince's Trust through a project management orientated initiative which resulted in them raising around £2,000. This initiative assisted with their personal development and leadership skills as well as raising the profile of Brush and the Prince's Trust.
- Following the launch in 2014 of the Brush Leadership and Development Programme, accredited to the Institute of Leadership & Management (ILM), Brush UK decided to build on this success by running the programme again in 2015. The programme was delivered across the business and included qualifications such as: Level 2 Certificate in Leadership and Team Skills, Level 3 Certificate in Leadership and Management and the Level 4 Diploma in Leadership and Management.
- During 2015, Brush UK continued to raise the profile of its graduate scheme by reviewing and refining its existing programme and attending an increased number of graduate fairs.
- 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, ensuring that the business supports its employees throughout any periods of absence or illness. Health promotion is a key feature of the service, which is continually developing through awareness campaigns and has had a positive impact on both the employees and the business as a whole.

Corporate Social Responsibility
continued

4. Gender diversity

The charts below show the total number of males and females working within the Group as at 31 December 2015.

The Board continues to pursue diversity, including gender diversity, throughout the Group. However, given the Group's strategic business model and the frequent turnover of businesses, the Group does not think that setting and committing to specific diversity targets in relation to the composition of the Board, senior management and the workforce in the Group's businesses is correct for Melrose. The utmost priority, across the Group, is to ensure both Melrose and its businesses employ the best person for each role.

5. Health and safety

The Board is committed to minimising the health and safety risks that each Group employee is 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.

Brush 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, Brush strives to achieve best practice in terms of what is suitable and practical for the size and nature of its operations. Defined and business-specific health and safety key performance indicators are also used. Reports detailing Brush's performance in relation to three health and safety KPIs (major accident frequency rate, accident frequency rate and accident severity rate) are presented to the Melrose Board and reviewed at each quarterly Board meeting.

There were no issues or concerns identified by the Board during 2015. While no corrective measures were deemed necessary, the Board continues to encourage management to remain vigilant where employee and third-party safety is concerned.

For more information on Brush's health and safety KPIs, see the key performance indicators section on page 19 of the Strategic Report.

Brush's manufacturing locations in both the UK and the Czech Republic hold ISO 18001 certification, the internationally-recognised assessment standard for occupational health and safety management systems, with the Netherlands plant hoping to achieve certification in 2016. Divisional managers within Brush are responsible for ensuring that health and safety remains a key focus and that active procedures and monitoring systems are in place. Detailed health and safety plans are set by Brush management each year to determine annual targets and improvement initiatives. Since commencement of operations in March 2015, Brush's factory in China has operated with zero lost time incidents.

Melrose Industries PLC Board

Male	7
Female	1
Total	8

Senior managers[1]

Male	8
Female	0
Total	8

Other Group employees

Male	2,033
Female	295
Total	2,328

Total Group employees

Male	2,048
Female	296
Total	2,344

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

Brush also has health and safety committees, which meet on a regular basis and are made up of representatives from both management and shop floor level personnel. Each of the committees has wide-ranging responsibilities which vary between operations and include the review of reported incidents and the monitoring of incident trends. These committees are also responsible for ensuring that corrective measures are implemented when accidents occur and that all incidents, whether or not they are deemed reportable under local legislation, are given due attention.

One of the key responsibilities for these committees is to carry out regular tours of the premises in which they operate, 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 committee recommendation is followed up at the next divisional board meeting to ensure that issues are resolved. Additionally, operations are audited by the committees 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.

6. Health and safety initiatives

During 2015, Brush implemented a range of health and safety initiatives, some of which are listed below:

- During 2015, the behavioural safety programme implemented by Brush UK in 2014 continued to improve the already 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 hazardous acts or correct any unsafe condition.
- During 2015, Brush's operations in the Czech Republic focused its health and safety efforts on working at heights. It installed a fall protection system onto crane runways and thereby significantly decreased the dangers associated with falls during regular maintenance activities. In total, Brush's operations in the Czech Republic implemented more than 100 health and safety improvements during the year.

Following these initiatives, among others, Brush has recognised the following benefits:

- a 40% reduction in accident frequency rate (based upon the number of all lost time accidents per 200,000 hours worked) compared to 2014, with the accident severity rate (based on the average number of days employees have taken off work following work-related accidents) also being reduced by 40% over the year;
- a workforce engaged 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.

"The Board is committed to minimising the health and safety risks that each Group employee is exposed to by promoting the effective use and management of business-specific policies and procedures."

Corporate Social Responsibility continued

7. The environment

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

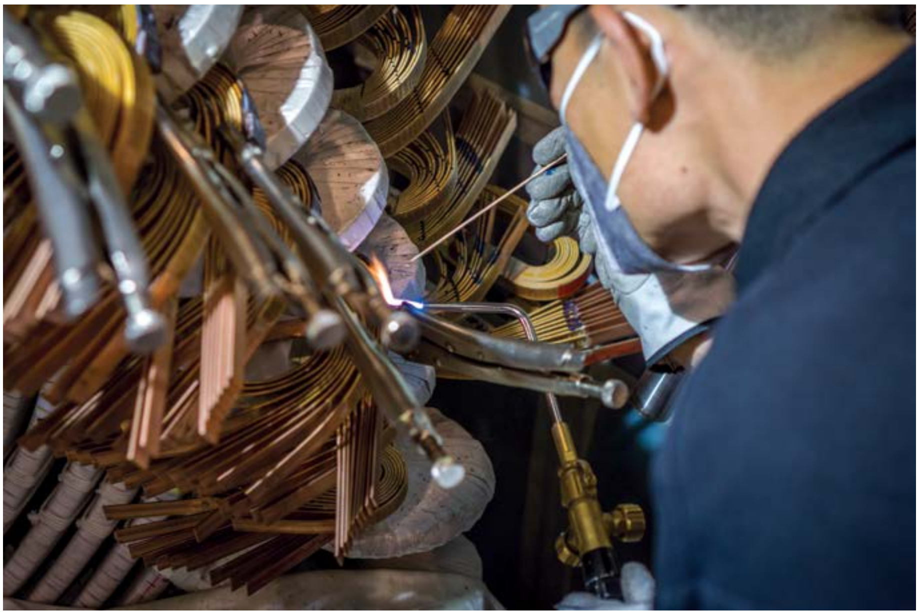
Although there are no standardised environmental KPIs currently used within the Group, the Group ensures businesses understand the importance of monitoring the impact of their operations on the environment. A range of KPIs are used as environmental measures, including energy consumption, CO_2 emissions, water consumption, water contamination, waste disposal, solid and liquid waste generation, recycling and volatile organic compound emissions. These KPIs are then used to plan for ongoing improvements.

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 2015, Brush implemented a range of environmental improvement initiatives. Some of these are listed below:

- Brush UK focused on making further energy savings, including in gas and electricity consumption. Lighting initiatives across the Loughborough site have continued to generate savings in certain working facilities.
- Brush UK introduced the use of reusable plastic pallets to minimise the use of wooden pallets, packaging and waste disposal.



9. Greenhouse gas emissions

The Group is required to measure and report its direct and indirect greenhouse gas ("GHG") emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The GHG reporting period is aligned to the Company's financial reporting year.

The data has been prepared in accordance with the principles and requirements of the Greenhouse Gas Protocol, Corporate Accounting and Reporting Standard (Revised Edition) 2004 for Scope 1 and Scope 2 emissions and the Department for Environment, Food & Rural Affairs ("DEFRA") guidance on how to measure and report on greenhouse gas emissions, as first published in 2013 and subsequently updated.

We have reported on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These emission sources fall within our consolidated financial statements.

The reported emissions cover all continuing operations of the Group as at 31 December 2015. Emissions from entities disposed of during the financial year ended 31 December 2015 are not accounted for in the reported GHG data. Therefore, for example, the data from the Elster business has not been included within the reported GHG data, as this business was divested during the year.

Global GHG emissions data (tonnes CO_2e(1) unless stated)

Emissions sources:	Year ended 31 December 2015(2)	Year ended 31 December 2014(2)	Change
Combustion of fuel and operation of facilities	8,825	11,351	(22)%
Electricity, heat and steam purchased for own use	4,053	5,119	(21)%
Overseas electricity(3)	8,719	9,002	(3)%
Company's chosen intensity measurement: Emissions reported above normalised to tonnes per £1,000 turnover	0.083	0.079	5%

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

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

The financial reporting year of 2014 was the second year in which the Company had been required to disclose its GHG emissions data within the Annual Report and represents the baseline against which subsequent emission data sets are expected to 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 Elster business units in 2015. The Elster group represented approximately 52% of the total GHG emissions previously reported in the Annual Report for the year ended 31 December 2014. 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 three-to-five-year time frame, 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

Article 8 of the EU Energy Efficiency Directive ("EED") 2012/27/EU requires 'large' organisations to carry out energy audits at least once every four years to help achieve the EU's target of 20% improvement in energy efficiency by 2020.

In the UK, Article 8 of the EED was transposed into the Energy Savings Opportunity Scheme ("ESOS") Regulations 2014, which came into force on 17 July 2014 and which require qualifying organisations to measure energy consumption, evaluate energy efficiency, identify management opportunities, store data and confirm to the UK Environment Agency by 5 December 2015 that an ESOS compliance audit has been completed. Other EU Member states have imposed their own interpretations of Article 8, but generally have similar requirements.

During 2015, Melrose worked with a specialist energy consultancy, CMR Consultants Limited, to ensure that the Group fully complied with its EU EED Article 8 obligations. Energy audits were carried out at Group sites across Europe and compliance was achieved through submission of reports, data and information to the relevant authorities, as appropriate.

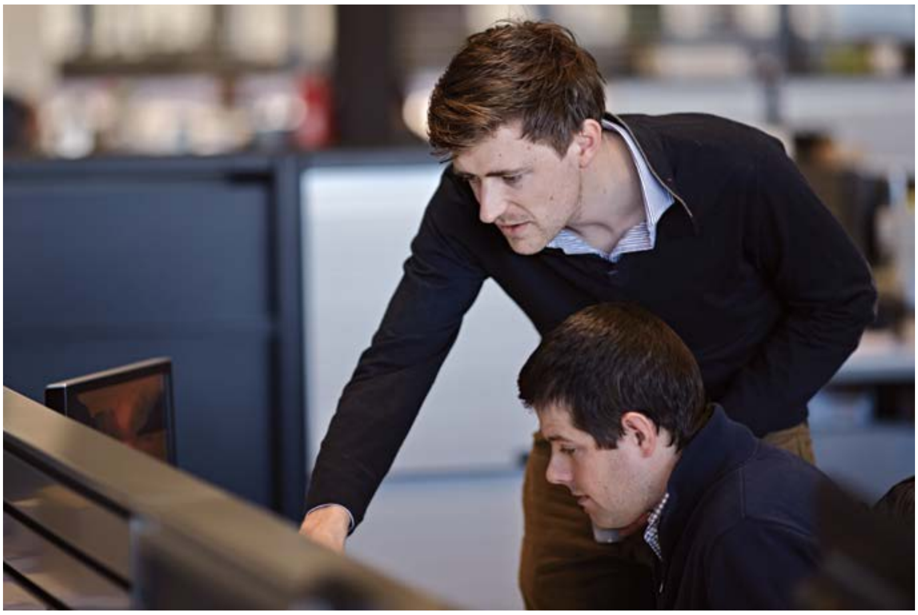
11. Supply chain assurance

Owing to the geographical and operational diversity of Melrose and Brush, 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. Such policies are used in a manner appropriate to the size and complexity of the business and also take into account the nature and geographical representation of key suppliers. A supplier approval process exists within Brush, which is linked to specific and tailored supplier assessments and due diligence requirements.

"Sound business ethics and integrity are core to the Group's values and a high importance is placed on dealings with all employees, customers, suppliers and other stakeholders."

Corporate Social Responsibility continued



12. Human rights and ethical standards

The decentralised nature of the Group means there is no single over-arching policy currently in place with regard to human rights.

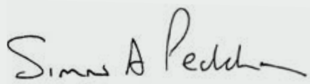
However, sound business ethics and integrity are core to the Group's values and a high importance is placed on dealings with all employees, customers, suppliers and other stakeholders. Melrose is committed to good practice in respect of human rights. Employees across the Group are required, at all times, to exhibit the highest levels of integrity and to maintain the highest ethical standards in business affairs. The full text of the Melrose Code of Ethics, which all employees of the Group are required to familiarise themselves with, can be found on the Company's website at **www.melroseplc.net/about-us/code-of-ethics**

In addition to the Melrose Code of Ethics, each Group business is expected to have its own code of ethics dealing with matters such as human rights. All business-specific employee policies are 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 managers within the Group's businesses.

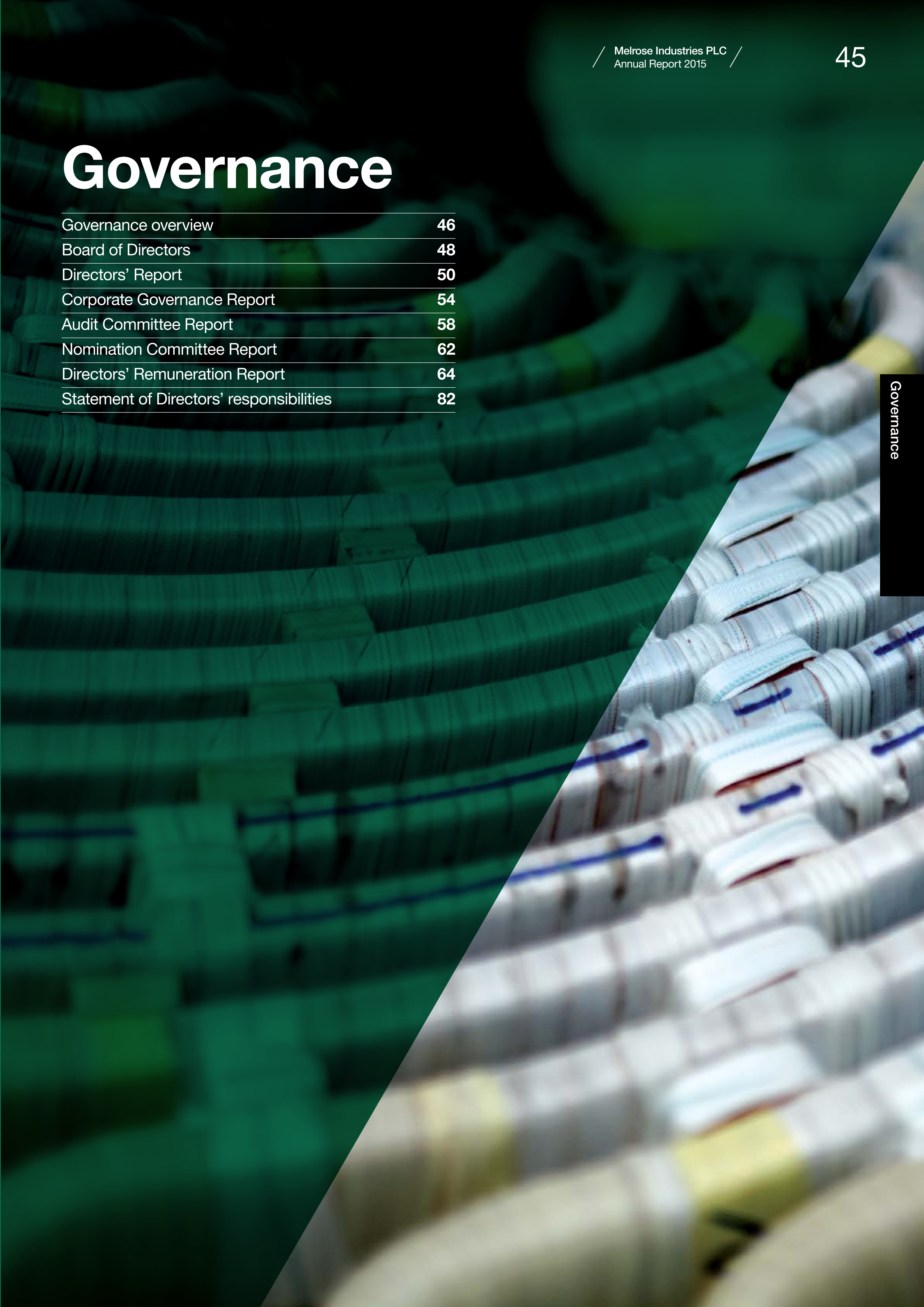
Finally, in advance of the need for the Company to report in accordance with the Modern Slavery Act 2015, the Group is taking steps to put in place effective and proportionate procedures to ensure that there are no forms of modern slavery in the Group's business or supply chains. It is expected that a full statement will be prepared and published on the Group's website following the end of the current financial year.

The Strategic Report, as set out on pages 02 to 44, has been approved by the Board.

On behalf of the Board



Simon Peckham
Chief Executive
3 March 2016



Governance

Governance overview

Christopher Miller
Executive 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: **www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx**

In support of this commitment, the Board carried out a number of of key governance activities during 2015 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.

Succession planning
Succession planning was an area of focus for Melrose in 2015 and a dedicated Board session was held to review the leadership needs of the Group, present and future, together with the skills and experiences needed from its Directors going forward. We recognise that succession planning is an ongoing process and is critical to maintaining an effective and high-quality board. With this in mind, a number of changes to the Board are planned during 2016. Perry Crosthwaite will be retiring from the Board at the conclusion of this year's Annual General Meeting ("AGM"), to be held on 11 May 2016. Perry has held a non-executive position on the Melrose Board since 2005 and his advice and extensive financial experience have been invaluable to Melrose; we wish him every success in the future. Perry will be replaced as senior non-executive Director by John Grant, who will also continue to hold the position of Chairman of the Audit Committee. A search is underway for a new non-executive Director and a search and selection specialist has been engaged to support the recruitment process. An appointment is expected to be made during 2016.

Remuneration
The Directors' Remuneration Report, comprising the Annual Report on Remuneration and the Directors' remuneration policy, is set out on pages 64 to 81. The Directors' remuneration policy is forward-looking and is subject to a binding vote at the AGM. Our existing remuneration policy was approved by shareholders at the 2014 AGM and would normally remain in place until the AGM in 2017. However, following the introduction of a new holding company for the Group in November 2015, we are required to seek shareholder approval for the Directors' remuneration policy at this year's AGM. It is important to note that no changes have been made to the remuneration policy being put to shareholders; it is wholly consistent with the remuneration policy approved in 2014, to the extent that the policy remains applicable going forwards. In addition, our remuneration philosophy remains unchanged; executive remuneration should be simple, transparent, support the delivery of the business strategy and only pay for performance.

Risk management and compliance
During 2015, the Melrose risk management framework was relaunched. The Group's risk management strategy was updated, risk training workshops were introduced, an enhanced risk register and risk mapping and profiling application was

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, 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

adopted and a risk monitoring and assurance programme was implemented. Taken together, these initiatives have enhanced the Group's effectiveness at identifying and managing risks and are promoting and embedding a more risk-aware culture across the business. Further details on the Group's management of risk can be found on pages 28 to 35 of this Annual Report.

Melrose's reputation for acting responsibly plays a critical role in its success as a business and its ability to generate shareholder value. We maintain high standards of ethical conduct and take a zero tolerance approach to bribery, corruption and other unethical or illegal practices. In 2015, we updated our Code of Ethics and developed a best practice compliance framework with policies covering anti-bribery and anti-corruption, anti-money laundering, competition and anti-trust, trade compliance and data privacy. Supporting these policies is a comprehensive online training platform and an industry-leading whistleblowing reporting facility. The integrity of the compliance framework is further reinforced by the use of independent assurance and compliance audits.

Engagement with shareholders

During 2015, the Company continued its 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
3 March 2016

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 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
- Determine the nature and extent of the risks the Group is willing to take
- Agree the Group's governance framework and approve Group governance policies

John Grant[(2)]
Non-executive Director

Justin Dowley
Non-executive Director

Liz Hewitt
Non-executive Director

Remuneration Committee

Justin Dowley Chairman	John Grant
Perry Crosthwaite	Liz Hewitt

(1) Perry Crosthwaite will be retiring from the Board at the conclusion of the 2016 AGM.

(2) Subject to shareholder approval of John Grant's re-election, John will assume the position of senior non-executive Director at the conclusion of the 2016 AGM.

58 Audit Committee Report
62 Nomination Committee Report
64 Directors' Remuneration Report

Board of Directors

Christopher Miller
Executive Chairman

Year appointed
Appointed as Executive Chairman on 29 May 2003.

Skills and experience
Christopher's longstanding involvement in manufacturing industries and private investment brings a wealth of experience to the Board.

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

Business reviews attended
3/3

Other significant 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 served as Chief Executive from May 2003.

Skills and experience
From a wide range of roles in corporate finance, private investment and management in manufacturing industries, David brings significant investment, financial and operational expertise.

A chartered accountant, David qualified with Peat Marwick Mitchell, following which he worked in the corporate finance divisions of S.G. Warburg, BZW and Dillon Read. In September 1988, David was appointed to the board of Wassall PLC, before becoming its deputy Chief Executive in 1993. Between 2000 and 2003, David was involved in private investment activities and served as a non-executive Director on the boards of two companies in France.

Board meetings attended
4/4

Business reviews attended
3/3

Other significant appointments
- Trustee of E-ACT, an independent sponsor of state-funded educational academies.

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 widespread expertise in corporate finance, mergers and acquisitions, strategy and operations.

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

Board meetings attended
4/4

Business reviews attended
3/3

Other significant 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 considerable public company experience and expertise in corporate finance, raising equity finance and financial strategy.

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, serving as Group Finance Director from October 2000 until June 2005. During this time, Geoffrey was involved in a number of projects, including raising public equity, debt refinancing and the restructuring and outsourcing of the manufacturing and supply chain.

Board meetings attended
4/4

Business reviews attended
3/3

Other significant appointments
–

Committee membership
–

Independent
Not applicable

Perry Crosthwaite[1]
Senior non-executive Director

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

Skills and experience
With a distinguished career in investment banking and over 30 years' experience as a director in the City of London, Perry provides a wealth of experience in financial, investment and executive management.

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

Business reviews attended
3/3

Other significant appointments
- Non-executive Director of Investec Limited and Investec plc and director of a number of Investec subsidiaries.
- Director of Nordoff Robbins Music Therapy.

Committee membership
- Audit
- Nomination
- Remuneration

Independent
Yes[2]

John Grant[3]
Non-executive Director

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

Skills and experience
Following a variety of senior roles within the automotive industry, John brings financial expertise and global executive experience to the Board.

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 both in Europe and the US.

Board meetings attended
4/4

Business reviews attended
3/3

Other significant appointments
- Non-executive Director of MHP S.A., Augean PLC and Touch Bionics Limited.
- Chairman of The British Racing Drivers' Club Limited.

Committee membership
- Audit (Chairman)
- Nomination
- Remuneration

Independent
Yes[2]

Justin Dowley
Non-executive Director

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

Skills and experience
Justin has extensive experience with over 35 years spent 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

Business reviews attended
3/3

Other significant appointments
- Chairman of Intermediate Capital Group plc (a specialist investment and asset management company).
- Non-executive Director of Novae Group plc, Scottish Mortgage Investment Trust PLC and the National Crime Agency.
- Director of a number of private companies.

Committee membership
- Audit
- Nomination
- Remuneration (Chairman)

Independent
Yes[2]

Liz Hewitt
Non-executive Director

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

Skills and experience
Liz has extensive business, financial and investment experience gained from a number of senior roles in international companies.

A chartered accountant, Liz qualified with Arthur Andersen & Co., following which she held a variety of positions within Gartmore Investment Management, CVC and 3i Group plc. Between 2004 and 2011, Liz was the Group Director of Corporate Affairs for Smith & Nephew plc, following a secondment to the Department for Business, Innovation and Skills and the HM Treasury, where Liz worked to establish The Enterprise Capital Fund.

Board meetings attended
4/4

Business reviews attended
3/3

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

Committee membership
- Audit
- Nomination (Chairman)
- Remuneration

Independent
Yes[2]

(1) Perry Crosthwaite will be retiring from the Board at the conclusion of the 2016 AGM.
(2) Details on the consideration given by the Board to the independence of its non-executive Directors, in light of the UK Corporate Governance Code, is provided on page 55 of the Corporate Governance Report.
(3) Subject to shareholder approval of John Grant's re-election, John will assume the position of senior non-executive Director at the conclusion of the 2016 AGM.

Directors' Report

The Directors of Melrose Industries PLC present their Annual Report and audited financial statements of the Group for the year ended 31 December 2015.

Incorporated information

The Corporate Governance Report set out on pages 54 to 57, the Finance Director's review on pages 20 to 26 and the Corporate Social Responsibility section of the Strategic Report on pages 36 to 44 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.

Structure of the Group

On 6 October 2015, Melrose Industries PLC (since renamed Melrose Holdings Limited) ("Old Melrose") announced its intention to implement a corporate reorganisation by way of a Court-sanctioned scheme of arrangement, pursuant to which a new listed holding company, New Melrose Industries PLC (since renamed Melrose Industries PLC) ("New Melrose") was to be introduced for the Melrose Group. The shareholders of Old Melrose approved the proposed scheme of arrangement on 29 October 2015 and, following the Court's sanction on 18 November 2015, the scheme of arrangement became effective on 19 November 2015, when New Melrose became the new holding company of Old Melrose and its subsidiaries (the "Restructuring").

In this Annual Report, unless explicitly stated otherwise, references to the "Company" and to "Melrose" are references to Old Melrose up to but excluding 19 November 2015, and to New Melrose from 19 November 2015 onwards. References to the "Board", to the "Directors" and to Board positions are references to the Board, to the Directors and to Board positions of the relevant company for those periods. No changes were made to the composition of the Board, nor to each Director's Board positions, as a result of the Restructuring.

AGM

The Annual General Meeting of the Company will be held at Barber-Surgeons' Hall, Monkwell Square, Wood Street, London, EC2Y 5BL at 11.30 a.m. on 11 May 2016 (the "AGM"). The notice convening the meeting is shown on pages 144 to 149 and includes full details of the resolutions to be proposed, together with explanatory notes in relation to such resolutions (the "AGM Notice").

Directors

The Directors of the Company as at the date of this Annual Report, together with their biographical details, can be found on pages 48 and 49.

There were no changes to the Board during the year. Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 80.

The statement of Directors' responsibilities in relation to the consolidated financial statements is set out on page 82, which is incorporated into this Directors' Report by reference.

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.

Pursuant to the Articles and in line with the UK Corporate Governance Code, all of the Directors of the Company are required to stand for re-election on an annual basis. All current Directors of the Company will be standing for re-election by the shareholders at the forthcoming AGM, with the exception of Perry Crosthwaite, who will be retiring from office with effect from the conclusion of the AGM.

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.

Insurance and indemnities

In accordance with the Articles and the indemnity provisions of the Act, the Directors have the benefit of an indemnity from the Company in respect of any liabilities incurred as a result of their office. This indemnity is provided both within the Articles and through a separate deed of indemnity between the Company and each of the Directors.

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

Post Balance Sheet events

In December 2015, the Company completed the disposal of its Elster business to a subsidiary of Honeywell International Inc., for cash consideration of £3.3 billion (see note 9 to the financial statements for further details, which are incorporated by reference into this report).

In accordance with its strategy to return value to shareholders, the Company returned approximately £2.4 billion from the proceeds of the disposal to shareholders (the "Return of Capital").

In order to realise the Return of Capital, holders of ordinary shares in the Company as at 5.00 p.m. on 26 January 2016 (the "Record Date") received one B share with a nominal value of 240 pence each in the capital of the Company for every ordinary share they held as at the Record Date. The B shares were not admitted to listing or dealing on any exchange.

On 27 January 2016, the High Court of England and Wales approved the cancellation of the B shares. On 5 February 2016, cheques representing the nominal value of the B shares (240 pence each) were dispatched to their holders and CREST accounts were credited with the proceeds, as appropriate.

Following the Return of Capital, the ordinary share capital of the Company was sub-divided and consolidated (the "Share Capital Consolidation"). This was to ensure that, so far as possible, the market price of an ordinary share in the Company remained approximately the same before and after the Return of Capital and, so far as possible, historical per share data remained comparable against future per share data.

The Share Capital Consolidation was effected by the sub-division of each existing ordinary share of 1 penny in the capital of the Company (the "Existing Ordinary Shares") into 7 shares of 1/7 pence each in the capital of the Company and, forthwith upon such sub-division, the consolidation of every 48 shares of 1/7 pence each resulting from such sub-division into one new ordinary share of 48/7 pence in the capital of the Company (the "New Ordinary Shares"). The record date for the Share Capital Consolidation was 6.00 p.m. on 27 January 2016 and the New Ordinary Shares were admitted to listing and trading from 8.00 a.m. on 28 January 2016. Subject to allowance for fractional entitlements, shareholders continued to own approximately the same proportion of the ordinary share capital of the Company before and after the Share Capital Consolidation.

The Return of Capital and the Share Capital Consolidation were approved by shareholders of New Melrose at a general meeting of New Melrose held on 2 October 2015 and by shareholders of Old Melrose at a general meeting of Old Melrose held on 29 October 2015.

Worked example
If you held 1,000 Existing Ordinary Shares of 1 penny each in the capital of the Company as at 6.00 p.m. on 27 January 2016, after the Return of Capital and the Share Capital Consolidation, you would receive:

- £2,400 in cash, by cheque or settlement through CREST; and
- 145 New Ordinary Shares of 48/7 pence each in the capital of the Company.

You would also be entitled to 5/6 of a New Ordinary Share. This fractional entitlement would be grouped together with all other fractional entitlements and sold in the market with the proceeds, net of commission, donated to charity.

Further details of significant events since the Balance Sheet date are contained in note 29 to the financial statements, which are incorporated by reference into this report.

Capital structure

The Company's issued share capital and changes to it during the financial year are detailed in note 25 to the financial statements, which are incorporated by reference into this report.

The table below shows details of the Company's issued share capital as at 31 December 2014, 31 December 2015 and immediately following the Share Capital Consolidation becoming effective on 28 January 2016.

Share class	31 December 2014	31 December 2015	28 January 2016 (post the Share Capital Consolidation)
Former ordinary shares of 13/110 pence each	1,071,761,339	Nil	Nil
Existing Ordinary Shares of 1 penny each	Nil	995,206,966[1]	Nil
New Ordinary Shares of 48/7 pence each	Nil	Nil	145,134,353[2]

(1) 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 Existing Ordinary Shares, nine ordinary shares of 13/110 pence each 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 ordinary share in the Company on 2 February 2015. These ordinary shares were issued pursuant to the general authorities granted by the Company's shareholders in accordance with section 551 and section 570 of the Act at the Company's AGM held on 13 May 2014. The terms of this issue were fixed on 2 February 2015 following a meeting of the Board. These ordinary shares were subject to the share capital consolidation in the ratio of 13 for 14 and were entitled to participate in the return of capital of 18.7 pence per ordinary share. The share capital consolidation and the return of capital were approved by the shareholders at a general meeting of the Company held on 20 February 2015.

(2) Fractional entitlements resulting from the Share Capital Consolidation effective on 28 January 2016 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 Motor Neurone Disease Association. 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, 26 Existing Ordinary Shares were allotted and issued to Investec Bank plc on 26 January 2016 at 281.0 pence per share, being the closing middle-market price of an Existing Ordinary Share on 26 January 2016. These ordinary shares were issued pursuant to the general authorities granted by the Company's shareholders in accordance with section 551 and section 570 of the Act at a general meeting of the Company held on 2 October 2015. The terms of this issue were fixed on 26 January 2015 following a meeting of the Board. These Existing Ordinary Shares were not entitled to participate in the Return of Capital, but were subject to the Share Capital Consolidation.

Details of the 2012 Incentive Plan are set out on pages 68 to 70 of the Directors' Remuneration Report and note 22 to the financial statements, which are incorporated by reference into this report.

Shareholders' voting rights

Subject to any special rights or restrictions as to voting attached to any class of shares by or in accordance with the Articles, at a general meeting of the Company each member who holds ordinary shares in the Company and who is present (in person or by proxy) at such meeting is entitled to:

- on a show of hands, one vote; and
- on a poll, one vote for every ordinary share held by them.

There are currently no special rights or restrictions as to voting attached to any class of shares.

The Company is not aware of any agreements between shareholders that restrict voting rights attached to the ordinary shares in the Company.

Where any call or other amount due and payable in respect of an ordinary share remains unpaid, the holder of such shares shall not be entitled to vote or attend any general meeting of the Company in respect of those shares. As at 2 March 2016, all ordinary shares issued by the Company are fully paid.

Details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the 2016 AGM are set out in the AGM Notice on pages 148 and 149.

The rights and restrictions attached to the New Ordinary Shares following the Share Capital Consolidation remain exactly the same as those attached to the Existing Ordinary Shares immediately prior to the Share Capital Consolidation.

Restrictions on transfer of ordinary shares

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company, aside from the usual restrictions applicable where shares are not fully paid up, if entitled to do so under the Uncertificated Securities Regulations 2001, where the transfer instrument does not comply with the requirements of the Articles or, in exceptional circumstances, where approved by the UK Listing Authority provided such refusal would not disturb the market in such shares. Restrictions may also be imposed by laws and regulations (such as insider trading and market abuse provisions). Directors and certain senior employees of the Group may also be subject to internal approvals before dealing in ordinary shares of the Company and minimum share holding requirements.

The Company is not aware of any agreements between shareholders that restrict the transfer of ordinary shares in the Company.

Directors' Report continued

Articles of association

The Articles of New Melrose were adopted upon incorporation of New Melrose on 29 September 2015, before being amended pursuant to a special resolution approved at a general meeting of New Melrose held on 30 September 2015, in preparation for the Restructuring. The Articles of New Melrose were based upon the Articles of Old Melrose at that date, with the amendments described in the Prospectus dated 6 October 2015, which was published in relation to the Restructuring.

The Articles were further amended on 26 October 2015 pursuant to a special resolution approved at a general meeting of New Melrose, in order to better facilitate the Return of Capital.

The Articles may only be amended by a special resolution at a general meeting of the shareholders of the Company. There are no amendments proposed to be made to the Articles at the forthcoming AGM.

Substantial shareholdings

As at 31 December 2015, the following voting interests in the ordinary share capital of the Company, disclosable under DTR 5, had been notified to the Directors:

Shareholder	Shareholding(1)	% of ordinary share capital as at 31 December 2015
BlackRock Inc.	73,710,497	7.4%
Artemis Investment Management	71,872,982	7.2%
Columbia Threadneedle Investments	58,103,733	5.8%
Legal & General Investment Management	39,791,884	4.0%
Aviva plc	38,273,076	3.8%

(1) These shareholdings do not take into account the effects of the Share Capital Consolidation which became effective on 28 January 2016.

Between 1 January 2016 and 2 March 2016, the following voting interests in the ordinary share capital of the Company, disclosable under DTR 5, were notified to the Directors:

Shareholder	Shareholding(1)	% of ordinary share capital as at date of disclosure(1)
Old Mutual plc	9,842,359(2)	6.8%
BlackRock Inc.	8,518,078(2)	5.9%

(1) Since the disclosure date, the shareholders' interests in the Company may have changed.

(2) To note, these disclosures were made after the Share Capital Consolidation, effective upon 28 January 2016.

Shareholder dividend

The Directors are pleased to recommend the payment of a final dividend of 2.6 pence per share (2014: 5.3 pence) to be paid on 16 May 2016 to ordinary shareholders on the register of members of the Company at the close of trading on 8 April 2016. This dividend recommendation will be put to shareholders at the forthcoming AGM of the Company, to be held on 11 May 2016. Subject to shareholder approval being obtained at the AGM for the final dividend, this will mean a full year 2015 dividend of 5.4 pence per share (2014: 8.1 pence).

In November 2014, the Company completed the disposal of its Bridon business for an enterprise value of £365 million. In accordance with its strategy to return value to shareholders, the Company announced its intention to return approximately £200 million from the proceeds of the disposal to shareholders, by way of a redeemable share scheme with both income and capital options. This return of capital was approved by shareholders at a 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.

Following the disposal of the Elster business in December 2015, the Company announced its intention to return approximately £2.4 billion from the proceeds of the disposal to shareholders, by way of the Return of Capital detailed earlier in this Directors' Report. The Return of Capital and the Share Capital Consolidation were approved by shareholders of New Melrose at a general meeting of New Melrose held on 2 October 2015 and by shareholders of Old Melrose at a general meeting of Old Melrose held on 29 October 2015. The Return of Capital is not included in the full year dividend figure stated above.

For discussions on the Board's intentions with regards to the dividend policy, please see the Chairman's statement on page 06, which is incorporated into this report by reference.

The Company offers a Dividend Reinvestment Plan ("DRIP") which gives shareholders the opportunity to use their dividend payments to purchase further ordinary shares in the Company. Further details about the DRIP and its terms and conditions can be found within the Investors section of the Company's website at **www.melroseplc.net**

Ability to purchase own shares

Pursuant to sections 693 and 701 of the Act and a special resolution passed at a general meeting of New Melrose on 2 October 2015, the Company is authorised to make market purchases of up to 99,520,696 of its ordinary shares, representing approximately 10% of the issued share capital of the Company immediately following the Restructuring. The Company has not made any purchases of its own shares pursuant to this authority.

This authority will expire at the end of this year's AGM. The Company is seeking approval from shareholders at this year's AGM for the Company to make market purchases of up to 14,513,435 of its ordinary shares, representing approximately 10% of the issued share capital of the Company following the Share Capital Consolidation. The full text of the resolution, together with minimum and maximum price requirements, is set out in the AGM Notice on page 145.

Financial instruments

The disclosures required in relation to the use of financial instruments by the Company, including the financial risk management objectives and policies (including in relation to hedging) of the Company and the exposure of the Company to price risk, 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 20 to 26, the risks and uncertainties section of the Strategic Report on pages 30 to 35 and in note 24 to the financial statements, which are incorporated by reference into this Directors' Report.

Research and development activities

The industries in which the Melrose Group invests are highly competitive and the businesses within the Group are encouraged to research and develop new and innovative product lines and processes in order to meet customer demands in a continuously evolving environment.

An example of the types of new products being launched within Brush include the 132 kV range of transformers, as noted in the Business review on page 10, which is incorporated by reference into this Directors' Report.

Business review and risks
A review of the Group's performance, the key risks and uncertainties facing the Group and details on the likely development of the Group can be found in the Chairman's statement on page 06 and the Strategic Report on pages 02 to 44 of this Annual Report (including the longer-term viability statement on page 27 and the risks and uncertainties section on pages 30 to 35) which are incorporated into this Directors' Report by reference.

Employees
Details in relation to employment policies, employee involvement, consultation and development, together with details of some of the human resource improvement initiatives implemented during 2015 are shown on pages 37 to 40 of the Corporate Social Responsibility section of the Strategic Report and on page 63 of the Nomination Committee Report, which are incorporated by reference into this Directors' Report.

Environmental
Details of the Group's environmental initiatives, greenhouse gas emissions and the methodology used to calculate such emissions are set out on pages 42 and 43 of the Corporate Social Responsibility section of the Strategic Report, which is incorporated by reference into this Directors' Report.

Political donations
The Group's policy is not to make any political donations and there were no political donations made during the year ended 31 December 2015 (2014: nil).

Branches
The Melrose Group and its businesses operate across various jurisdictions. The Group has no registered branches.

Disclosures required under Listing Rule 9.8.4R
Other than the following, no further information is required to be disclosed by the Company in respect of Listing Rule 9.8.4R:

- details of the 2012 Incentive Plan, which are set out on pages 68 to 70 of the Directors' Remuneration Report and note 22 to the financial statements (incorporated by reference into this report); and
- details of allotments of ordinary shares to Investec Bank plc, as part of the share capital consolidations, which are set out on page 51 of this Directors' Report.

Significant agreements and change of control
With the exception of the Group's banking facilities, the 2012 Incentive Plan (including the options granted under this plan) 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 2 March 2016.

In June 2012, as part of the process to acquire Elster, the Group entered into a £1.5 billion multi-currency term and revolving bank facilities agreement, which was restated and amended from time to time. By an amendment and restatement agreement dated 30 September 2015, it was agreed that each of the facilities would be repaid and subsequently cancelled using part of the proceeds of the disposal of the Elster business, save for a £200 million multi-currency revolving credit facility which remains in place, but which is not currently utilised.

The amended facility agreement contains substantially the same terms as previously, except for a reduction in various thresholds to reflect the smaller size of the Group following the disposal and Return of Capital.

In the event of a change of control of the Company following a takeover bid, the Company and lenders under the amended facility agreement 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 granted under the 2012 Incentive Plan would be exercised and any 2012 incentive shares resulting from such exercise, or that had previously been issued, would convert into ordinary shares in the Company 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 the offer price, or any element of the offer price, is not in cash, the Remuneration Committee will determine the value of the non-cash element, having been advised by a reputable investment bank that such valuation is fair and reasonable.

Following the maturity of an earlier scheme, a long-term incentive plan has been put in place for certain employees of Brush, which would be triggered upon a takeover of the Company. The plan provides for the payment of bonuses to certain key managers of Brush based upon the increase in value of the business.

Auditor
So far as each Director is aware, there is no relevant audit information (being information that is needed by the Company's auditor to prepare its report) of which the Company's auditor is unaware. Each Director has taken all the steps that he/she ought to have taken as a Director to make him/herself 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 Act.

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 2015 and concluded that the external auditor was in all respects effective. Deloitte LLP has expressed its willingness to continue in office as auditor of the Group. Accordingly, resolutions will be proposed at this year's AGM for the reappointment of Deloitte LLP as auditor of the Group and to authorise the Audit Committee to determine its remuneration.

Approval
Approved by the Board and signed on its behalf by:

AWestley

Adam Westley
Company Secretary
3 March 2016

Corporate Governance Report

In line with the UK Corporate Governance Code (the "Code") and the Listing Rules issued by the Financial Conduct Authority, this section of the Annual Report details the ways in which the Company has applied and complied with the principles and provisions of the Code during the year ended 31 December 2015.

In September 2014, the Financial Reporting Council ("FRC") amended the Code with effect for accounting periods beginning on or after 1 October 2014. A copy of the revised Code is available at **www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx**

The Audit Committee Report, Nomination Committee Report, Directors' Remuneration Report and the risk management and risks and uncertainties sections of the Strategic Report also form part of this Corporate Governance Report.

Statement of compliance

Throughout the year ended 31 December 2015, the Company has applied and complied with the main principles, the supporting principles and the respective related provisions of the Code, with the exception of the following:

D.1.1 Schedule A of the Code recommends that grants under executive share options and other long-term investment plans should normally be phased, rather than awarded in one block. Grants under the 2012 Incentive Plan, details of which are set out on pages 68 to 70 of the Directors' Remuneration Report, 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 and was approved by shareholders at a general meeting held on 11 April 2012.

All other aspects of the executive Directors' remuneration fully comply with Schedule A of the Code.

Main Principle A: Leadership

The Board

Details of the structure of the Board and its key responsibilities are shown on pages 46 and 47.

There were four formally-scheduled Board meetings held during the year and the attendance of each Director at these meetings is shown on page 56. In addition, a number of unscheduled Board meetings were held during the year in connection with corporate transactions, for example capital returns, restructurings, business divestments and, since the year end, the Return of Capital to shareholders and the associated Share Capital Consolidation.

In addition, business review meetings are held between scheduled Board meetings. There were three business review meetings held during the year. The attendance of each Director at these review meetings is set out on page 56. These meetings are critical to providing the Directors with a comprehensive understanding of the current performance of, and the key issues affecting, the Group's 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 discuss each business directly and to develop relationships with their leadership teams.

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, Committee and review papers to be delivered securely and efficiently 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 accordance with its Articles and in compliance with the Companies Act 2006, the Company has granted a qualifying third party indemnity to each Director. This indemnity is provided both within the Company's Articles and through a separate deed of indemnity between the Company and each of the Directors. 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 are made to shareholders rests with the Chairman, Vice-Chairman and the two other executive Directors.

The Board notes, and confirms its satisfaction with, the choice of an executive Chairman. Christopher Miller, the current executive Chairman of the Group, is one of the founding members of Melrose, having been a Director since its incorporation in 2003. Christopher's long-standing involvement brings a wealth of experience to the Board and his oversight of corporate governance and compliance matters complements the work of the Group's non-executive Directors. Christopher continues to play an active role in identifying and evaluating new opportunities for the Group.

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

Non-executive Directors

The Company's non-executive Directors are encouraged to, and do, scrutinise the performance of the executive Directors in all areas, including on strategy, risks and financial information, through their roles on the Company's Committees, at the Board's scheduled meetings and review sessions and on an ad hoc basis.

Main Principle B: Effectiveness

Board composition

As at 2 March 2016, the Board comprised an executive Chairman, three other executive Directors and four non-executive Directors. 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 48 and 49 and on the Company's corporate website at **www.melroseplc.net**

These biographies identify any other significant appointments held by the Directors. None of the executive Directors hold non-executive positions outside the Company.

The Board and the Nomination Committee undertake an annual review of the time commitment required from both the executive and non-executive Directors. The consensus view between the Directors is that the current time commitment is appropriate.

The Board notes that, following Perry Crosthwaite's retirement as a non-executive Director at the conclusion of this year's AGM, the Board will consist of an executive Chairman, three other executive Directors and three non-executive Directors and, as a result, will temporarily have a greater proportion of executive Directors to non-executive Directors. A search is currently underway for a new non-executive Director and Stonehaven Associates, search and selection specialists, have been engaged to support the recruitment process. Aside from their assistance with the recruitment process, Stonehaven Associates have no other connection with the Company.

The Nomination Committee has agreed upon selection criteria for the role, which has then formed the basis of a shortlist. The Nomination Committee is currently in the process of working through such a shortlist, using a rigorous and comprehensive weighted scoring system to select the candidate most appropriate for the position. An appointment is expected to be made during 2016.

Whilst the recruitment process continues, the Board is satisfied that there will be sufficient challenge by non-executive Directors of executive management in meetings of the Board and that no individual or small group of individuals dominates its decision making.

Non-executive Director independence

In accordance with the provisions of the 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.

Under the Code, the Board is required to state its reasons if it determines that a Director is independent notwithstanding the existence of any circumstances which may appear relevant to its determination.

Perry Crosthwaite, currently the Board's senior non-executive Director, will retire from his position at the conclusion of this year's AGM, having served three three-year terms as a non-executive Director. Perry's role as a non-executive Director, and in particular the length of his time in office, has been closely monitored by the Board. Even though Perry has served as a non-executive Director for more than nine years since the date of his first election, the Board has determined that he continues to maintain his independence. In addition, the Board has continued to benefit from Perry's invaluable experience in financial and other corporate matters. Perry will be replaced in the position of senior non-executive Director by John Grant.

The Board notes that John Grant, who was appointed as a non-executive Director on the Melrose Board in August 2006 and first elected at the 2007 AGM, will have served three, three-year terms at the time of the 2016 AGM. However, the Board is of the opinion that, due to his invaluable financial and global executive experience gained in the automotive and other engineering sectors, John Grant continues to maintain both his effectiveness and his independence as a non-executive Director of the Company. The Board will continue to monitor this position but feels at the present time that John Grant 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.

Board visit

One of the outputs of the 2014 Board evaluation exercise was a desire to continue to incorporate into the Board schedule visits to major operating businesses and periodic sessions with senior management from the Group's businesses.

In April 2015, the Board visited Brush's head office in Loughborough. Meetings were held with senior management from across the Brush businesses, which were complemented by a tour of the production facility and presentations focused on, among other things, market position, drivers of competition, growth opportunities and financials.

Board evaluation

Evaluation approach and process

During 2015, the Chairman held meetings with each of the Directors, including the senior non-executive Director, to discuss the performance of individual Directors and the Board as a whole.

After two years of externally-facilitated Board evaluation exercises (supported by Lintstock Limited, a specialist governance consultancy), the Board decided that a more free-ranging discussion was merited for 2015.

A range of topics were discussed including: Board mix, profile and diversity, succession planning, risk and internal controls, strategy, Board processes, future investor strategy and the Group's preparedness at managing the cyber risks facing the business.

The discussion also included a review of the actions agreed following the 2014 Board evaluation, and the steps taken in 2015 to address these needs:

Actions agreed from 2014 evaluation	What we have delivered in 2015
To continue to plan for executive Director succession and managing the succession of non-executive Directors	Executive and non-executive succession remains a core focus for the Nomination Committee and for the Board. Having completed three three-year terms as a non-executive Director of the Company, Perry Crosthwaite will retire from his position at the conclusion of this year's AGM. A search and selection process is underway and the appointment of a new non-executive Director is expected to be announced in the near future.
To continue to focus on risk management and internal control and to delineate accountabilities between the Board and the Audit Committee	Risk management and internal control have been areas of focus in 2015. A new risk management framework has been implemented across the Group and there is now a clear delineation of accountabilities for risk management between the Board and Audit Committee, which is enshrined in the reserved matters for the Board and the Audit Committee's terms of reference.

Corporate Governance Report continued

Actions agreed from 2014 evaluation	What we have delivered in 2015
To continue visits to major operating units to ensure that the Board develops and maintains a sound knowledge of the businesses within the Group and is visible to the operations	In April 2015, the Board attended a two-day site visit to Brush's head office in Loughborough. In addition to reviewing the production facilities at the site, the Board received a series of business briefings from the Brush leadership team.
To increase the frequency of management presentations so that the chief executive of each business reports to the Board annually	Following the success of the programme of presentations given by the Elster Gas and Electricity leadership teams to the Board during 2014, the Board received a series of briefings from the executive team at Brush as part of the visit to the Brush site during 2015.
To review the format and content of the management information provided to the Board and in particular to consider the inclusion of additional market intelligence information	The format and content of the information received from the Group's businesses has been reviewed, with an increased focus on market overview information, including competitor information.

Outputs of the evaluation

Overall, the Board was satisfied with its performance, and agreed that the Chairman and the senior non-executive Director continued to be very effective.

In order to continue and further enhance the Board's effectiveness, the following areas were designated as the subject of management focus during 2016:

- the composition, expertise and diversity of the Board;
- succession planning for the executive Directors and senior management and the Board's visibility of potential successors within the Group; and
- risk management and internal control and, in particular, the embedding of a culture of effective risk management across the Group.

It was further recognised that cyber risk was an increasing area of concern and would be focused on in 2016.

In accordance with the provisions of the Code, it is anticipated that externally-facilitated Board evaluations will be carried out at least once every three years. The scope for each evaluation is 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

Pursuant to the Company's Articles of Association and in accordance with the provisions of the Code, all of the Directors stood for re-election at the 2015 Annual General Meeting. With the exception of Perry Crosthwaite, who will be retiring from office with effect from the conclusion of the meeting, all current Directors of the Company will be standing for re-election by shareholders at this year's Annual General Meeting.

Following performance evaluations of each of the Directors and having carefully considered the commitments required and the contributions 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. Similarly, following performance evaluations of the Chairman and having carefully considered the commitments required and the contributions made by the Chairman, the non-executive Directors, led by the senior non-executive Director, are of the opinion that the Chairman's performance continues to be effective and that he 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	2	3	3
John Grant	4	3	2	3	3
Justin Dowley	4	3	2	3	3
Liz Hewitt	4	3	2	3	3

(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.

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 senior 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 failing 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 FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. In accordance with this guidance, the Board assumes ultimate responsibility for risk management and internal controls, including determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives (its "risk appetite") and ensuring an appropriate culture has been embedded throughout the organisation. The establishment of a revised risk management and internal control system has been complemented by ongoing monitoring and review, to ensure the Company is able to adapt to an evolving risk environment.

A separate Audit Committee Report is set out on pages 58 to 61 and provides details of the role and activities of the Committee and its relationship with the internal and external auditors.

Managing and controlling risk

Since 2014, the Group's approach to risk management has been reviewed and enhanced. The systems, processes and controls in place accord with the Code and the FRC's updated guidance. Details on the Group's risk management strategy are set out on pages 28 and 29.

Further information regarding the Group's financial risk objectives and policies can be found in the Finance Director's review on pages 20 to 26. A summary of the principal risks and uncertainties that could impact upon the Group's performance is set out on pages 30 to 35.

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 with the involvement of 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 page 61, the Group engages BM Howarth as internal auditor. A total of 22 internal audit visits, covering 44.4% of Group turnover, were completed during 2015. It is intended that all remaining Brush sites not visited in 2015 shall be visited in 2016.

The Directors are pleased to report that there were no material deficiencies and that the majority of the recommendations presented in the internal audit reports have now been, or are in the process of being, implemented.

The Board confirms that, from the review of internal controls, it has not determined any significant failings or weaknesses that it considers to 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.

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.

Compliance and ethics

The Company takes very seriously its responsibilities under the laws and regulations in the countries and jurisdictions in which the Group operates and has in place appropriate measures to ensure compliance. A compliance framework is in place comprising a suite of policies governing anti-bribery and anti-corruption, anti-money laundering, competition, trade compliance, data privacy, whistleblowing, document retention and joint ventures. These policies are in place within each business and 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/or associated companies in which the Company or any of its subsidiaries has a majority interest.

In addition, in conjunction with their internal audit function, BM Howarth conduct compliance audits across the Group and its businesses to identify any areas for improvement. Furthermore, an anti-bribery and anti-corruption assurance exercise is undertaken by the Group on an annual basis.

During 2015, the Company implemented an externally-hosted whistleblowing hotline across the Group, together with a roll-out of a Group-wide online compliance training platform, covering topics such as antitrust, trade compliance and export controls, data privacy, anti-bribery and anti-corruption and anti-money laundering. Between its launch in November 2015 and 31 December 2015, 7,159 modules of the training platform were completed by employees of the Group.

Main Principle D: Remuneration

Details regarding Directors' remuneration, both generally and in relation to the requirements of the Code, are set out in the Directors' Remuneration Report, which is presented in the following three sections:

- the annual statement from the Chairman of the Remuneration Committee, which can be found on pages 64 to 67;
- the Annual Report on Remuneration, which can be found on pages 68 to 76; and
- the Directors' remuneration policy, which can be found on pages 76 to 81.

Main Principle E: Relations with shareholders

Through regular meetings and presentations between the executive Directors, analysts and institutional shareholders, including those following the announcements of the Company's annual and interim results, the Company seeks to build on a mutual understanding of objectives with its shareholders. The non-executive Directors are available to meet institutional shareholders should there be unresolved matters shareholders wish to bring to their attention. The views of key analysts and shareholders are generally reported 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 and any concerns of shareholders.

The Board welcomes the attendance of shareholders at the Annual General Meeting, the notice for which can be found on pages 144 to 149. The Annual General Meeting provides all shareholders with the opportunity to attend and vote on the matters put to shareholders, either in person or by proxy. 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 responsibilities of the Audit Committee (the "Committee") include overseeing financial reporting, risk management and internal controls, in addition to making recommendations to the Board regarding 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

Role and responsibilities

The Committee's role and responsibilities are set out in its terms of reference. These were updated in December 2015 in line with best practice and are available on the Company's website and from the Company Secretary at the Company's 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, risk management and internal control systems and compliance controls;
- monitoring and evaluating the effectiveness of the internal audit function;
- reviewing and challenging the going concern assumption and the assessment forming the basis of the longer-term viability statement;
- 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 on whether 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 48 and 49.

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 2015, the Committee met in March, July 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 to maintain a view of the internal controls and processes throughout the year. The release of the interim results was brought forward from August to July 2015, to align with the announcement relating to the sale of the Elster businesses.

The attendance of its members at these meetings is shown in the table opposite.

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, including the going concern assumption and the assessment forming the basis of the longer-term viability statement. As part of this review the Committee received reports from the external auditor on their audit of the Annual Report and financial statements and their review of the interim financial 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 risk management and 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 2015 Annual Report and financial statements. The Committee advised the Board that, in its view, the 2015 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 internal auditor and the external 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 2015

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
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)	Budget plans prepared by management, which support the future performance expectations used in the calculation, were approved by the executive Directors. The Committee challenged 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 impairment assessment.
Provisions for legal and environmental claims and other provisions The level of provisioning for legal and environmental claims and other provisions requires 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 continued 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.
Disposal of Elster The Company's accounting treatment of the disposal of the Elster net assets and the disposal of the FKI UK and McKechnie UK defined benefit pension plans.	The Company's accounting treatment of the divestment of the Elster Group and the FKI UK and McKechnie UK defined benefit pension plans was examined by the Committee. The Committee considered management's approach and, having taken input from the external auditor, agreed that it was appropriate.
Taxation risks and recognition of deferred tax assets Judgement is required in determining the Group's income statement tax charge and its 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 reviewed the tax implications of corporate transactions undertaken during the year. The tax risks and provisions, particularly those relating to audits by non-UK tax authorities, were also examined. The Committee also reviewed the Group's recognised UK deferred tax asset and the key judgements which underpinned this. Having taken input from the external auditor, the Committee agreed with management's proposed treatment of tax risks and deferred tax assets.
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 Committee considered a paper which highlighted the developing regulatory and governance framework, the expected timeline and relevant impact on the Group. A new audit signing partner took office following the conclusion of the audit process in respect of the financial year ended 31 December 2014.
Non-audit fees Under new EU and Competition Commission rules, effective from 17 June 2016, new restrictions on non-audit services will apply.	The Committee received an update on the latest guidance on the new rules governing the provision of non-audit services and considered 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 Committee closely monitors the non-audit services provided by the incumbent external auditor to ensure that these are appropriate.

Audit Committee Report continued

The Audit Committee's activities during 2015

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
Risk management and internal control Monitored the risk management and the internal control systems and conducted a review of their effectiveness.	The Committee received updates during the year from senior management on the Company's risk management framework and internal control systems. The Committee also received a presentation from senior management on the risk management framework and on the financial, operational and compliance controls in place. The Committee considered the risk management and internal control systems and concluded that they were effective and reported this to the Board.
Going concern and viability Assessment of the going concern assumptions and the basis of the viability statement.	The Committee reviewed and supported management's recommendation to prepare accounts on a going concern basis. The Committee also considered papers prepared by management detailing the qualifications, assumptions, scenario modelling, sensitivity analysis and judgements which underpinned the longer-term viability statement to be included in the 2015 Annual Report. The Committee concurred with the assumptions and judgements made by management and concluded that the longer-term viability statement was appropriate.

Risk management and internal control

During 2015, the Committee monitored the effectiveness of the Group's risk management and internal control systems through regular updates from management and a review of the key findings presented by the external and internal auditors.

In accordance with provision C.2.3 of the UK Corporate Governance Code, the Board instructed the Committee to undertake a review of the effectiveness of the Group's risk management and internal control systems, covering all material controls including financial, operational and compliance controls.

This review took the form of management presentations followed by a Committee discussion. The Company Secretary briefed the Committee on the key elements of the Melrose risk management framework including an updated risk strategy, a best practice risk register with risk mapping and profiling application, an education and training programme and an audit and assurance process. Management then reported on the Group's internal control systems. Samples of both Group and business unit controls, including financial, operational and compliance controls, were presented and examined. The Group's risk management and internal control systems were reviewed and the Committee concluded that these systems were effective. The Committee reported its conclusions to the Board at the next scheduled Board meeting.

External audit

Appointment, re-appointment and assessment of effectiveness

The Committee reviews and makes recommendations with regard to the re-appointment of the external auditor. 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 2015 following the conclusion of the audit process in respect of the financial year ended 31 December 2014.

The Committee has reviewed the external auditor's performance and effectiveness. For 2015, the chairman of the Committee worked with 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 engagement partner and of the wider external audit team;
- the planning and execution of the audit process;
- the quality and timeliness of communications from the external auditor;
- the quality of support provided to the Committee by the external audit partner;
- the degree to which the external auditor and the audit process has contributed to improvements in financial reporting to Melrose's shareholders; and
- the external auditor's independence and objectivity.

The Committee, along with relevant members of the management team, were requested to complete a questionnaire containing these questions. The Company Secretary 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 on the following page, 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 re-appointment of Deloitte LLP as external auditor will be put to the shareholders at the 2016 Annual General Meeting.

Audit tendering

The Committee has considered the audit tendering provisions outlined in the UK Corporate Governance Code. The Committee has also reviewed the guidance provided by the European Commission and the Competition and Markets Authority ("CMA"). It is the Committee's understanding that under the CMA and the EU rules rotation of the external audit firm is required by 2024. It is the Committee's intention to put the external audit out to tender in accordance with the CMA and the EU timeframes.

The current audit engagement partner was appointed in 2015 and is not due to rotate until the year ending 31 December 2019. The Committee remains satisfied with the quality, integrity and the effectiveness of the work undertaken by Deloitte LLP on behalf of the Melrose shareholders. Accordingly, it is not proposed to put the audit out to tender at the present time but the matter will be kept under review.

Non-audit services

Under new EU and Competition Commission rules, effective from 17 June 2016, new restrictions on non-audit services will apply, which will cap the level of permissable non-audit services awarded to the external auditor at 70% of the average audit fee for the previous three years. It is the Committee's understanding that the cap applies prospectively and so will first apply in respect of the Company's 2020 financial year.

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 the audit firm may, in the future, be required to give an audit opinion.

During 2015, the main non-audit services provided by Deloitte LLP were in relation to the Group's disposal of Elster, the introduction of the new Melrose Group holding company, taxation advice, 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, Deloitte LLP is 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 and the Head of Financial Reporting, followed by a meeting to discuss these key findings and to agree on resulting actions.

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. 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. The Committee also reviews BM Howarth's performance against the agreed internal audit programme.

John Grant
Chairman, Audit Committee
3 March 2016

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 (the "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)	2/2
Perry Crosthwaite	2/2
Justin Dowley	2/2
John Grant	2/2
Christopher Miller	2/2

64 Directors' Remuneration Report

Discharge of responsibilities
The Committee discharges its responsibilities through:

- regularly reviewing 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 2015 the Committee met twice. The attendance of its members at these Committee meetings is shown in the table opposite.

The Committee's terms of reference, which were last revised in August 2014, 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 2015 activities of the Committee are set out on the following page.

Composition

In compliance with the UK Corporate Governance Code, the majority of the members of the Committee were independent non-executive Directors throughout 2015. The Committee was chaired 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 Executive 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 the Board 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 and knowledge. 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 2015

The principal focus of the Committee during 2015 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 executive Directors and non-executive Directors in conjunction with the provisions of the UK Corporate Governance Code. In particular, it was agreed that an additional non-executive Director would be required to replace Perry Crosthwaite who, having served more than three, three-year terms as a non-executive Director, would stand down from the Board following the conclusion of the 2016 AGM. The recruitment process is underway and an executive search and selection specialist has been appointed to assist the Committee. An appointment is expected to be made during 2016;
- The existing time commitment of the Company's non-executive Directors was reviewed and confirmed as appropriate;
- The Committee membership was reviewed and a recommendation made to the Board that, subject to the appointment of a new non-executive Director, no changes would be required to be made in 2016;
- 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 2016 AGM, with the exception of Perry Crosthwaite, who will be retiring from office at the conclusion of the 2016 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 businesses 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 reviewed during the year and it was determined that these were in line with best practice.

Liz Hewitt
Chairman, Nomination Committee
3 March 2016

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 (the "Committee") responsibility for overseeing the remuneration of the Company's Directors, Company Secretary and other senior employees.

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

48 Board of Directors

Dear Shareholder,
On behalf of the Board, I am pleased to present our report on Directors' remuneration at the end of yet another highly successful year, the highlight of which has been the sale of Elster to Honeywell International Inc. ("Honeywell"). The Directors' Remuneration Report sets out the amounts earned in respect of the year ended 31 December 2015 and the remuneration policy for the Directors of Melrose.

The Directors' Remuneration Report for the year ended 31 December 2015 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 2015 and will be subject to an advisory vote at the AGM to be held on 11 May 2016.

The existing Directors' remuneration policy was approved by shareholders at the 2014 AGM and took binding effect from the conclusion of that meeting. The approval of the Directors' remuneration policy is normally 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 would not normally be required until the AGM in 2017.

However, due to the introduction of a new holding company for the Group in November 2015, the Company is required to seek shareholder approval for the Directors' remuneration policy in respect of the new holding company at the 2016 AGM. It is important to note that no changes have been made to the remuneration policy being put to shareholders; it is wholly consistent with the remuneration policy approved in 2014. It should be noted that the 2012 Incentive Plan, which is a legacy arrangement, no longer forms part of the forward-looking policy as explained below. We have also formally incorporated within the policy the clawback arrangements which have applied in respect of the annual bonus for 2015 and future years, as referred to in the 2014 Directors' Remuneration Report. The Directors' remuneration policy sets out the forward-looking remuneration policy that will be subject to a binding vote at the AGM and shall take binding effect from the conclusion of that meeting.

A key element of the Melrose remuneration framework is the "2012 Incentive Plan", the Company's long-term incentive arrangement, which was approved by special resolution of shareholders at a general meeting held in April 2012. As no more awards will be granted to executive Directors under the 2012 Incentive Plan, it is not included in our forward-looking Directors' remuneration policy. The existing options (set out on page 73) will continue in accordance with their terms. In the interests of transparency, we have set out on page 68 an illustration of how the growth in value of the Company over the period from the start of the 2012 Incentive Plan in March 2012 might translate into value earned by participants in that plan.

Performance in 2015

2015 was another very strong year for Melrose and marked another milestone in our "buy, improve, sell" strategy:

- In December 2015, we completed the sale of the Elster business to Honeywell for cash consideration of £3.3 billion, being a multiple of 3.1 times 2014 revenue and 14.3 times 2014 headline[1] EBITDA[2].
- Melrose generated a return of 2.3 times equity investment and a 33% equity rate of return per annum in the three years since it acquired Elster for an enterprise value of £1.8 billion.
- In addition, Honeywell assumed all Elster-related pension obligations as well as the Group's FKI UK and McKechnie UK defined benefit plans, which had combined gross liabilities of £849 million and a net accounting deficit of £112 million at the date of disposal.
- In accordance with our strategy, the Board returned £2.4 billion of the disposal proceeds to shareholders, equivalent to 240 pence per ordinary share.
- Since flotation on AIM in 2003, Melrose has raised approximately £2.0 billion from shareholders, provided a total shareholder return of 574% (as at 2 March 2016, compared to 144% for the FTSE 350), created net shareholder value of £2.8 billion, including shareholders' existing investment in Melrose, and following the recent Return of Capital, returned in cash approximately £4.3 billion to shareholders.

It is with this performance in mind, and in line with Melrose's remuneration philosophy of pay for performance, that the Committee has taken its decisions in respect of executive Directors' remuneration arrangements for 2015 and 2016.

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

- **Base salary:** Base salaries are paid in line with a market-competitive range compared with 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 six 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 Group 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 six years, the average percentage of base salary payable has been 84%. The maximum opportunity is deliberately positioned below the median maximum opportunity for FTSE 250 companies and is a percentage of salaries that are paid in line with the market competitive range compared with 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 at a general meeting held on 11 April 2012. Entitlements under the 2012 Incentive Plan 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 long-term incentive 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 Group's long-term incentive arrangements is only made once every five years and so the payment in that fifth year should not be regarded as an annual payment.

The long-term incentive arrangements are intended to directly align our executive Directors' incentive arrangements with the interests of shareholders by linking remuneration specifically to shareholder value. The structure of the 2012 Incentive Plan is designed to ensure that, whilst shareholder investment exceeds returns, only once shareholder value has achieved compound annual growth in excess of the Retail Prices Index ("RPI") + 2% does the 2012 Incentive Plan have any value at all. This means that, whilst shareholder investment exceeds returns, the 2012 Incentive Plan has a minimum growth requirement (effectively a charge) which requires the net invested capital to be inflated by RPI + 2% per annum. Equally, if and so long as shareholder returns exceed shareholder investment, the net shareholder returns are treated as increased by the RPI + 2% per annum amount. The value payable to management under the 2012 Incentive Plan comprises 7.5% of value created in excess of these amounts. The 2012 Incentive Plan is then paid out to participants in predetermined 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.

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Headline[1] operating profit before depreciation and amortisation of computer software and development costs.

Directors' Remuneration Report continued

We have included on pages 68 to 70 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 outperformance when compared with our competitors, supported the Company's success and has 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 purchases 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 2015, the Chairman and Chief Executive held 92 and 50 times their base salary, respectively, in Melrose shares. The table below shows the number of ordinary shares held by the executive Directors as at 31 December 2015 and the value of each executive Director's shareholding at that date as a multiple of their 2015 base salary. None of the executive Directors have sold any shares in the Company within the last five years. Further details on Directors' shareholdings are given on pages 72 and 73.

Executive Director	Number of shares held as at 31 December 2015	Value of shares held at 31 December 2015[(1)]	Value of shares held at 31 December 2015 as a multiple of 2015 base salary
Christopher Miller	14,203,260[(2)]	£41,317,283	92x
David Roper	7,530,783	£21,907,048	49x
Simon Peckham	7,775,196	£22,618,045	50x
Geoffrey Martin	3,739,054	£10,876,908	30x

(1) For these purposes, the value of a share is 290.9 pence, being the closing mid-market price on 31 December 2015.

(2) As at 31 December 2015, the interest of Christopher Miller included 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.

As noted on page 73, 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.

Our remuneration structure for non-executive Directors

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

2015 key decisions and incentive pay-outs

The Remuneration Committee remains committed to a responsible approach to executive pay. As described in the Strategic Report section of this Annual Report, the Company had a successful year, with the disposal of the Elster businesses. 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% based on a strategic element. The maximum bonus opportunity is set at 100% of base salary, which is below the maximum median annual bonus opportunity for FTSE 250 companies, and reflects the participation of the Chief Executive and Group Finance Director in the 2012 Incentive Plan.

In line with the Directors' remuneration policy approved by shareholders at the AGM in 2014, the Committee is permitted to adjust the formulaic outcome of the annual bonus calculation. The Committee has considered whether, in recognition of the Group's exceptional achievements during the year and the value delivered to shareholders, such an adjustment should be made. However, the Committee has concluded that no such adjustment should be made and that the bonus outturn for 2015 should be determined on the formulaic basis consistent with previous years.

The earnings growth element of the bonus includes both the continuing and the discontinued Melrose businesses. At the date of its disposal on 29 December 2015, Elster represented the major part of the Group, and excluding its results from the earnings calculation would have adversely impacted the earnings element of the bonus calculation. The Committee believes that excluding Elster's earnings and thereby penalising the Chief Executive and Group Finance Director in an exceptional year, as a consequence of an action that has realised considerable shareholder value, is inappropriate. The Committee has therefore determined that the Elster earnings from 1 January 2015 to 29 December 2015 should be included for the purposes of the earnings growth calculation. For the strategic element of the annual bonus calculation, the Committee set objectives for the year relating to the value that could be achieved from the sale of Elster and also the reduction in the Group's pension liabilities.

Having listened to our investors and a number of corporate governance advisers, and in the interests of transparency, comprehensive details are included on the objectives and deliverables and on how the Remuneration Committee determined the level of award under the 2015 annual bonus. The threshold, target and maximum performance levels relating to the sale of Elster are, however, commercially sensitive and are not reported. Further detail on the determination of the annual award is set out on page 77.

In line with increases in previous years, an increase of 3% was made to the executive Directors' salaries with effect from 1 January 2015. 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 2015. However, the additional fees payable to the committee chairmen and the senior non-executive Director (which had been subject to market adjustment in 2014 and disclosed in that year's Directors' Remuneration Report) were left unchanged.

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 payout under a long-term incentive plan in 2015, including as a result of the sale of Elster.

Business unit long-term incentive plans

Long-term incentive plans are put in place for the leadership of the Group's businesses with payouts based on the performance of their respective businesses.

Approach to Directors' remuneration for 2016

The Directors' remuneration policy is set out for shareholder approval on pages 76 to 81. Details of how the policy will be applied in practice for 2016 are set out in the Annual Report on Remuneration on pages 68 to 76.

Executive Directors' base salaries have been increased by 3%, with effect from 1 January 2016, 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 2016 have also been increased by 3%, with effect from 1 January 2016. However, the additional fees payable to the committee chairmen and the senior non-executive Director are viewed as appropriate and have been left unchanged.

The overall framework for the executive Directors' annual bonus arrangements for 2016 will remain the same as in 2015, 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 supports the application of malus and clawback in respect of the executive Directors' variable remuneration opportunities, having taken into account the views of our investors, the corporate governance advisory agencies and the recent changes to the UK Corporate Governance Code. Annual bonus awards for 2015 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/or (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 2015 at any time up until the Annual General Meeting in 2018. As referred to in the 2014 Directors' Remuneration Report, clawback of some form will apply to the new long-term incentive arrangements which will replace, in 2017, the 2012 Incentive Plan.

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 corporate governance advisory agencies and investors in order to better understand their views on Melrose's approach to executive remuneration.

Justin Dowley
Chairman, Remuneration Committee
3 March 2016

Directors’ Remuneration Report continued

Annual Report on Remuneration

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, whereby:

- fixed elements of remuneration (salary and pension) are positioned in line with the market;
- 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 2015 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 2016.

Theoretical value under the 2012 Incentive Plan if crystallised on 31 December 2015 rather than on the 2017 scheduled payment date

2012

Invested capital from (and including) March 2012 up to (and including) December 2015[1]
£1,593,686,434

Index adjustment/Minimum return
£364,130,317

Indexed capital[1]
£1,957,816,751

2015

Number of issued ordinary shares on 31 December 2015
995,206,966

Average price of an ordinary share for 40 business days prior to 31 December 2015
£2.82505

Deemed market capitalisation of Melrose based on average price of an ordinary share for 40 business days prior to 31 December 2015
£2,811,509,439

Overall increase in value for shareholders since 22 March 2012
£853,692,688

Theoretical value to management and shareholder dilution calculated at 31 December 2015 (illustrative only)

7.5% of increase in value
£64,026,952[2]

Theoretical total number of new shares issued under the 2012 Incentive Plan[3]
22,664,007

Theoretical dilution to shareholders due to the 2012 Incentive Plan[4]
2.23%

Theoretical value under the 2012 Incentive Plan if crystallised on 31 December 2015 rather than on the 2017 scheduled payment date, adjusted as if the Return of Capital and the Share Capital Consolidation had occurred on 31 December 2015

2012

Invested capital from (and including) March 2012 up to (and including) December 2015[1]
£1,593,686,434
Less Return of Capital of £2,388,496,718
£(794,810,284)

Index adjustment/Minimum return
£364,130,317

Indexed capital
£(430,679,967)

2015

Theoretical number of issued ordinary shares on 31 December 2015
149,736,366[5]

Average price of an ordinary share for 40 business days prior to 31 December 2015
£2.82505

Deemed market capitalisation of Melrose based on average price of an ordinary share for 40 business days prior to 31 December 2015
£423,012,721

Overall increase in value for shareholders since 22 March 2012
£853,692,688

Theoretical value to management and shareholder dilution calculated at 31 December 2015, adjusted as if the Return of Capital and the Share Capital Consolidation had occurred on 31 December 2015 (illustrative only)

7.5% of increase in value
£64,026,952[2]

Theoretical total number of new shares issued under the 2012 Incentive Plan[3]
22,664,007

Theoretical dilution to shareholders due to the 2012 Incentive Plan[4]
13.15%

For footnotes, please see the opposite page.

Structure of the Group

On 6 October 2015, Melrose Industries PLC (since renamed Melrose Holdings Limited) ("Old Melrose") announced its intention to implement a corporate reorganisation by way of a Court-sanctioned scheme of arrangement, pursuant to which a new listed holding company, New Melrose Industries PLC (since renamed Melrose Industries PLC) ("New Melrose") was to be introduced for the Melrose Group. The shareholders of Old Melrose approved the proposed scheme of arrangement on 29 October 2015 and, following the Court's sanction on 18 November 2015, the scheme of arrangement became effective on 19 November 2015, when New Melrose became the new holding company of Old Melrose and its subsidiaries (the "Restructuring").

In this Annual Report on Remuneration, unless explicitly stated otherwise, references to the "Company" and to "Melrose" are references to Old Melrose up to but excluding 19 November 2015, and to New Melrose from 19 November 2015 onwards. References to the "Board", to the "Directors" and to Board positions are references to the Board, to the Directors and to Board positions of the relevant company for those periods.

The 2012 Incentive Plan

In the interests of transparency and to illustrate how the 2012 Incentive Plan may operate, we have set out on the previous page an illustration of how the growth in value of the Company over the period from the start of the plan in March 2012 might translate into value earned by participants in that plan, calculated in accordance with the principles in the Company's articles of association, but assuming a trigger date of 1 January 2016.

It is important to note that this 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.

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, whilst shareholder investment exceeds returns, the net investment is increased by a minimum growth threshold of RPI + 2% per annum. Equally, if and so long as shareholder returns exceed shareholder investment, the net shareholder returns are treated as increased by the RPI + 2% per annum amount. Participants in the plan are entitled to 7.5% of the increase in shareholder value after taking into account these amounts.

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 of, and dividend payment by, the Company. In this way, the participants will only receive a share of returns over and above that adjusted level.

Calculation of invested capital

Invested capital post return	Net shareholder investment (non-adjusted) (£)	Net shareholder investment inflated at RPI + 2% per annum to 31 December 2015 (£)	Implied index adjustment
Initial invested capital – March 2012[6]	1,518,492,691	1,776,752,007	1.170x
Dividend – May 2012	(32,840,728)	(37,896,777)	1.154x
New share issue – August 2012	1,199,073,594	1,379,078,249	1.150x
Dividend – October 2012	(32,932,303)	(37,432,885)	1.137x
Dividend – May 2013	(63,331,352)	(69,676,881)	1.100x
Dividend – October 2013	(34,832,243)	(37,652,261)	1.081x
Capital return – February 2014	(595,314,707)	(637,540,729)	1.071x
Dividend – May 2014	(53,588,067)	(56,426,700)	1.053x
Dividend – October 2014	(30,009,317)	(31,112,630)	1.037x
Capital return – February 2015	(200,419,370)	(208,164,612)	1.039x
Dividend – May 2015	(52,745,969)	(53,975,002)	1.023x
Dividend – September 2015	(27,865,795)	(28,135,029)	1.010x
Total	**1,593,686,434**	**1,957,816,751**	

(1) Calculated in accordance with the invested capital post return table above.

(2) Under the 2012 Incentive Plan, a maximum of 50,000 options may be awarded to participants. Christopher Miller, David Roper, Simon Peckham and Geoffrey Martin have each been awarded 8,500 options under the 2012 Incentive Plan, representing 17% individually or 68% in aggregate of the total unvested interests under the plan. Therefore, of the stated theoretical value to management, only 68% would be to the benefit of the four executive Directors.

(3) The number of shares to be issued in accordance with this calculation differs from the diluted number of shares of 20.7 million disclosed in note 11 to the financial statements. The difference arises due to the requirements of IAS 33 which stipulate that unrecognised future service costs for long-term incentive plans (calculated in accordance with IFRS 2) should be deducted from the calculation of diluted shares for the purposes of earnings per share calculations.

(4) Theoretical dilution calculated by taking the theoretical total number of new shares issued under the 2012 Incentive Plan as a percentage of the aggregate of the number of issued ordinary shares on 31 December 2015 (actual or theoretical, as relevant) and the theoretical total number of new shares issued under the 2012 Incentive Plan.

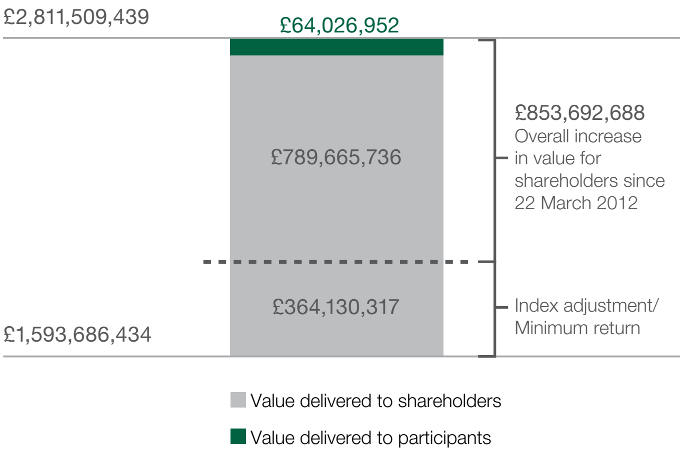
(5) Theoretical number of ordinary shares issued on 31 December 2015 assumes the Share Capital Consolidation ratio was calculated using a market price of £2.82505, the average price of an ordinary share for 40 business days prior to 31 December 2015.

(6) 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 of the Company, relevant for the purposes of the 2012 Incentive Plan and whilst shareholder investment exceeds returns, is shared between participants in the 2012 Incentive Plan and the Company's shareholders.

Share of illustrative increase in value, under the 2012 Incentive Plan, if crystallised on 31 December 2015



Based on this illustration, if the entitlements under the 2012 Incentive Plan were to have been settled in ordinary shares of one penny each (being the nominal value of ordinary shares on 1 January 2016), this would have resulted in the issue to the participants of 22,664,007 ordinary shares (i.e. £64,026,952 (7.5% of the illustrative increase in value) divided by £2.82505 (the average price of an ordinary share for 40 business days prior to 31 December 2015)). 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 chairman's letter to this Directors' Remuneration Report on page 65. 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.

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.

As part of the Scheme of Arrangement and in accordance with their terms, all options over shares in Old Melrose issued pursuant to the 2012 Incentive Plan were exchanged for like options over shares in New Melrose, on substantially the same terms and economic basis as the options over shares in Old Melrose. Upon such exchange taking effect, the old options lapsed.

No further options over 2012 incentive shares will be granted to executive Directors pursuant to the 2012 Incentive Plan. Accordingly, this arrangement is not disclosed in the Directors' remuneration policy on pages 76 to 81 as part of the forward-looking remuneration policy, although, as noted on page 64, those options will continue and may be exercised by their holders in accordance with their terms. The options over such shares currently held by the executive Directors are set out on page 73.

Single total figure of remuneration (audited information)

Year ended 31 December 2015

	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	448	18	–	–	67	533
David Roper	448	18	–	–	67	533
Simon Peckham	448	19	394	–	67	929
Geoffrey Martin	359	25	315	–	54	753
Perry Crosthwaite[3]	69	–	–	–	–	69
John Grant[4]	74	–	–	–	–	74
Justin Dowley[5]	74	–	–	–	–	74
Liz Hewitt[6]	66	–	–	–	–	66
Total	**1,986**	**80**	**710**	**–**	**255**	**3,031**

(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 was vested to participants in respect of the year to 31 December 2015.

(2) Of the £255,330 attributable to pension contributions, £217,830 was paid as a supplement to base salary in lieu of pension arrangements. The balance of £37,500 was paid into the Directors' individual nominated private pension plans.

(3) Includes £5,000 per annum in recognition of the role of senior non-executive Director.

(4) Includes £10,000 per annum in recognition of chairmanship of the Audit Committee.

(5) Includes £10,000 per annum in recognition of chairmanship of the Remuneration Committee.

(6) Includes £2,500 per annum in recognition of chairmanship of the Nomination Committee.

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 was 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 Directors' individual 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.

Base salary
Salaries are fixed at a level which is in line with a market competitive range compared with companies of similar size and complexity. Each executive Director received an increase in base salary of approximately 3% effective from January 2015.

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 2015, being a company car allowance, fuel allowance, private medical insurance, life insurance and group income protection. Geoffrey Martin also received paid train travel to and from 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 2015, the maximum bonus opportunity was equal to 100% of base salary. Following the application of the formulaic basis used in previous years and as explained in the table on page 72 of this report, it was determined by the Remuneration Committee that Simon Peckham and Geoffrey Martin (being the only executive Directors participating in the annual bonus plan) should be awarded a bonus of 88% of base salary.

Directors' Remuneration Report continued

Measure	Performance measure	Weighting	Threshold	Target	Maximum	Actual outturn	Bonus outturn (% of base salary)
Growth in earnings per share(1)	EPS growth subject to a 5x multiple (capped at 80% of base salary)	80%	0%	n/a	100%	Growth in EPS(1) of 17%, resulting in an outturn of 85% after applying 5x multiple	**68%**
Strategic element	Strategic objectives set by the Committee:	20%					**20%**
	• Sale of Elster	15%	Disposal of Elster, or parts thereof, in line with beneficial market conditions for such a disposal and with terms which minimise residual liabilities for the Group(2)			£3.3 billion disposal of Elster to Honeywell	15%
	• Divestment of pension plans	5%	Reduction of net pension liability of the Group by £50 million	Reduction of net pension liability of the Group by £75 million	Reduction of net pension liability of the Group by £100 million	Management successfully negotiated the transfer of the FKI UK and McKechnie UK defined benefit pension plans (both wholly-unrelated to the divested Elster business), together with all Elster pension obligations, to Honeywell. As at the disposal date, such plans had a net deficit of £112 million and gross liabilities of £849 million	5%
Total(3)		100%					**88%**

(1) Pursuant to applicable International Accounting Standards, for the year ended 31 December 2015, the trading results of Elster are excluded in the earnings per share calculation from continuing operations and the large profit from the disposal of Elster is included in the earnings per share calculation from continuing and discontinued operations. These calculations are set out in the Consolidated Income Statement on page 90 of this Annual Report and financial statements. For the purposes of the annual bonus, the Remuneration Committee determined it to be inequitable to exclude recognition for the trading results of Elster over the year in determining performance and, as such, earnings per share have been adjusted to include the trading results of Elster to 29 December 2015.

(2) Monetary targets are not provided, due to their commercially sensitive nature.

(3) As set out in the Directors' remuneration policy approved by shareholders at the 2014 AGM, the Remuneration Committee is permitted to adjust the bonus determined by reference to the formulaic output based upon an assessment of a range of financial and non-financial metrics. Notwithstanding the performance during the year, the Remuneration Committee has determined that no such adjustment will be made.

Scheme interests awarded during the year
No awards were granted in the year to Directors 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 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 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 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 in the table opposite.

Executive Director	Minimum number of ordinary shares to be held by the executive Directors as at 31 December 2015(1)	Number of ordinary shares held as at 31 December 2015	Number of ordinary shares held following the Share Capital Consolidation, effective on 28 January 2015(1)	Value of ordinary shares held as at 31 December 2015 as a multiple of salary for the year ended 31 December 2015(3)
Christopher Miller	1,749,756	14,203,260(2)	2,071,308	92x
David Roper	1,649,756	7,530,783	1,098,239	49x
Simon Peckham	1,874,878	7,775,196	1,133,882	50x
Geoffrey Martin	1,054,619	3,739,054	545,278	30x

(1) The minimum number of ordinary shares to be held by the executive Directors has been adjusted pursuant to the returns of capital and the associated share capital consolidations in February 2014, February 2015 and January 2016, effective as of 28 January 2016. Accordingly, as of 28 January 2016, the minimum number of ordinary shares to be held by Christopher Miller is 200,492, for David Roper the minimum number is 189,034, for Simon Peckham the minimum number is 209,100 and for Geoffrey Martin the minimum number is 120,841.

(2) As at 31 December 2015, the interest of Christopher Miller included 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. Immediately following the Share Capital Consolidation, Harris & Sheldon Investments Limited held 774,582 ordinary shares in the Company.

(3) For these purposes, the value of a share is 290.9 pence, being the closing mid-market price on 31 December 2015.

As at 31 December 2015, each executive Director held significantly more than the minimum number of ordinary shares and so satisfied the guidelines.

Following the Share Capital Consolidation, the minimum number of ordinary shares to be retained by each executive Director was adjusted accordingly, to reflect the adjusted share capital of the Company. As at 2 March 2016, each executive Director continued to hold significantly more than the minimum number of ordinary shares required under the adjusted guidelines.

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.

Directors' shareholding and share interests as at 31 December 2015

				Unvested interests under share schemes	
Director	Type	Ordinary shares held as at 31 December 2015(1)	Vested interests under share schemes	Subject to performance conditions	Not subject to performance conditions
Christopher Miller	Ordinary shares	14,203,260(2)	n/a	n/a	n/a
	Option(3)	n/a	n/a	8,500	n/a
David Roper	Ordinary shares	7,530,783	n/a	n/a	n/a
	Option(3)	n/a	n/a	8,500	n/a
Simon Peckham	Ordinary shares	7,775,196	n/a	n/a	n/a
	Option(3)	n/a	n/a	8,500	n/a
Geoffrey Martin	Ordinary shares	3,739,054	n/a	n/a	n/a
	Option(3)	n/a	n/a	8,500	n/a
Perry Crosthwaite	Ordinary shares	174,724	n/a	n/a	n/a
John Grant	Ordinary shares	275,257	n/a	n/a	n/a
Justin Dowley	Ordinary shares	451,264	n/a	n/a	n/a
Liz Hewitt	Ordinary shares	24,202	n/a	n/a	n/a

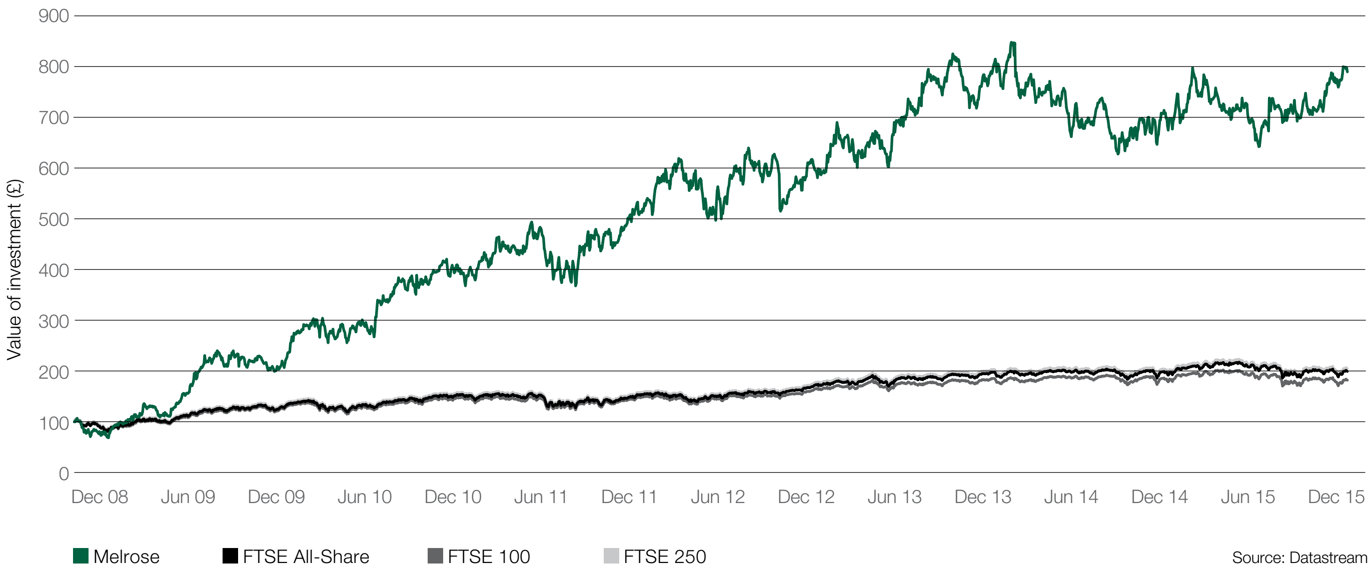
(1) The Directors' holdings in ordinary shares were adjusted pursuant to the Return of Capital and the associated Share Capital Consolidation, effective upon 28 January 2016, in the same manner as other shareholders. Accordingly, immediately following the Share Capital Consolidation: Christopher Miller held 2,071,308 ordinary shares (including 774,582 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 1,098,239 ordinary shares, Simon Peckham held 1,133,882 ordinary shares, Geoffrey Martin held 545,278 ordinary shares, Perry Crosthwaite held 25,480 ordinary shares, John Grant held 40,141 ordinary shares, Justin Dowley held 65,809 ordinary shares and Liz Hewitt held 3,529 ordinary shares.

(2) As at 31 December 2015, the interest of Christopher Miller included 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. Immediately following the Share Capital Consolidation, Harris & Sheldon Investments Limited held 774,582 ordinary shares in the Company.

(3) Each of these options are 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 69. 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.

Performance graph

The total shareholder return graph below shows the value as at 31 December 2015 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 year ended 31 December 2015 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 data shown below assumes that all cash returns to shareholders made by the Company during this period are reinvested in ordinary shares.



Source: Datastream

Directors' Remuneration Report continued

Chief Executive Remuneration for previous seven 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 Plan on 11 April 2012 is shown for the year ended 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 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'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 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 the year ended 31 December 2012 reflects the proportion of that year for which each was the Chief Executive.

Financial year	Chief Executive	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 2015	Simon Peckham	928,541	928,541	88%	–
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 for the period from 1 January 2012 until 9 May 2012 and Simon Peckham was Chief Executive 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; 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 excluding any value received on the maturity in April 2012 of the 2009 Incentive Plan.

(2) On the crystallisation in April 2012 of the 2009 Incentive Plan awarded in 2009, participants 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 approximately five years.

Percentage change in Chief Executive's remuneration

The table opposite sets out, in relation to salary, taxable benefits and annual bonus, the percentage increase in pay for the Company's Chief Executive compared to the average increase for a group consisting of the Company's senior head office employees, managing directors and finance directors of the Group's businesses and direct senior reports of those managing directors and finance directors. The percentages shown below relate to the financial year ended 2015 as a percentage comparison to the financial year ended 2014. 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 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%	7%
Benefits(1)	(8)%	0%
Annual bonus	56%	73%

(1) Company car allowance, 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 2014	Year ended 31 December 2015	Percentage change
Remuneration paid to all employees	£403.0 million	£364.5 million	(10)%
Distributions to shareholders by way of dividend and share buy back	£678.9 million[(1)]	£281.0 million[(2)]	(59)%

(1) The figure for year ended 2014 includes the return of capital to shareholders in February 2014.
(2) The figure for year ended 2015 includes the return of capital to shareholders in February 2015.

Implementation of Directors' remuneration policy for the financial year commencing on 1 January 2016
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 2016.

Executive Directors' salaries have increased by 3% with effect from January 2016, 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	2015 salary £'000	2016 salary £'000	Percentage increase
Christopher Miller	448	461	3%
David Roper	448	461	3%
Simon Peckham	448	461	3%
Geoffrey Martin	359	369	3%

The overall framework for the executive Directors' annual bonus arrangements for 2016 will remain the same as in 2015, 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. In the event of a significant acquisition in 2016, the Remuneration Committee will consider how to deal with this as appropriate. The Remuneration Committee considers that the strategic performance measures are commercially sensitive but will disclose the nature of those measures on a retrospective basis, where appropriate, on a similar basis to the disclosure on page 72 in respect of the annual bonus for the year ending 31 December 2015. As noted on page 67, annual bonus awards for 2016 (as well as payments in respect of the 2015 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/or (3) serious misconduct by the relevant participant. The Remuneration Committee will have discretion to apply clawback to any bonus earned for 2016 at any time up until the 2019 Annual General Meeting.

Non-executive Directors' basic fees have been increased by 3% with effect from January 2016. The non-executive Director fee levels for 2015 and 2016 are set out in the table below.

Fee element	Previous fee with effect from January 2015	Fee with effect from January 2016
Basic non-executive Director fee	£63,800	£65,714
Additional fee for holding the chairmanship of the Remuneration Committee	£10,000	£10,000
Additional fee for holding the chairmanship of the Audit Committee	£10,000	£10,000
Additional fee for holding the chairmanship of the Nomination Committee	£2,500	£2,500
Additional fee for holding the position of senior non-executive Director	£5,000	£5,000

Consideration by the Directors of matters relating to Directors' remuneration
The responsibilities of the Remuneration Committee
The Remuneration Committee is responsible for, among other things:

- 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 performance-related pay schemes (including bonus schemes) and any material long-term incentive plans operated by the Company;
- reviewing the structure of all share incentive plans operated by the Company for approval by the Board; 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 of comparable scale and complexity.

Full details can be found in the terms of reference available in the Investor section of the Melrose 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 Justin Dowley (Committee chairman), Perry Crosthwaite, John Grant and Liz Hewitt. 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 £9,000, which were charged on a time/cost basis. As the external auditor to the Company, Deloitte LLP also provides certain other services (as described on page 61 of this Annual Report and financial statements).

Deloitte LLP is a member of the Remuneration Consultants' Group, and as such chooses to operate pursuant to a code of conduct that requires remuneration advice to be given objectively and independently. The Remuneration Committee is satisfied that the advice provided by Deloitte LLP in relation to remuneration matters 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 held on 14 May 2015:

	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 2014	693,158,293	93.52%	48,014,811	6.48%	741,173,104	1,689,892

The Remuneration Committee noted the strong support given by shareholders to the Directors' Remuneration Report.

Directors' remuneration policy

This part of the report sets out the Company's Directors' remuneration policy, which, subject to shareholder approval at the 2016 Annual General Meeting, shall take binding effect from the conclusion of that meeting. This policy reflects the policy approved by the shareholders of Old Melrose at the 2014 AGM, recognising that this policy is being proposed to shareholders at the 2016 AGM as a result of the Restructuring of the Group in November 2015.

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 Group.	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 to be 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.

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.	Targets are set annually and payout 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 bonus payments upon loss of office is described on page 81.	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 based on strategic measures and/or personal objectives, as determined by 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 payout) and "maximum" performance. **Strategic element** The strategic 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 and/or personal objectives.
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.
Retirement benefits	Provides market competitive post-employment benefits (or cash equivalent). Purpose is to recruit and retain Directors of the calibre required for the business.	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.	15% of base salary.	Not applicable.

2012 Incentive Plan

The Company's long-term incentive arrangement for the Executive Directors is the 2012 Incentive Plan, which takes the form of options originally granted in 2012, following approval by a special resolution of shareholders on 11 April 2012. As part of the Restructuring of the Group and in accordance with their terms, the options were exchanged for like options over 2012 incentive shares in New Melrose, on substantially the same economic terms as the former options.

No further options will be granted to executive Directors pursuant to the 2012 Incentive Plan. However, the existing options will continue and may be exercised by their holders in accordance with their terms (and the 2012 incentive shares acquired pursuant to any such exercise shall then be dealt with in accordance with the Company's articles of association). The options over such shares currently held by the executive Directors are set out on page 73.

Further information on the 2012 Incentive Plan is included on pages 68 to 70.

Directors' Remuneration Report continued

Recovery provisions
Annual bonus awards are discretionary and, accordingly, are subject to a "malus" provision over the course of the relevant year. The annual bonus is also 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/or (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.

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 to align with 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 to 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.

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 rewards 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, with Group employees of differing levels of seniority. Accordingly, though based on the over-arching principle above, reward policies vary to take account of these factors.

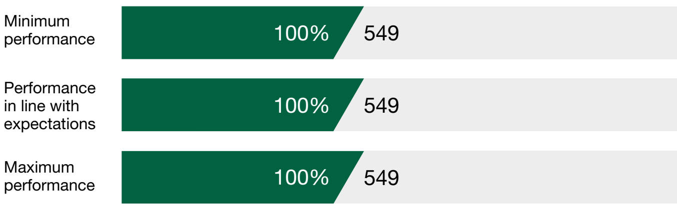
The Company has also implemented divisional long-term incentive plans for senior managers of businesses within the Group to incentivise them to create value for the Company and its shareholders.

Illustration of the application of Directors' remuneration policy
The options under the 2012 Incentive Plan were granted in 2012 prior to the policy set out in this Directors' Remuneration Report coming into effect. Therefore, and in accordance with the requirements of the applicable regulations, they are not taken into account in the charts below. However, in the interests of transparency, and to illustrate how the 2012 Incentive Plan may operate, we have set out on page 68 an illustration of how the growth in value over the period from the start of the 2012 Incentive Plan might translate into value earned by participants in that arrangement. Accordingly, in illustrating the potential reward under the policy set out in this Directors' Remuneration Report, the following assumptions have been made:

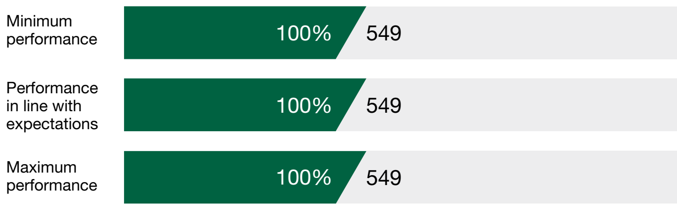
- **Minimum performance:** fixed elements of remuneration only (base salary effective from 1 January 2016, and benefits and pension rate as set out in the single figure table for the year ended 31 December 2015 on page 70).

- **Performance in line with expectations:** fixed elements of remuneration as above, plus bonus of 50% of salary (other than in the case of Christopher Miller and David Roper who do not participate in the annual bonus arrangements).
- **Maximum performance:** fixed elements of remuneration as above, plus bonus of 100% of salary (other than in the case of Christopher Miller and David Roper who do not participate in the annual bonus arrangements).

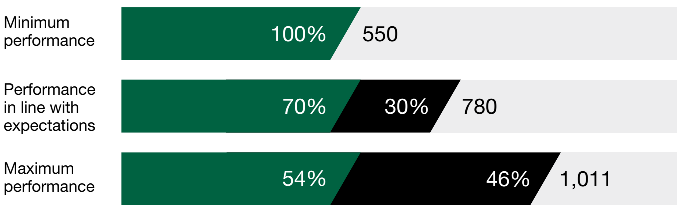
Total remuneration: Christopher Miller
(£'000)



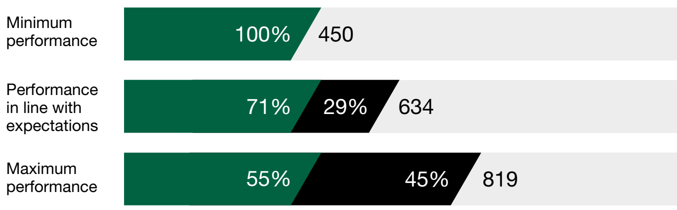
Total remuneration: David Roper
(£'000)



Total remuneration: Simon Peckham
(£'000)



Total remuneration: Geoffrey Martin
(£'000)



■ Base salary, benefits and pension ■ Annual bonus

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 76 and 77, 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	Recognising that any new executive Director would not participate in the 2012 Incentive Plan or any other existing long-term incentive arrangement, 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	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 time frame of such awards. While such awards are excluded from the maximum level of variable remuneration referred to on the following page, 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, buyout 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 77 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.

Directors’ Remuneration Report continued

Under the applicable 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 a newly-appointed executive Director would not participate in the 2012 Incentive Plan or any other existing long-term incentive arrangement, the Remuneration Committee has set this maximum level of variable remuneration at three times salary.

Incentive awards and “buyout” awards may be granted under new plans 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 in accordance with 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 executive Director originally entered into a service agreement with Melrose PLC, effective upon the dates stated below, which was subsequently novated on the same terms to Old Melrose. Upon the Restructuring, each executive Director was appointed as an executive Director of New Melrose on the dates set out below and each service agreement was again novated on the same terms to New Melrose, conditional upon New Melrose becoming the parent company of the Group. Details of the executive Directors’ original appointment dates and notice periods are set out below.

Executive Directors	Date of appointment as an executive Director of Melrose PLC	Date of appointment as an executive Director of Old Melrose	Date of appointment as an executive Director of New Melrose	Notice period
Christopher Miller	29 May 2003	8 October 2012	30 September 2015	12 months
David Roper	29 May 2003	8 October 2012	30 September 2015	12 months
Simon Peckham	29 May 2003	8 October 2012	29 September 2015	12 months
Geoffrey Martin	7 July 2005	8 October 2012	29 September 2015	12 months

Each of the non-executive Directors originally entered into a letter of appointment with Melrose PLC or, in the case of Liz Hewitt, with Old Melrose. Upon the introduction of Old Melrose as the new parent company of the Group, any letters of appointments with Melrose PLC were replaced with letters of appointment with Old Melrose, on the same terms. Upon the Restructuring, each non-executive Director was appointed as a non-executive Director of New Melrose, on the dates set out below, and each letter of appointment with Old Melrose was replaced with a letter of appointment with New Melrose, on the same terms and conditional upon New Melrose becoming the parent company of the Group. 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 original appointment as a non-executive Director of Old Melrose	Date of appointment as a non-executive Director of New Melrose	End of appointment period
Perry Crosthwaite	26 July 2005	8 October 2012	30 September 2015	n/a(1)
John Grant	1 August 2006	8 October 2012	30 September 2015	Conclusion of the 2018 AGM unless extended or renewed(2)
Justin Dowley	1 September 2011	8 October 2012	30 September 2015	Conclusion of the 2018 AGM unless extended or renewed(2)
Liz Hewitt	n/a	8 October 2013	30 September 2015	Conclusion of the 2018 AGM unless extended or renewed(2)

(1) Perry Crosthwaite shall retire at the conclusion of the 2016 AGM.
(2) Subject to re-election at the Annual General Meeting in each relevant year.

Each executive Director’s service contract and each non-executive Director’s letter of appointment are available for inspection at the Company’s registered office during normal business hours.

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 up to termination.
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 in respect of the 2012 Incentive Plan will be dealt with in accordance with their terms 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, the leaver provisions for that award would be determined at the time of grant.

If an executive Director ceases to be employed by the Company, the Company is wound up or there is a change of control of the Company, the options granted pursuant to the 2012 Incentive Plan, and any 2012 incentive shares issued in accordance with the plan, will be dealt with in accordance with their terms.

Statement of consideration of employment conditions elsewhere in the Company

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

Statement of consideration of shareholder views

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

Shareholding guidelines

The shareholding guidelines which apply to the executive Directors and the minimum levels of shareholdings are set out on page 72.

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 set out 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; and/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. Any such payment shall include the satisfaction of the exercise of any options under the 2012 Incentive Plan and the delivery of the value attributable to the 2012 incentive shares in accordance with the Company's articles of association.

Approval

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

Justin Dowley
Chairman, Remuneration Committee
3 March 2016

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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
3 March 2016

Simon Peckham
Chief Executive
3 March 2016

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Notes to the financial statements

Company statements

Notes to the Company Balance Sheet

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 2015 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, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and the Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated and Company Statement of Changes in Equity, the related notes 1 to 30 to the consolidated financial statements and the related notes 1 to 8 to the Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group
As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report on page 27.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 29 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 30 to 35 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 2 to the financial statements about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the Directors' explanation on page 27 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Independence
We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

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

Risk	How the scope of our audit responded to the risk
Accounting for the disposal of Elster	
During the year, the Group completed the disposal of the Elster businesses, together with the FKI UK and McKechnie UK pension plans (together "the disposal group") to Honeywell International Inc., recording a profit on disposal of £1,256.3 million. The accounting for this transaction is considered to be a risk due to the non-recurring and significant size of the transaction and the quantum of the gain on disposal. Additionally, the risk of material misstatement identified and discussed below relating to provisions was also applicable to the disposal group. Note 9 within the financial statements includes full disclosure of the profit for the year from discontinued operations.	We obtained and read the sale and purchase agreement for the transaction in order to understand the terms on which the disposal had been made. We tested management's calculation of the gain on disposal by agreeing the calculation to the terms of the sale and purchase agreement, where applicable, and the net assets disposed and profit recorded in the period to the underlying audit work performed on the disposal group. We have also recalculated the cumulative translation loss arising on disposal. We traced the consideration received in cash to the completion statement and to the bank statement and agreed a sample of disposal costs to supporting documentation such as invoices in order to determine that they were costs directly attributable to the disposal.
Provisions	
Legal, environmental, restructuring, property, incentive scheme related and warranty provisions as at 31 December 2015 totalled £30.0 million within the continuing Group and a further £75.7 million of provisions were disposed of with Elster on 29 December 2015 (2014: £172.8 million across the total Group). Given the nature of the Group's operations, the recognition and valuation of the expected outcome of these provisions requires the exercise of management judgement, which is often dependent on the actions of third parties, the specific circumstances pertaining to each provision obligation and are generally outside the control of the Group. The use of estimates gives 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 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 within the continuing business and at the disposal date within the disposal balance sheet, 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 finance costs for the year ended 31 December 2015 are £7.9 million and £13.1 million respectively for the continuing Group. Note 2 includes the Group's accounting policy for exceptional items and notes 6 and 7 include further details on the exceptional items.	A sample of exceptional items, including all material items, have been agreed to source documentation and evaluated by the component and Group audit teams as to their nature in order to assess whether they are in line with the Group's accounting policy, and also to assess consistency of management's application of the policy with previous accounting periods. We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items.

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

Risk	How the scope of our audit responded to the risk
Impairment of the carrying value of goodwill and intangibles	
The carrying value of goodwill and intangible assets (excluding computer software and development costs) of the Energy cash-generating unit (CGU) as at 31 December 2015 is £271.8 million (2014: £285.3 million). Management perform an impairment review on an annual basis and whenever an indication of impairment is identified. A significant risk of material misstatement exists as a result of the application of management judgement and estimation in performing the impairment reviews, in particular in relation to the forecasting of future cash flows, the perpetual growth rate and the selection of an appropriate discount rate. This risk relates only to the Energy CGU in light of the impairment review undertaken on the disposal group immediately before the classification as held for sale in line with IFRS 5. 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 challenged the reasonableness of the assumptions which underpin management's forecasts with reference to the recent and historical trading performance of the Energy CGU, as well as the current order book. We have also reviewed historical financial performance of the business units compared with the original forecasts to evaluate the accuracy of management's budgeting process. Our procedures included consulting with our valuation specialists to assess the discount rate applied to future cash flows 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. We have reviewed the disclosures included by management in relation to the reasonable possible change and are satisfied that these are appropriate.

Accounting for the disposal of Elster has been included as a risk in the current year following the completion of the sale of the Elster disposal group during 2015.

Our prior year audit report also included a further risk relating to taxation which is not included in our report in the current year. Following the disposal of Elster, this risk has been re-assessed and is not considered to be one of those which has had the greatest effect on our audit strategy, the allocation of resources in the audit and direction of the efforts of the engagement team.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 58 to 60.

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

Our application of materiality

We define materiality as the magnitude of 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 (2014: £11 million), which is 4.6% of profit before exceptional costs, exceptional income, one-off items within discontinued operations, intangible asset amortisation and tax from continuing and discontinued operations (2014: 5.2% of profit before exceptional costs, exceptional income, intangible asset amortisation and tax from continuing operations) and below 1% (2014: below 1%) of equity.

We use profit before exceptional costs, exceptional income, one-off items within discontinued operations, intangible asset amortisation and tax to provide a stable basis for materiality that reflects the focus of the users of the financial statements. This excludes the effect of 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.

The use of profit before exceptional costs, exceptional income, one-off items within discontinued operations, intangible asset amortisation and tax from continuing and discontinued operations is an updated approach compared to 2014 where we used the headline profit before tax from continuing operations only. The revised approach reflects the size of the Elster businesses reported as discontinued operations within the Group financial statements for the year ended 31 December 2015.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £250,000 (2014: £250,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

The Group's 79 (2014: 78) locations are organised into the continuing Energy division and the Elster discontinued operations, which were previously disclosed as three divisions as described in the Business review on pages 10 and 11 of this Annual Report (2014: All four of these divisions were part of the continuing Group).

Our Group audit scope focused primarily on audit work at 22 locations (2014: 29), of which four relate to businesses which form part of the continuing Group and a further 18 locations covered operations within the discontinued group. The change in the number of locations reflects the scale of the discontinued operations and our risk assessment in the current year. Additionally, the number of locations was higher in the prior year due to the non-statutory audits performed that year of certain of the Company's businesses.

The extent of our testing was based on our assessment of the risks of material misstatement and on the materiality of the Group's business operations at these locations.

Continuing Group
In respect of the continuing Group, all four locations were subject to a full audit (2014: four). These four locations accounted for 86% of the continuing Group's revenue and 93% of the total continuing Group's headline operating profit and divisional costs (before central costs). The work performed at these four locations together with the work performed centrally by the Group audit team accounted for 98% of the Group's net assets.

Our work at the four locations forming part of the continuing business was performed to local statutory materiality which ranged between £0.4 million and £1.3 million.

In 2014, these four locations accounted for 86% of the revenue and 94% of the headline operating profit and divisional costs (before central costs) of the Energy division.

Discontinued operations
For the discontinued Elster operations, 12 locations were subject to a full audit (2014: 19), five were subject to specified audit procedures (2014: six) and one (2014: nil) was subject to specified audit procedures on the revenue balance.

The 18 discontinued locations subject to full audit, specified audit procedures and specified audit procedures on the revenue balance accounted for 74% of discontinued revenue and 71% of discontinued operating profit and divisional costs (before central costs, one-off costs, one-off income and intangible asset amortisation). The work performed at these locations together with the work performed centrally by the Group audit team accounted for 98% of the disposed net assets at 29 December 2015.

Our work and audit procedures at the 18 discontinued locations were performed at lower levels of materiality determined by reference to the relative scale of the business concerned and ranged between £0.1 million and £4.4 million.

In 2014, the 25 Elster locations subject to a full audit or specified audit procedures accounted for 87% of the revenue and 86% of the operating profit and divisional costs (before central costs, one-off costs, one-off income and intangible asset amortisation) of the three Elster segments.

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

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

The senior statutory auditor or other senior members of the Group audit team visited eight of the largest locations for the audit (2014: 12). More locations were visited in the prior year as part of the handover between lead audit partners, due to the acquisition of Eclipse and our risk assessment of the Group. The senior statutory auditor also held a close meeting which covered all continuing and discontinued 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 certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

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

Stephen Griggs, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
3 March 2016

Consolidated Income Statement

	Notes	Year ended 31 December 2015 £m	Restated[1] year ended 31 December 2014 £m
Continuing operations			
Revenue	4, 5	**261.1**	324.3
Cost of sales		**(179.0)**	(216.6)
Gross profit		**82.1**	107.7
Headline[2] operating expenses		**(61.6)**	(61.1)
Share of headline[2] results of joint ventures	14	**0.3**	1.1
Intangible asset amortisation		**(8.1)**	(8.6)
Exceptional operating costs	6	**(7.9)**	(7.5)
Exceptional operating income	6	**–**	5.4
Total net operating expenses	7	**(77.3)**	(70.7)
Operating profit		**4.8**	37.0
Headline[2] operating profit	5	**20.8**	47.7
Finance costs[3]	7	**(45.6)**	(38.7)
Finance income	7	**10.1**	14.2
(Loss)/profit before tax		**(30.7)**	12.5
Tax[4]	8	**14.4**	(4.3)
(Loss)/profit for the year from continuing operations		**(16.3)**	8.2
Discontinued operations			
Profit for the year from discontinued operations	9	**1,424.3**	186.5
Profit for the year		**1,408.0**	194.7
Attributable to:			
Owners of the parent		**1,407.1**	193.9
Non-controlling interests		**0.9**	0.8
		1,408.0	194.7
Earnings per share			
From continuing operations			
– Basic	11	**(1.6)**	0.8
– Diluted	11	**(1.6)**	0.7
From continuing and discontinued operations			
– Basic	11	**139.9**	17.8
– Diluted	11	**137.1**	17.5

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Includes exceptional finance costs of £13.1 million (2014: £nil) in respect of accelerated future year charges following the repayment of all external debt facilities.
(4) Includes an exceptional tax credit of £14.5 million (2014: £nil), a tax credit on exceptional items of £0.8 million (2014: charge of £0.7 million) and a tax credit on intangible asset amortisation of £2.1 million (2014: £1.6 million).

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit for the year		**1,408.0**	194.7
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement gain/(loss) on retirement benefit obligations	23	**57.5**	(35.5)
Income tax (charge)/credit relating to items that will not be reclassified	8	**(6.0)**	8.7
		51.5	(26.8)
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		**(30.8)**	(93.2)
Currency translation on non-controlling interests		**0.2**	–
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	9	**123.7**	(7.6)
Losses on cash flow hedges		**(2.8)**	(11.9)
Transfer to Income Statement on cash flow hedges		**3.7**	5.6
Income tax charge relating to items that may be reclassified	8	**(1.0)**	–
		93.0	(107.1)
Other comprehensive income/(expense) after tax		**144.5**	(133.9)
Total comprehensive income for the year		**1,552.5**	60.8
Attributable to:			
Owners of the parent		**1,551.4**	60.0
Non-controlling interests		**1.1**	0.8
		1,552.5	60.8

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2015 £m	Restated[1] year ended 31 December 2014 £m
Net cash used in operating activities from continuing operations	26	**(57.8)**	(10.5)
Net cash from operating activities from discontinued operations	26	**89.2**	127.0
Net cash from operating activities		**31.4**	116.5
Investing activities			
Disposal of businesses		**3,381.0**	374.8
Disposal costs		**(25.6)**	(8.5)
Net cash disposed	9	**(93.5)**	(14.6)
Purchase of property, plant and equipment		**(17.4)**	(29.8)
Purchase of computer software and development costs		**(0.3)**	(0.4)
Dividends received from joint ventures	14	**0.3**	1.2
Interest received		**10.1**	14.2
Net cash from investing activities from continuing operations		**3,254.6**	336.9
Net cash used in investing activities from discontinued operations	26	**(38.7)**	(126.1)
Net cash from investing activities		**3,215.9**	210.8
Financing activities			
Return of capital		**(200.4)**	(595.3)
Movement in borrowings		**(595.1)**	226.1
Costs of amending borrowing facilities		**–**	(3.6)
Dividends paid	10	**(80.6)**	(83.6)
Net cash used in financing activities from continuing operations		**(876.1)**	(456.4)
Net cash used in financing activities from discontinued operations	26	**–**	–
Net cash used in financing activities		**(876.1)**	(456.4)
Net increase/(decrease) in cash and cash equivalents		**2,371.2**	(129.1)
Cash and cash equivalents at the beginning of the year	26	**70.5**	200.4
Effect of foreign exchange rate changes	26	**9.7**	(0.8)
Cash and cash equivalents at the end of the year	17,26	**2,451.4**	70.5

(1) Restated to include the cash flows of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

As at 31 December 2015, the Group had net cash of £2,451.4 million (31 December 2014: net debt of £501.3 million). A reconciliation of the movement in net debt is shown in note 26.

Consolidated Balance Sheet

	Notes	31 December 2015 £m	Restated[1] 31 December 2014 £m
Non-current assets			
Goodwill and other intangible assets	12	**273.0**	2,401.1
Property, plant and equipment	13	**112.9**	199.6
Interests in joint ventures	14	**–**	11.8
Deferred tax assets	21	**25.7**	68.7
Derivative financial assets	24	**–**	1.2
Trade and other receivables	16	**1.1**	3.3
		412.7	2,685.7
Current assets			
Inventories	15	**55.6**	166.5
Trade and other receivables	16	**67.9**	257.5
Derivative financial assets	24	**1.2**	3.9
Cash and cash equivalents	17	**2,451.4**	70.5
		2,576.1	498.4
Total assets	5	**2,988.8**	3,184.1
Current liabilities			
Trade and other payables	18	**71.2**	320.5
Interest-bearing loans and borrowings	19	**–**	0.9
Derivative financial liabilities	24	**1.5**	10.1
Current tax liabilities		**3.3**	48.8
Provisions	20	**12.0**	71.7
		88.0	452.0
Net current assets		**2,488.1**	46.4
Non-current liabilities			
Trade and other payables	18	**–**	0.4
Interest-bearing loans and borrowings	19	**–**	570.9
Derivative financial liabilities	24	**–**	0.2
Deferred tax liabilities	21	**20.2**	267.3
Retirement benefit obligations	23	**17.2**	218.5
Provisions	20	**18.0**	101.1
		55.4	1,158.4
Total liabilities	5	**143.4**	1,610.4
Net assets		**2,845.4**	1,573.7
Equity			
Issued share capital	25	**10.0**	263.8
Merger reserve		**2,500.9**	2,500.9
Other reserves		**(2,329.9)**	(2,329.9)
Hedging reserve		**–**	(0.5)
Translation reserve		**(37.8)**	(130.7)
Retained earnings		**2,702.2**	1,267.5
Equity attributable to owners of the parent		**2,845.4**	1,571.1
Non-controlling interests		**–**	2.6
Total equity		**2,845.4**	1,573.7

(1) Restated to reflect the completion of the acquisition accounting of Eclipse (note 1). Also, in accordance with IFRS 3, the prior year Issued share capital, Merger reserve, Capital redemption reserve and Other reserves balances have been restated to reflect the nominal share capital and reserves position of the new parent company as if it had been the holding company during both periods presented. The overall impact on net equity is £nil (note 1).

The financial statements were approved and authorised for issue by the Board of Directors on 3 March 2016 and were signed on its behalf by:

Geoffrey Martin Simon A Peckham

Geoffrey Martin
Group Finance Director

Simon Peckham
Chief Executive

Consolidated Statement of Changes in Equity

	Issued share capital £m	Merger reserve £m	Other reserves £m	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 2014 (as previously reported)	1.3	1,190.6	(757.1)	5.8	(29.9)	1,775.3	2,186.0	1.9	2,187.9
Restatement for the effects of the new parent company(1)	262.5	1,310.3	(1,572.8)	–	–	–	–	–	–
At 1 January 2014 restated(1)	263.8	2,500.9	(2,329.9)	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	–	–	–	–	–	(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 restated(1)	263.8	2,500.9	(2,329.9)	(0.5)	(130.7)	1,267.5	1,571.1	2.6	1,573.7
Profit for the year	–	–	–	–	–	1,407.1	1,407.1	0.9	1,408.0
Other comprehensive income	–	–	–	0.5	92.9	50.9	144.3	0.2	144.5
Total comprehensive income	–	–	–	0.5	92.9	1,458.0	1,551.4	1.1	1,552.5
Return of capital	–	–	–	–	–	(200.4)	(200.4)	–	(200.4)
Dividends paid	–	–	–	–	–	(80.6)	(80.6)	(0.4)	(81.0)
Capital reduction	(253.8)	–	–	–	–	253.8	–	–	–
Credit to equity for equity-settled share-based payments	–	–	–	–	–	4.0	4.0	–	4.0
Purchase of non-controlling interests	–	–	–	–	–	(0.1)	(0.1)	(1.4)	(1.5)
Disposal of non-controlling interests	–	–	–	–	–	–	–	(1.9)	(1.9)
At 31 December 2015	**10.0**	**2,500.9**	**(2,329.9)**	**–**	**(37.8)**	**2,702.2**	**2,845.4**	**–**	**2,845.4**

(1) In accordance with IFRS 3, the prior year Issued share capital, Merger reserve, Capital redemption reserve and Other reserves balances have been restated to reflect the nominal share capital and reserves position of the new parent company as if it had been the holding company during both periods presented. The overall impact on net equity is £nil (note 1).

Notes to the financial statements

1. Corporate information

Melrose Industries PLC ("the Company") is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on 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 on pages 10 and 11.

Following shareholder approval on 29 October 2015, a Scheme of Arrangement was sanctioned by the High Court of England and Wales on 18 November 2015, pursuant to which a new listed company was introduced for the Melrose Group of companies. The Scheme of Arrangement became effective on 19 November 2015 and New Melrose Industries PLC (subsequently renamed Melrose Industries PLC on 19 November 2015) became the new holding company of Melrose Industries PLC (subsequently renamed Melrose Holdings Limited on 19 November 2015) and its subsidiaries.

The Scheme of Arrangement resulting in New Melrose Industries PLC becoming the new holding company for the Group has been accounted for in these consolidated financial statements as a reverse asset acquisition using the principles of reverse acquisition accounting set out in IFRS 3: "Business combinations".

As a consequence of applying reverse acquisition accounting principles, the consolidated results of Melrose Industries PLC ("the Group") for the year ended 31 December 2015 comprise the results of Melrose Holdings Limited and its subsidiaries for the year ended 31 December 2015 consolidated with those of New Melrose Industries PLC from 19 November 2015. The comparative figures for the Group are those of the Group headed by Melrose Holdings Limited for the year ended 31 December 2014 except for the presentation of the Issued share capital, Merger reserve, Capital redemption reserve and Other reserves balances which have been restated to reflect the reserves position of the Group as if New Melrose Industries PLC had been the parent company during both periods presented.

The consolidated financial statements of the Group for the year ended 31 December 2015 were authorised in accordance with a resolution of the Directors of Melrose Industries PLC on 3 March 2016.

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.

During the year, the Group completed its review of the assets and liabilities acquired following the acquisition of Eclipse, Inc. ("Eclipse") by the Gas segment on 31 October 2014. As a result, the Group recorded its final adjustments to the opening balance sheet of Eclipse. In accordance with IFRS 3: "Business combinations" the Balance Sheet at 31 December 2014 has been restated to reflect these adjustments which decreased provisions by £4.2 million and decreased the goodwill arising on the acquisition of Eclipse from £64.6 million to £60.4 million.

On 29 December 2015, the Group completed the disposal of the Elster businesses ("Elster") to Honeywell International Inc. ("Honeywell"). At the interim reporting date the disposal was highly probable and in accordance with IFRS 5: "Non-current assets held for sale and discontinued operations", the assets and liabilities of Elster were classified as held for sale in the Balance Sheet at 30 June 2015 and subsequently disposed on 29 December 2015.

Elster comprised the Gas, Electricity and Water segments along with their associated central costs. In addition, the "Elster disposal group" also contained the Elster divisional long-term incentive plans, the FKI UK defined benefit pension plan and the McKechnie UK defined benefit pension plan, all of which have been shown as discontinued operations in these financial statements.

On 18 December 2015, the Prelok business, previously included in the Energy segment, was disposed. Prelok is shown as a discontinued operation in these financial statements.

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

1.2 New Standards and Interpretations adopted with no significant effect on financial statements
The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements, but may impact the accounting for future transactions and arrangements:

- Annual improvements to IFRSs: 2011–13 cycle
- Amendments to IAS 19: Defined benefit plans: Employee contributions

Notes to the financial statements continued

1. Corporate information continued

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
- IFRS 16: Leases
- Amendments to IAS 1: Disclosure initiative
- Amendments to IAS 12: Recognition of deferred tax losses
- Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 27: Equity method in separate financial statements
- Amendments to IFRS 10 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.

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 26 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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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

Sale of goods

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

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

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

Provision of services

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

Construction contracts

As noted above, customer contracts usually contain discrete elements separately transferring risks and rewards to the customer. Where such discrete elements are present, revenue is recognised on each element in accordance with the policy on the sale of goods.

Where such discrete elements are not in place, revenue from significant contracts is recognised in proportion to the stage of completion of the contract by reference to the specific contract terms and the costs incurred on the contract at the Balance Sheet date in comparison to the total forecast costs of the contract. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

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

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

Interest income

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

Exceptional costs/income

Exceptional costs/income are those costs/income of a significant and non-recurring nature or those associated with significant restructuring programmes, acquisitions or disposals, which warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group.

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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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.

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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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, using the Directors' best estimate of the expenditure required to settle the Group's obligation.

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

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

Employee 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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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.

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 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.

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 £271.8 million (31 December 2014: £2,376.5 million). At 31 December 2015 and 2014, 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.

Notes to the financial statements continued

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

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 2015, the Group's retirement benefit obligation deficit was £17.2 million (31 December 2014: £218.5 million).

Taxation

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

4. Revenue

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

	Notes	**Year ended 31 December 2015 £m**	Restated[1] year ended 31 December 2014 £m
Continuing operations			
Revenue from the sale of goods		**212.0**	291.1
Revenue recognised on long-term contracts		**5.9**	5.5
Revenue from the provision of services		**43.2**	27.7
Revenue	5	**261.1**	324.3
Finance income	7	**10.1**	14.2
Total revenue from continuing operations as defined by IAS 18		**271.2**	338.5
Discontinued operations			
Revenue from the sale of goods		**1,056.4**	1,209.1
Revenue recognised on long-term contracts		**0.6**	0.3
Revenue from the provision of services		**52.8**	51.8
Revenue	5,9	**1,109.8**	1,261.2
Finance income		**0.6**	0.5
Total revenue from discontinued operations as defined by IAS 18		**1,110.4**	1,261.7
Total revenue as defined by IAS 18		**1,381.6**	1,600.2

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok 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. Following the disposal of Elster, as described in note 1, the Group's only remaining reportable operating segment under IFRS 8 is the Energy segment which includes the Brush business, a specialist supplier of energy industrial products to the global market.

In addition, there are two central cost centres which are also separately reported to the Board: the central corporate cost centre which contains the Melrose Group head office costs and the central long term incentive plan ("LTIP") cost centre which contains the costs associated with the five year Melrose Incentive Plan (granted on 11 April 2012) and the divisional management LTIPs that relate to the Energy segment.

The discontinued segment comprises the Bridon and Prelok businesses along with the Elster disposal group (note 1) in 2014 and the Prelok business and the Elster disposal group (note 1) in 2015.

All continuing revenue in these financial statements relates to the Energy segment.

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

Included in revenue arising from the Energy segment are revenues of approximately £67.0 million (2014: £88.2 million) which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue in either 2014 or 2015.

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

The following tables present the results and certain asset and liability information regarding the Group's operating segment and central cost centres for the year ended 31 December 2015 and the comparative year. Note 6 gives details of exceptional operating costs and income.

		Segment results	
	Notes	**Year ended 31 December 2015 £m**	Restated[1] year ended 31 December 2014 £m
Continuing operations			
Energy headline[2] operating profit		**38.5**	65.0
Central – corporate		**(12.7)**	(11.9)
Central – LTIPs[3]		**(5.0)**	(5.4)
Headline[2] operating profit		**20.8**	47.7
Intangible asset amortisation		**(8.1)**	(8.6)
Exceptional operating costs	6	**(7.9)**	(7.5)
Exceptional operating income	6	**–**	5.4
Operating profit		**4.8**	37.0
Finance costs	7	**(45.6)**	(38.7)
Finance income	7	**10.1**	14.2
(Loss)/profit before tax		**(30.7)**	12.5
Tax	8	**14.4**	(4.3)
Profit for the year from discontinued operations	9	**1,424.3**	186.5
Profit for the year		**1,408.0**	194.7

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok 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 2015 £m	Restated[1] 31 December 2014 £m	**31 December 2015 £m**	Restated[1] 31 December 2014 £m
Continuing operations				
Energy	**496.9**	501.9	**103.7**	136.1
Central – corporate	**2,491.9**	96.5	**37.7**	649.7
Central – LTIPs[2]	**–**	–	**2.0**	11.0
Total continuing operations	**2,988.8**	598.4	**143.4**	796.8
Discontinued operations	**–**	2,585.7	**–**	813.6
Total	**2,988.8**	3,184.1	**143.4**	1,610.4

(1) Restated to include the total assets and total liabilities of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9) and to reflect the completion of the acquisition accounting of Eclipse (note 1).
(2) Long Term Incentive Plans.

	Capital expenditure[1]		Depreciation[1]	
	Year ended 31 December 2015 £m	Restated[2] year ended 31 December 2014 £m	**Year ended 31 December 2015 £m**	Restated[2] year ended 31 December 2014 £m
Continuing operations				
Energy	**16.8**	30.1	**7.5**	6.2
Central – corporate	**–**	0.2	**0.6**	0.9
Total continuing operations	**16.8**	30.3	**8.1**	7.1
Discontinued operations	**39.9**	36.0	**11.9**	31.5
Total	**56.7**	66.3	**20.0**	38.6

(1) Including computer software and development costs.
(2) Restated to include the capital expenditure[1] and depreciation[1] of the Elster disposal group (note 1) and Prelok 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 2015 £m	Restated[2] year ended 31 December 2014 £m	**31 December 2015 £m**	Restated[3] 31 December 2014 £m
Continuing operations				
UK	**83.2**	83.6	**189.3**	194.9
Europe	**66.3**	84.5	**146.9**	156.4
North America	**57.4**	91.7	**23.6**	19.1
Other	**54.2**	64.5	**26.1**	21.2
Total continuing operations	**261.1**	324.3	**385.9**	391.6
Discontinued operations	**1,109.8**	1,261.2	**–**	2,209.1
Total	**1,370.9**	1,585.5	**385.9**	2,600.7

(1) Revenue is presented by destination.
(2) Restated to include the revenue of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).
(3) Restated to include the non-current assets of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9) and to reflect the completion of the acquisition accounting of Eclipse (note 1).

6. Exceptional operating costs and income

Exceptional costs	Year ended 31 December 2015 £m	Restated[1] year ended 31 December 2014 £m
Continuing operations		
Restructuring costs	**7.6**	6.1
Acquisition and disposal costs	**0.3**	1.4
Total exceptional costs	**7.9**	7.5

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

During 2015, the continuing Group incurred £7.6 million (2014: £6.1 million) of restructuring costs. Within the Brush business, £5.9 million was incurred, primarily in respect of headcount reductions to align the cost base with the business's reduced revenue. In addition, £1.7 million of restructuring costs were incurred in relation to the corporate reorganisation to introduce a new holding company to the Group (note 1), along with the costs associated with returning capital to shareholders. The charge for restructuring in 2014 related mainly to the set-up of the new Brush China factory.

The Group also incurred £0.3 million (2014: £1.4 million) of expenses on acquisition and disposal related activities during the year.

Exceptional income	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Continuing operations		
Release of surplus leasehold property cost provision	**–**	5.4
Total exceptional income	**–**	5.4

During 2014, 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.

7. Revenues and expenses

	Continuing operations		Discontinued operations		Total	
Net operating expenses comprise:	**Year ended 31 December 2015 £m**	Restated[1] year ended 31 December 2014 £m	**Year ended 31 December 2015 £m**	Restated[1] year ended 31 December 2014 £m	**Year ended 31 December 2015 £m**	Year ended 31 December 2014 £m
Selling and distribution costs	**(15.7)**	(15.6)	**(91.5)**	(117.8)	**(107.2)**	(133.4)
Administration expenses[2]	**(61.9)**	(56.2)	**(123.1)**	(207.2)	**(185.0)**	(263.4)
Share of results of joint ventures (note 14)	**0.3**	1.1	**2.0**	2.1	**2.3**	3.2
Total net operating expenses	**(77.3)**	(70.7)	**(212.6)**	(322.9)	**(289.9)**	(393.6)

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).
(2) Included in continuing operations are £7.9 million (2014: £7.5 million) of exceptional operating costs, £nil (2014: £5.4 million) of exceptional operating income and £8.1 million (2014: £8.6 million) of intangible asset amortisation.

Notes to the financial statements continued

7. Revenues and expenses continued

Operating profit is stated after charging/(crediting):	Continuing operations: Year ended 31 December 2015 £m	Continuing operations: Restated[1] year ended 31 December 2014 £m	Discontinued operations: Year ended 31 December 2015 £m	Discontinued operations: Restated[1] year ended 31 December 2014 £m	Total: Year ended 31 December 2015 £m	Total: Year ended 31 December 2014 £m
Depreciation and impairment	**7.6**	6.5	**10.0**	27.4	**17.6**	33.9
Cost of inventories	**179.0**	216.6	**674.1**	798.4	**853.1**	1,015.0
Amortisation of customer relationships, brands and intellectual property (note 12)	**8.1**	8.6	**23.5**	52.4	**31.6**	61.0
Amortisation and impairment of computer software and development costs (note 12)	**0.5**	0.6	**1.9**	6.8	**2.4**	7.4
Operating lease expense	**1.4**	1.4	**7.1**	9.2	**8.5**	10.6
Staff costs	**95.1**	99.5	**269.4**	303.5	**364.5**	403.0
Research and development costs	**1.6**	0.9	**10.1**	18.7	**11.7**	19.6
Profit on disposal of property, plant and equipment	**–**	–	**(0.6)**	(0.2)	**(0.6)**	(0.2)
Expense of writing down inventory to net realisable value	**1.0**	0.6	**2.6**	4.9	**3.6**	5.5
Reversals of previous write downs of inventory	**(0.1)**	(1.1)	**(4.3)**	(3.0)	**(4.4)**	(4.1)
Impairment recognised on trade receivables	**1.0**	0.1	**2.7**	2.0	**3.7**	2.1
Impairment reversed on trade receivables	**(0.2)**	(0.5)	**(1.9)**	–	**(2.1)**	(0.5)

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**1.3**	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	**1.3**	1.5
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	**1.0**	1.3
Total audit fees[1]	**2.3**	2.8
Audit-related assurance services:		
Review of the half year interim statement	**0.1**	0.1
Non-statutory audit of certain of the Company's businesses	**0.2**	0.6
Other assurance services	**0.1**	–
Total audit-related assurance services	**0.4**	0.7
Total audit and audit-related assurance services	**2.7**	3.5
Taxation compliance services	**0.1**	0.2
Other taxation advisory services	**0.5**	0.5
Corporate finance services	**0.2**	0.3
Other services	**–**	0.1
Total audit and non-audit fees	**3.5**	4.6

(1) Includes £1.2 million (2014: £1.3 million) of audit fees shown within discontinued operations.

Details of the Company's policy on the use of auditors for non-audit services and how auditor's independence and objectivity were safeguarded are set out in the Audit Committee report on page 61. No services were provided pursuant to contingent fee arrangements.

	Year ended 31 December 2015 £m	Restated(1) year ended 31 December 2014 £m
Staff costs during the year (including executive Directors)		
Wages and salaries	**76.4**	80.2
Social security costs	**9.9**	10.0
Pension costs (note 23)		
– defined contribution plans	**3.8**	3.9
LTIPs(2)	**5.0**	5.4
Total continuing staff costs	**95.1**	99.5
Discontinued staff costs(3)	**269.4**	303.5
Total staff costs	**364.5**	403.0

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).
(2) Long Term Incentive Plans.
(3) Includes £2.9 million (2014: £4.9 million) of defined contribution pension costs and £2.2 million (2014: £2.2 million) of defined benefit pension costs.

	Year ended 31 December 2015 Number	Restated(1) year ended 31 December 2014 Number
Average monthly number of persons employed (including executive Directors)		
Energy	**2,460**	2,569
Central – corporate	**34**	34
Total continuing operations	**2,494**	2,603
Discontinued operations	**6,701**	7,633
Total average number of persons employed	**9,195**	10,236

(1) Restated to include the employees of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

	Note	Year ended 31 December 2015 £m	Restated(1) year ended 31 December 2014 £m
Finance costs and income			
Interest on bank loans and overdrafts		**(27.9)**	(32.7)
Amortisation of costs of raising finance		**(15.9)**	(4.0)
Net interest cost on pensions		**(1.6)**	(1.4)
Unwind of discount on provisions		**(0.2)**	(0.6)
Total finance costs(2)		**(45.6)**	(38.7)
Finance income		**10.1**	14.2
Total continuing operations		**(35.5)**	(24.5)
Discontinued operations(3)	9	**(5.3)**	(9.4)
Total net finance costs		**(40.8)**	(33.9)

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).
(2) Includes exceptional finance costs of £13.1 million (2014: £nil) in respect of accelerated future year charges following the repayment of all external debt facilities.
(3) Includes £3.7 million (2014: £6.8 million) net interest cost in relation to pensions.

Notes to the financial statements continued

8. Tax

Analysis of charge/(credit) in year:	Continuing operations Year ended 31 December 2015 £m	Continuing operations Restated[1] year ended 31 December 2014 £m	Discontinued operations Year ended 31 December 2015 £m	Discontinued operations Restated[1] year ended 31 December 2014 £m	Total Year ended 31 December 2015 £m	Total Year ended 31 December 2014 £m
Current tax	**2.9**	4.6	**46.5**	46.2	**49.4**	50.8
Deferred tax	**(17.3)**	(0.3)	**2.8**	(5.3)	**(14.5)**	(5.6)
Total income tax (credit)/charge	**(14.4)**	4.3	**49.3**	40.9	**34.9**	45.2

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

The tax credit from continuing operations for the year ended 31 December 2015 includes an exceptional tax credit of £14.5 million relating to the recognition of tax assets previously not considered recoverable (2014: £nil), a tax credit on exceptional costs of £0.8 million (2014: charge of £0.7 million) and a tax credit on intangible asset amortisation of £2.1 million (2014: £1.6 million).

Changes to the main rate of UK corporation tax were announced in the Finance (No. 2) Act 2015 which was substantively enacted in 2015. The UK corporation tax rate is set to reduce to 19% from 1 April 2017 and reduce further to 18% from 1 April 2020. The impact of the future rate changes has been to decrease the closing deferred tax asset by £1.7 million.

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

	Year ended 31 December 2015 £m	Restated[1] year ended 31 December 2014 £m
(Loss)/profit on ordinary activities before tax:		
Continuing operations	**(30.7)**	12.5
Discontinued operations (note 9)	**217.8**	130.5
	187.1	143.0
Tax on profit on ordinary activities at weighted average rate 31.54% (2014: 28.49%)	**59.0**	40.7
Tax effect of:		
Net permanent differences/non-deductible items	**2.2**	1.3
Temporary differences not recognised in deferred tax	**(4.3)**	3.7
Tax credits, withholding taxes and other rate differences	**(1.3)**	(1.5)
Prior year tax adjustments	**(4.6)**	(2.9)
Exceptional tax (credit)/charge	**(16.1)**	3.9
Total tax charge for the year	**34.9**	45.2

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

The reconciliation has been performed at a blended Group tax rate of 31.54% (2014: 28.49%) which represents the weighted average of the tax rates applying to profits in the jurisdictions in which those profits arose.

In addition to the amount charged to the Income Statement, a tax charge of £7.0 million (2014: credit of £8.7 million) has been recognised directly in the Consolidated Statement of Comprehensive Income. This represents a tax charge of £6.0 million (2014: credit of £8.7 million) in respect of retirement benefit obligations, a tax charge of £0.4 million (2014: £nil) in respect of movements on cash flow hedges and a tax charge of £0.6 million (2014: £nil) in respect of tax charged on foreign exchange gains.

9. Discontinued operations

Disposal of businesses

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

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

Discontinued operations in 2014 also contain the results and cash flows of the Bridon business, which was disposed of on 12 November 2014.

As described in note 1, the comparative information in these financial statements has been restated to include the results and cash flows of the Elster disposal group and the Prelok business within discontinued operations and exclude them from continuing operations.

Financial performance of discontinued operations:

	Year ended 31 December 2015 £m	Restated[(1)] year ended 31 December 2014 £m
Revenue	**1,109.8**	1,261.2
Operating costs	**(886.7)**	(1,121.3)
Operating profit	**223.1**	139.9
Net finance costs	**(5.3)**	(9.4)
Profit before tax	**217.8**	130.5
Tax	**(49.3)**	(40.9)
Profit after tax	**168.5**	89.6
Cumulative translation differences recycled on disposals	**(123.7)**	7.6
Gain on disposal of net assets of discontinued operations	**1,379.5**	89.3
Profit for the year from discontinued operations	**1,424.3**	186.5
Attributable to:		
Owners of the parent	**1,423.4**	185.7
Non-controlling interests	**0.9**	0.8
	1,424.3	186.5

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations.

Revenue from discontinued operations comprises £753.5 million in relation to Gas (2014: £687.0 million), £228.6 million in relation to Electricity (2014: £215.7 million), £125.3 million in relation to Water (2014: £147.5 million), £2.4 million in relation to Prelok (2014: £3.0 million) and £nil in relation to Bridon (2014: £208.0 million).

Operating profit from discontinued operations is stated after amortisation of intangible assets of £23.5 million (2014: £52.4 million), after restructuring costs of £15.8 million (2014: £26.3 million) and after acquisition, disposal related and one off costs of £7.3 million (2014: £2.3 million). Operating profit from discontinued operations also includes the release of £26.0 million (2014: £nil) of items previously booked as fair value adjustments following the successful resolution of certain warranty and legal issues inherited with the acquisition of Elster.

Operating profit by business comprises £180.0 million profit in relation to Gas (2014: £106.7 million), £18.1 million profit in relation to Electricity (2014: £12.2 million), £16.5 million profit in relation to Water (2014: £16.1 million), £14.8 million profit in relation to Elster central (2014: loss of £2.1 million), £0.3 million profit in relation to Prelok (2014: £0.1 million), £nil in relation to Bridon (2014: £14.5 million) and a £6.6 million loss in relation to discontinued corporate costs (2014: £7.6 million).

Notes to the financial statements continued

9. Discontinued operations continued

The major classes of assets and liabilities disposed of during the year were as follows:

	£m
Goodwill and other intangible assets	2,076.8
Property, plant and equipment	106.6
Interests in joint ventures	11.1
Inventories	116.9
Trade and other receivables	207.8
Cash and cash equivalents	93.5
Total assets	2,612.7
Trade and other payables	212.3
Loans and borrowings	0.6
Non-controlling interests	1.9
Derivative financial liabilities	0.1
Retirement benefit obligations	111.9
Provisions	75.7
Tax and deferred tax	234.5
Total liabilities	637.0
Net assets	1,975.7
Cash consideration net of costs(1)	3,355.2
Cumulative translation difference recycled on disposals	(123.7)
Profit on disposal of businesses	**1,255.8**
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents net of costs(1)	3,355.2
Less: cash and cash equivalents disposed of	(93.5)
	3,261.7

(1) Net of £25.8 million of disposal costs.

10. Dividends

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
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
Final dividend for the year ended 31 December 2014 paid of 5.3p	**52.7**	–
Interim dividend for the year ended 31 December 2015 paid of 2.8p	**27.9**	–
	80.6	83.6

Proposed final dividend for the year ended 31 December 2015 of 2.6p per share (2014: 5.3p per share) totalling £3.8 million (2014: £52.7 million).

The final dividend of 2.6p was proposed by the Board on 3 March 2016 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 2015 £m	Restated[(1)] year ended 31 December 2014 £m
Profit for the purposes of earnings per share	**1,407.1**	193.9
Less: profit for the year from discontinued operations (note 9)	**(1,423.4)**	(185.7)
Earnings for basis of earnings per share from continuing operations	**(16.3)**	8.2

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

	Year ended 31 December 2015 Number	Year ended 31 December 2014 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	**1,005.9**	1,092.0
Further shares for the purposes of diluted earnings per share (million)	**20.7**	13.7
Weighted average number of ordinary shares for the purposes of diluted earnings per share (million)	**1,026.6**	1,105.7

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

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

Earnings per share	Year ended 31 December 2015 pence	Restated[(1)] year ended 31 December 2014 pence
Basic earnings per share		
From continuing and discontinued operations	**139.9**	17.8
From continuing operations	**(1.6)**	0.8
From discontinued operations	**141.5**	17.0
Diluted earnings per share		
From continuing and discontinued operations	**137.1**	17.5
From continuing operations	**(1.6)**	0.7
From discontinued operations	**138.7**	16.8

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

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 2014	1,602.0	867.5	268.1	29.0	2,766.6
Additions	–	–	–	7.9	7.9
Acquisition of businesses[1]	60.4	27.1	24.0	0.3	111.8
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]	1,516.7	836.9	181.7	33.7	2,569.0
Additions	–	–	–	6.2	6.2
Disposals	–	–	–	(0.1)	(0.1)
Exchange adjustments	(68.6)	(42.8)	(5.4)	(3.9)	(120.7)
Transfer to held for sale[2]	(1,250.0)	(765.7)	(69.9)	(31.4)	(2,117.0)
At 31 December 2015	**198.1**	**28.4**	**106.4**	**4.5**	**337.4**
Amortisation					
At 1 January 2014	–	(86.3)	(63.4)	(4.9)	(154.6)
Charge for the year	–	(48.2)	(12.8)	(5.3)	(66.3)
Impairments	–	–	–	(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)
Charge for the year	–	(24.1)	(7.5)	(2.4)	(34.0)
Disposals	–	–	–	0.1	0.1
Exchange adjustments	–	6.0	1.1	2.5	9.6
Transfer to held for sale[2]	–	114.4	7.8	5.6	127.8
At 31 December 2015	**–**	**(21.3)**	**(39.8)**	**(3.3)**	**(64.4)**
Net book value					
At 31 December 2015	**198.1**	**7.1**	**66.6**	**1.2**	**273.0**
At 31 December 2014[1]	1,516.7	719.3	140.5	24.6	2,401.1
At 1 January 2014	1,602.0	781.2	204.7	24.1	2,612.0

(1) Restated to reflect the completion of the acquisition accounting of Eclipse (note 1).

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

The most significant identified intangible asset is included within the Energy segment, is in relation to brands, has a carrying amount as at 31 December 2015 of £66.6 million and has a remaining amortisation period of 12 years and 6 months. At 31 December 2014, the most significant identified intangible asset was included within the Gas segment, was in relation to customer relationships, had a carrying amount of £582.8 million and had 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 is allocated to the businesses, each of which comprises several cash-generating units. Following the disposal of Elster on 29 December 2015, the remaining goodwill is attributable to the Brush business included within the Energy segment.

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

31 December 2015

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

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	1,084.0	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%

Notes to the financial statements continued

12. Goodwill and other intangible assets continued

(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.

(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 are shown below:

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

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

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

(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
The forecasts, prepared using a methodology required by IAS 36: "Impairment of assets", show headroom of £103 million above the carrying amount. In accordance with IAS 36 a sensitivity analysis has been undertaken and the required increase in the discount rate to reduce the recoverable amount of the CGU to its carrying value is from 11.1% to 13.4%, an increase of over 20%.

13. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2014	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
Additions	5.9	23.7	29.6
Disposals	(1.1)	(1.8)	(2.9)
Disposal of businesses	–	(2.5)	(2.5)
Exchange adjustments	(2.9)	(8.5)	(11.4)
Transfer to held for sale(1)	(35.6)	(114.3)	(149.9)
At 31 December 2015	**52.8**	**88.5**	**141.3**
Accumulated depreciation and impairment			
At 1 January 2014	(11.5)	(80.1)	(91.6)
Charge for the year	(4.1)	(29.2)	(33.3)
Impairments	–	(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)
Charge for the year	(2.3)	(15.3)	(17.6)
Disposals	0.5	1.3	1.8
Disposal of businesses	–	2.3	2.3
Exchange adjustments	0.5	4.2	4.7
Transfer to held for sale(1)	6.6	52.6	59.2
At 31 December 2015	**(4.3)**	**(24.1)**	**(28.4)**
Net book value			
At 31 December 2015	**48.5**	**64.4**	**112.9**
At 31 December 2014	76.9	122.7	199.6
At 1 January 2014	83.6	157.6	241.2

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

Notes to the financial statements continued

14. Interests in joint ventures

	31 December 2015 £m	Restated[1] 31 December 2014 £m
Aggregated amounts relating to joint ventures:		
Share of assets	**2.4**	23.6
Share of liabilities	**(2.4)**	(11.8)
Interests in joint ventures	**–**	11.8
Share of joint venture revenues	**1.7**	4.3
Share of headline[2] results of joint ventures	**0.3**	1.1
Dividends received from joint ventures	**(0.3)**	(1.2)

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).
(2) As defined in the Income Statement.

A list of subsidiaries and significant holdings including the name, country of incorporation and proportion of ownership interest is given in note 4 to the Company's separate financial statements.

15. Inventories

	31 December 2015 £m	31 December 2014 £m
Raw materials	**14.0**	63.4
Work in progress	**31.4**	57.0
Finished goods	**10.2**	46.1
	55.6	166.5

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

Construction contracts

	31 December 2015 £m	31 December 2014 £m
Contracts in progress at the Balance Sheet date:		
Amounts due from contract customers included in other receivables	**4.3**	4.3
	4.3	4.3
Contract costs incurred plus recognised profit less recognised losses to date	**7.5**	4.3
Less: progress billings	**(3.2)**	–
	4.3	4.3

The average life of contracts is one to two years (31 December 2014: one to two years).

16. Trade and other receivables

Current	31 December 2015 £m	31 December 2014 £m
Trade receivables	**58.1**	230.9
Allowance for doubtful receivables	**(0.8)**	(7.4)
Other receivables	**4.3**	24.6
Prepayments	**6.3**	9.4
	67.9	257.5

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 2015 £m	31 December 2014 £m
Other receivables	**1.1**	3.3

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:

	Restated[(1)] Energy £m	Restated[(1)] discontinued £m	Total £m
At 1 January 2014	0.8	7.4	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
Income Statement charge	0.8	0.8	1.6
Utilised	(0.2)	(0.6)	(0.8)
Exchange differences	–	(0.7)	(0.7)
Transfer to held for sale[(2)]	–	(6.7)	(6.7)
At 31 December 2015	**0.8**	**–**	**0.8**

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).
(2) Transferred to assets held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

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

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

Ageing of impaired trade receivables past due	31 December 2015 £m	31 December 2014 £m
0 – 30 days	**–**	1.2
31 – 60 days	**–**	–
60+ days	**0.8**	6.2
	0.8	7.4

Notes to the financial statements continued

16. Trade and other receivables continued

Included in the Group's trade receivables balance are overdue trade receivables with a carrying amount of £13.6 million (31 December 2014: £35.4 million) against which an appropriate provision of £0.8 million (31 December 2014: £7.4 million) is held.

The balance deemed recoverable of £12.8 million (31 December 2014: £28.0 million) is past due as follows:

	31 December 2015 £m	31 December 2014 £m
0 – 30 days	**5.6**	21.6
31 – 60 days	**2.6**	4.7
60+ days	**4.6**	1.7
	12.8	28.0

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 2015 £m	31 December 2014 £m
Cash and cash equivalents	**2,451.4**	70.5

Cash and cash equivalents comprises cash at bank and in hand which earns interest at floating rates based on daily bank deposit rates and short-term deposits which are made for varying periods of between one day and one month and earn interest at the respective short-term deposit rates. The carrying amount of these assets is considered to be equal to their fair value. The increase in cash and cash equivalents at 31 December 2015 primarily relates to the receipt of funds as a result of the disposal of the Elster disposal group (note 1). £2,425.0 million of these funds were placed in AAA rated Sterling denominated money market funds.

18. Trade and other payables

Current	**31 December 2015 £m**	31 December 2014 £m
Trade payables	**30.3**	153.0
Other payables	**12.2**	91.9
Other taxes and social security	**0.9**	11.5
Deferred government grants	**–**	0.1
Accruals	**27.8**	64.0
	71.2	320.5

Trade payables are non interest-bearing. Normal settlement terms vary by country and the average credit period taken for trade purchases is 68 days (2014: 88 days). Other payables are non interest-bearing and have an average term of approximately 60 days.

Non-current	**31 December 2015 £m**	31 December 2014 £m
Other payables	**–**	0.1
Accruals	**–**	0.3
	–	0.4

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

19. Interest-bearing loans and borrowings

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

	Current		Non-current		Total	
	31 December 2015 £m	31 December 2014 £m	**31 December 2015 £m**	31 December 2014 £m	**31 December 2015 £m**	31 December 2014 £m
Floating rate obligations						
Bank borrowings – US Dollar loan	**–**	–	**–**	244.5	**–**	244.5
Bank borrowings – Euro loan	**–**	–	**–**	150.7	**–**	150.7
Bank borrowings – Sterling loan	**–**	–	**–**	191.0	**–**	191.0
Bank borrowings – Brazilian Real	**–**	0.9	**–**	0.6	**–**	1.5
	–	0.9	**–**	586.8	**–**	587.7
Unamortised finance costs	**–**	–	**–**	(15.9)	**–**	(15.9)
Total interest-bearing loans and borrowings	**–**	0.9	**–**	570.9	**–**	571.8

As at 1 January 2015, the Group held a five-year multi-currency facility split between a £180 million Sterling term loan and three revolving credit facilities comprising a £741.5 million facility, a US $290 million facility and a €300 million facility. These facilities were due to mature on 11 July 2019.

On 29 December 2015, a proportion of the Elster disposal proceeds were used to repay the drawdowns on the term loan and revolving credit facilities. On the same day, the term loan, the US Dollar and the Euro revolving credit facilities were cancelled. The Sterling multi-currency revolving credit facility was resized to £200 million and remained undrawn at 31 December 2015. The remaining unamortised finance costs relating to the facilities were charged in full to finance costs (note 7) in the Income Statement.

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 remaining bank facility.

Drawdowns under the remaining facility would bear interest at interbank rates of interest plus a margin determined by reference to the Group's performance under its debt cover covenant ratio, ranging between 0.75% and 1.90% (31 December 2014: range between 0.75% to 1.90%). The margin as at 31 December 2015 was 1.55% (31 December 2014: 1.30%).

Maturity of financial liabilities

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

	Interest-bearing loans and borrowings £m	Derivative financial liabilities £m	Other financial liabilities £m	Total financial liabilities £m
Within one year	–	1.5	70.3	71.8
In one to two years	–	–	–	–
In two to five years	–	–	–	–
Effect of financing rates	–	–	–	–
31 December 2015	**–**	**1.5**	**70.3**	**71.8**
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

Notes to the financial statements continued

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 1 January 2015 restated[1]	11.0	51.0	26.6	50.8	33.4	172.8
Utilised	(2.7)	(4.7)	(10.0)	(11.5)	(22.8)	(51.7)
Net charge to continuing headline[2] operating profit	–	–	1.0	0.8	0.2	2.0
Charge to exceptional items	–	–	–	–	5.9	5.9
Net release to discontinued operating profit[3]	(3.0)	(16.0)	7.9	(6.3)	8.2	(9.2)
Unwind of discount	0.1	0.1	0.5	–	–	0.7
Exchange differences	0.1	(0.8)	–	(1.9)	(1.5)	(4.1)
Transfer to held for sale[4]	(0.5)	(12.8)	(24.0)	(29.1)	(20.0)	(86.4)
At 31 December 2015	**5.0**	**16.8**	**2.0**	**2.8**	**3.4**	**30.0**
Current	2.5	4.7	–	2.0	2.8	12.0
Non-current	2.5	12.1	2.0	0.8	0.6	18.0
	5.0	16.8	2.0	2.8	3.4	30.0

(1) Restated to reflect the completion of the acquisition accounting of Eclipse (note 1).
(2) As defined on the Income Statement.
(3) Net of a £15.5 million charge and a £24.7 million release prior to being transferred to liabilities held for sale at 30 June 2015.
(4) Transferred to liabilities held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

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 four years.

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

Other provisions relate primarily to costs that will be incurred in respect of restructuring programmes, usually resulting in cash spend within one year.

Where appropriate, provisions have been discounted using a discount rate of 3% (31 December 2014: 3%).

21. Deferred tax

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

	Deferred tax assets	Deferred tax liabilities			
	Tax losses and other assets £m	Accelerated capital allowances and other liabilities £m	Deferred tax on intangible assets £m	Total deferred tax liabilities £m	Total net deferred tax £m
At 1 January 2014	70.3	(12.2)	(287.4)	(299.6)	(229.3)
(Charge)/credit to income	(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	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)
Credit to income	22.1	1.0	9.5	10.5	32.6
Charge to other comprehensive income	(0.5)	(5.2)	–	(5.2)	(5.7)
Transfer to held for sale(1)	(61.9)	5.2	224.1	229.3	167.4
Exchange differences	(2.7)	–	12.5	12.5	9.8
At 31 December 2015	**25.7**	**(6.5)**	**(13.7)**	**(20.2)**	**5.5**

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

As at 31 December 2015, the Group had gross unused losses of £184.0 million (31 December 2014: £183.6 million) available for offset against future profits. At 31 December 2015, a £21.2 million deferred tax asset (31 December 2014: £10.4 million) in respect of £114.8 million (31 December 2014: £40.9 million) of these gross losses was recognised in the Balance Sheet. No asset was recognised in respect of the remaining losses due to the divisional and geographic split of anticipated future profit streams. The majority of these losses may be carried forward indefinitely subject to certain continuity of business requirements.

In addition, an asset of £4.5 million (31 December 2014: £33.6 million) related to other temporary differences.

A deferred tax liability of £0.3 million (31 December 2014: asset of £24.7 million) was recognised in respect of Group retirement benefit obligations.

As at 31 December 2015, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries was £99.5 million (31 December 2014: £474.0 million) on which deferred tax liabilities not recognised were £nil (31 December 2014: £4.3 million). No liability was recognised in 2014 in respect of these differences because the Group was in a position to control the timing of the reversal of the temporary differences and it was probable that such differences would not reverse in the foreseeable future.

22. Share-based payments

Melrose Incentive Plan

The Company has 50,000 options (31 December 2014: 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 Incentive Plan are provided in the Directors' Remuneration Report on pages 68 to 70.

The estimated value of the 2012 Incentive Shares at 31 December 2015 was £64.0 million (31 December 2014: £44.7 million).

Notes to the financial statements continued

22. Share-based payments continued

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 (2014: £4.0 million) in the year ended 31 December 2015 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 £3.8 million (2014: £3.9 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.

On 29 December 2015, Honeywell International Inc. assumed ownership of the Elster defined benefit pension plans, along with the FKI UK Pension Plan and the McKechnie UK Pension Plan. The remaining defined benefit pension plans in the Group at 31 December 2015 were:

- The Brush Group (2013) ("Brush UK") Pension Plan, which is defined benefit in type and is a funded plan. The plan is closed to new members and the accrual of future benefits for existing members.
- The Brush Aftermarket North America, Inc. ("Brush US") Group Pension Plan (formerly 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 £2.2 million.

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

The valuation of the Brush UK Pension Plan was based on a full actuarial valuation as of 31 December 2013, updated at 31 December 2015 by independent actuaries. The Brush US Pension Plan valuation was based on a full actuarial valuation as of 31 December 2014, updated at 31 December 2015 by independent actuaries.

The Group contributed £5.1 million (2014: £5.0 million) to the continuing defined benefit pension plans in the year ended 31 December 2015.

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

Actuarial assumptions

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

	31 December 2015		31 December 2014	
	Brush UK Plan % p.a.	**Brush US Plan % p.a.**	Brush UK Plan % p.a.	Brush US Plan % p.a.
Rate of increase in salaries	**n/a**	**n/a**	n/a	n/a
Rate of increase in pensions in payment	**3.0**	**n/a**	3.0	n/a
Discount rate	**3.7**	**4.1**	3.5	3.9
RPI inflation assumption	**3.0**	**n/a**	3.1	n/a
CPI inflation assumption	**1.9**	**n/a**	2.1	n/a

Mortality

Brush UK Pension Plan

Mortality assumptions for the Brush UK Pension Plan, as at 31 December 2015, were based on the Self Administered Pension Scheme ("SAPS") "S1" base tables with a scaling factor of 110%, which reflected the results of a mortality analysis carried out on the plan's membership. Future improvements are in line with the Continuous Mortality Investigation ("CMI") improvement model with a long-term rate of improvement of 1.25% p.a. for both males and females.

The assumptions were that a member currently aged 65 will live on average for a further 21.4 years (31 December 2014: 21.6 years) if they are male and for a further 23.6 years (31 December 2014: 23.8 years) if they are female. For a member who retires in 2035 at age 65, the assumptions were that they will live for a further 23.0 years (31 December 2014: 23.2 years) after retirement if they are male and for a further 25.5 years (31 December 2014: 25.7 years) after retirement if they are female.

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

Brush US Pension Plan

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

The assumptions were that a member currently aged 65 will live on average for a further 20.3 years (31 December 2014: 21.1 years) if they are male and for a further 22.3 years (31 December 2014: 23.3 years) if they are female. For a member who retires in 2035 at age 65, the assumptions were that they will live for a further 22.0 years (31 December 2014: 22.8 years) after retirement if they are male and for a further 23.9 years (31 December 2014: 24.9 years) after retirement if they are female.

The mortality assumptions were consistent with those adopted for the full valuation as at 31 December 2014.

Balance Sheet disclosures

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

	31 December 2015 £m	31 December 2014 £m
Present value of funded defined benefit obligations	**(360.7)**	(1,231.0)
Fair value of plan assets	**343.5**	1,125.2
Funded status	**(17.2)**	(105.8)
Present value of unfunded defined benefit obligations	**–**	(112.7)
Net liabilities	**(17.2)**	(218.5)

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

	Brush UK Plan £m	Brush US Plan £m	**Total £m**
Plan liabilities	(195.7)	(165.0)	**(360.7)**
Plan assets	197.1	146.4	**343.5**
Net assets/(liabilities)	1.4	(18.6)	**(17.2)**

Notes to the financial statements continued

23. Retirement benefit obligations continued

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

	31 December 2015 £m	31 December 2014 £m
Equities	**129.2**	380.7
Government bonds	**80.1**	315.2
Corporate bonds	**122.2**	337.9
Property	**5.7**	21.8
Insurance contracts	**–**	11.9
Other	**6.3**	57.7
Total	**343.5**	1,125.2

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

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

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

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

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
At beginning of year	**1,343.7**	1,290.1
Acquisition of businesses	**–**	4.6
Disposal of businesses	**–**	(68.4)
Current service cost	**1.0**	2.2
Past service cost	**(2.2)**	(3.5)
Interest cost on obligations	**29.4**	55.0
Terminations	**(2.6)**	(4.3)
Remeasurement (gains)/losses – demographic	**(19.2)**	14.4
Remeasurement (gains)/losses – financial	**(39.8)**	151.6
Remeasurement gains – experience	**(7.2)**	(29.7)
Benefits paid out of plan assets	**(56.1)**	(71.8)
Benefits paid out of Group assets for unfunded plans	**(4.8)**	(4.4)
Currency translation differences	**0.9**	7.9
Transfer to held for sale(1)	**(882.4)**	–
At end of year	**360.7**	1,343.7

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

The defined benefit plan liabilities were nil% (31 December 2014: 5%) in respect of active plan participants, 53% (31 December 2014: 41%) in respect of deferred plan participants and 47% (31 December 2014: 54%) in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2015 was 15.0 years (31 December 2014: 15.5 years).

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

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
At beginning of year	**1,125.2**	1,070.8
Disposal of businesses	**–**	(64.8)
Interest income on plan assets	**25.7**	46.8
Return on plan assets, excluding interest income	**(24.4)**	100.8
Contributions	**15.4**	34.8
Benefits paid out of plan assets	**(56.1)**	(71.8)
Plan administrative costs	**(2.2)**	(3.6)
Currency translation differences	**8.5**	12.2
Transfer to held for sale(1)	**(748.6)**	–
At end of year	**343.5**	1,125.2

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

The actual return on plan assets was a gain of £1.3 million (2014: £147.6 million).

Income Statement disclosures

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

	Year ended 31 December 2015 £m	Restated(1) year ended 31 December 2014 £m
Continuing operations		
Included within headline(2) operating profit:		
– past service cost	**(2.2)**	(3.5)
– plan administrative costs	**1.3**	1.1
Included within net finance costs:		
– interest cost on defined benefit obligations	**14.5**	16.9
– interest income on plan assets	**(12.9)**	(15.5)
Discontinued operations		
Included within operating profit:		
– current service cost	**2.2**	2.2
– past service cost	**(0.1)**	–
– plan administrative expenses	**2.7**	2.5
– terminations	**(2.6)**	(4.3)
Included within net finance costs:		
– interest cost on defined benefit obligations	**30.0**	38.1
– interest income on plan assets	**(26.3)**	(31.3)

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok 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 were as follows:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Return on plan assets, excluding amounts included in net interest expense	**(38.2)**	100.8
Actuarial gains/(losses) arising from changes in demographic assumptions	**31.9**	(14.4)
Actuarial gains/(losses) arising from changes in financial assumptions	**48.7**	(151.6)
Actuarial gains arising from experience adjustments	**15.1**	29.7
Net remeasurement gain/(loss) on retirement benefit obligations	**57.5**	(35.5)

Notes to the financial statements continued

23. Retirement benefit obligations continued

Risks and sensitivities

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

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

	Change in assumption	Decrease/ (increase) to plan liabilities £m	Increase/ (decrease) to profit before tax £m
Discount rate	Increase by 0.10%	5.0	0.2
	Decrease by 0.10%	(5.1)	(0.2)
Inflation assumption[1]	Increase by 0.10%	(3.0)	n/a
	Decrease by 0.10%	1.3	n/a
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(11.1)	n/a
	Decrease by 1 year	11.0	n/a

(1) The inflation sensitivity encompasses the impact on pension increases, where applicable.

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

The sensitivities were based on the relevant assumptions and membership profile as at 31 December 2015 and were applied to the obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation to the sensitivity of the assumptions shown. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate and the sensitivity analysis presented may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

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 2015 and 31 December 2014:

	Restated[1] Energy £m	Central £m	Restated[1] discontinued £m	Total £m
31 December 2015				
Financial assets				
Cash and cash equivalents	–	2,451.4	–	2,451.4
Net trade receivables	56.5	0.8	–	57.3
Derivative financial assets	1.0	0.2	–	1.2
Financial liabilities				
Interest-bearing loans and borrowings	–	–	–	–
Derivative financial liabilities	(1.3)	(0.2)	–	(1.5)
Other financial liabilities	(60.8)	(9.5)	–	(70.3)
31 December 2014				
Financial assets				
Cash and cash equivalents	–	70.5	–	70.5
Net trade receivables	67.2	0.1	156.2	223.5
Derivative financial assets	0.3	2.4	2.4	5.1
Financial liabilities				
Interest-bearing loans and borrowings	–	(570.3)	(1.5)	(571.8)
Derivative financial liabilities	(3.9)	(4.5)	(1.9)	(10.3)
Other financial liabilities	(72.2)	(20.3)	(216.8)	(309.3)

(1) Restated to include the financial assets and financial liabilities of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

Credit risk

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

	Restated[1] Energy £m	Central £m	Restated[1] discontinued £m	Total £m
31 December 2015				
Financial assets				
Cash and cash equivalents	–	2,451.4	–	2,451.4
Net trade receivables	56.5	0.8	–	57.3
Derivative financial assets	1.0	0.2	–	1.2
31 December 2014				
Financial assets				
Cash and cash equivalents	–	70.5	–	70.5
Net trade receivables	67.2	0.1	156.2	223.5
Derivative financial assets	0.3	2.4	2.4	5.1

(1) Restated to include the financial assets of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

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

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

Capital risk

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

The capital structure of the Group as at 31 December 2015 consisted of cash 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.

Notes to the financial statements continued

24. Financial instruments and risk management continued

Foreign exchange contracts

As at 31 December 2015, the Group held foreign exchange forward contracts to mitigate expected exchange rate fluctuations on cash flows on sales to customers and purchases from suppliers. These instruments operate as cash flow hedges unless the amounts involved are small. The terms of the material currency pairs with total principals in excess of Sterling £1.0 million equivalent were as follows:

	31 December 2015 Selling currency millions	**31 December 2015 Average hedged rate**	31 December 2014 Selling currency millions	31 December 2014 Average hedged rate
Sell Brazilian Real/Buy US Dollar	**–**	**–**	BRL 4.2	USD/BRL 2.60
Sell Canadian Dollar/Buy US Dollar	**–**	**–**	CAD 62.0	USD/CAD 1.13
Sell Chinese Renminbi/Buy Euro	**CNY 33.5**	**EUR/CNY 7.11**	–	–
Sell Czech Koruna/Buy Euro	**–**	**–**	CZK 78.1	EUR/CZK 27.64
Sell Czech Koruna/Buy Sterling	**CZK 139.2**	**GBP/CZK 37.65**	–	–
Sell Euro/Buy Czech Koruna	**EUR 20.7**	**EUR/CZK 27.08**	EUR 10.6	EUR/CZK 27.48
Sell Euro/Buy Romanian Leu	**–**	**–**	EUR 2.2	EUR/RON 4.49
Sell Euro/Buy Russian Rouble	**–**	**–**	EUR 3.9	EUR/RUB 62.07
Sell Euro/Buy Sterling	**EUR 8.8**	**GBP/EUR 1.38**	EUR 8.4	GBP/EUR 1.22
Sell Euro/Buy US Dollar	**–**	**–**	EUR 2.7	EUR/USD 1.28
Sell Russian Rouble/Buy Euro	**–**	**–**	RUB 237.9	EUR/RUB 61.47
Sell South African Rand/Buy Sterling	**–**	**–**	ZAR 20.4	GBP/ZAR 18.51
Sell Sterling/Buy Czech Koruna	**GBP 14.6**	**GBP/CZK 37.13**	GBP 34.5	GBP/CZK 33.27
Sell Sterling/Buy Euro	**GBP 13.9**	**GBP/EUR 1.38**	GBP 41.9	GBP/EUR 1.25
Sell Sterling/Buy US Dollar	**–**	**–**	GBP 5.4	GBP/USD 1.64
Sell US Dollar/Buy Euro	**–**	**–**	USD 4.3	EUR/USD 1.30
Sell US Dollar/Buy Czech Koruna	**USD 4.1**	**USD/CZK 25.08**	–	–
Sell US Dollar/Buy Mexican Peso	**–**	**–**	USD 8.8	USD/MXN 13.73
Sell US Dollar/Buy Sterling	**USD 25.9**	**GBP/USD 1.54**	USD 32.8	GBP/USD 1.64

The foreign exchange contracts all mature between January 2016 and December 2016.

The fair value of the contracts at 31 December 2015 was a net liability of £0.3 million (31 December 2014: £4.3 million).

Hedge of net investments in foreign entities

Following the disposal of Elster, on 29 December 2015, the Company repaid all external borrowings. Consequently as at 31 December 2015, the Group had no interest-bearing loans to designate as hedges of net investments.

Borrowings in local currency designated as hedges of net investments:

	31 December 2015 £m	31 December 2014 £m
US Dollar	**–**	157.2
Euro	**–**	150.7

Interest rate sensitivity analysis
Assuming the cash (31 December 2014: net debt) held as at the Balance Sheet date was outstanding for the whole year, a one percentage point rise in market interest rates for all currencies would increase/(decrease) profit before tax by the following amounts:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Sterling	**24.5**	1.3
US Dollar	**–**	(0.8)
Euro	**–**	(0.2)
	24.5	0.3

Adjusting for the capital return in February 2016 (note 29), the sensitivity for Sterling would show an increase in profit before tax of £0.6 million for Sterling, £nil for US Dollar and £nil for Euros.

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

All interest rate swaps were closed out on the completion of the Elster disposal due to all external borrowings being repaid.

Foreign currency risk
The Group's policy for managing foreign currency risk is set out in the Finance Director's review on pages 25 and 26.

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

The following table details the transactional impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the increase/(decrease) in Group operating profit caused by a 10 cent strengthening of the US Dollar and Euro 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 2015 £m	Year ended 31 December 2014 £m
US Dollar	**0.1**	(1.5)
Euro	**0.4**	2.4

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 (decrease)/increase in Group equity caused by a 10 cent strengthening of the US Dollar and Euro against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant.

	31 December 2015 £m	31 December 2014 £m
US Dollar	**(0.5)**	2.2
Euro	**(0.2)**	3.7

Following the disposal of Elster, on 29 December 2015, the Company repaid all external borrowings. Consequently, as of 31 December 2015, the Group had no interest-bearing loans to designate as hedges of net investments. At 31 December 2014, 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 have been a decrease of £10.8 million and £12.7 million respectively. However, there would have been no overall effect on equity because there would be an offset in the currency translation of the foreign operation.

Notes to the financial statements continued

24. Financial instruments and risk management continued

Fair value measurements recognised in the Balance Sheet

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

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

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

Recurring fair value measurements	31 December 2015 Current £m	31 December 2015 Non-current £m	31 December 2015 Total £m	31 December 2014 Current £m	31 December 2014 Non-current £m	31 December 2014 Total £m
Derivative financial assets						
Foreign currency forward contracts	**1.2**	**–**	**1.2**	3.9	–	3.9
Interest rate swaps	**–**	**–**	**–**	–	1.2	1.2
Total recurring financial assets	**1.2**	**–**	**1.2**	3.9	1.2	5.1
Derivative financial liabilities						
Foreign currency forward contracts	**(1.5)**	**–**	**(1.5)**	(8.0)	(0.2)	(8.2)
Interest rate swaps	**–**	**–**	**–**	(2.1)	–	(2.1)
Total recurring financial liabilities	**(1.5)**	**–**	**(1.5)**	(10.1)	(0.2)	(10.3)

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

25. Issued capital and reserves

Share capital	31 December 2015 £m	Restated[1] 31 December 2014 £m
Allotted, called-up and fully paid		
995,206,966 (31 December 2014: 995,206,966) ordinary shares of 1p each (31 December 2014: 26.5p each)	**10.0**	263.8
	10.0	263.8

(1) In accordance with IFRS 3, the prior year Issued share capital, Merger reserve, Capital redemption reserve and Other reserves balances have been restated to reflect the nominal share capital and reserves position of the new parent company as if it had been the holding company during both periods presented. The overall impact on net equity is £nil (note 1).

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

On 20 February 2015 at a general meeting of the Company, shareholders approved a resolution to return £200.4 million to shareholders.

In conjunction with this return of capital, 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 return of capital. On 20 February 2015, the number of ordinary shares in issue became 995,206,966 each with a nominal value of 7/55 pence.

On 19 November 2015, a scheme of arrangement approved by the High Court of England and Wales became effective and resulted in New Melrose Industries PLC (subsequently renamed Melrose Industries PLC on 19 November 2015) becoming the new holding company of Melrose Industries PLC (subsequently renamed Melrose Holdings Limited on 19 November 2015) and its subsidiaries. The arrangement resulted in the issue of 1 new 26.5 pence New Melrose Industries PLC ordinary share for each 7/55 pence Melrose Industries PLC ordinary share. New Melrose Industries PLC consequently issued 995,206,966 ordinary shares with a total nominal value of £263.8 million.

As explained in note 1, the ordinary share capital for the year ended 31 December 2014 has been restated to reflect the nominal value of the ordinary shares of New Melrose Industries PLC at the date of which New Melrose Industries PLC became the new holding company. The nominal value of each ordinary share in issue at 31 December 2014 has therefore been restated from 7/55 pence to 26.5 pence and the number of shares in issue has been restated from 1,071,761,339 to 995,206,966.

On 23 November 2015, the nominal value of each ordinary share of New Melrose Industries PLC was reduced from 26.5 pence to 1 penny and resulted in a transfer of £253.8 million to Retained earnings.

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

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

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

26. Cash flow statement

	Year ended 31 December 2015 £m	Restated(1) year ended 31 December 2014 £m
Reconciliation of headline(2) operating profit to cash generated by continuing operations		
Headline(2) operating profit from continuing operations	**20.8**	47.7
Adjustments for:		
Depreciation of property, plant and equipment	**7.6**	6.5
Amortisation of computer software and development costs	**0.5**	0.6
Restructuring costs paid and movements in provisions	**(28.8)**	(4.6)
Defined benefit pension contributions paid	**(5.1)**	(5.0)
(Increase)/decrease in inventories	**(9.9)**	4.6
Decrease/(increase) in receivables	**10.8**	(7.3)
Decrease in payables	**(12.3)**	(12.9)
Tax paid	**(2.8)**	(3.4)
Interest paid	**(38.6)**	(36.7)
Net cash used in operating activities from continuing operations	**(57.8)**	(10.5)

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).
(2) As defined on the Income Statement.

Notes to the financial statements continued

26. Cash flow statement continued

Cash flow from discontinued operations	Year ended 31 December 2015 £m	Restated[1] year ended 31 December 2014 £m
Cash generated from discontinued operations	**172.9**	201.6
Defined benefit pension contributions paid	**(30.1)**	(34.2)
Tax paid	**(51.2)**	(35.9)
Interest paid	**(1.6)**	(2.2)
Acquisition costs	**(0.8)**	(2.3)
Net cash from operating activities from discontinued operations	**89.2**	127.0
Purchase of property, plant and equipment	**(26.0)**	(28.4)
Proceeds from disposal of property, plant and equipment	**1.7**	3.9
Purchase of computer software and development costs	**(15.5)**	(7.7)
Cash acquired on acquisition of subsidiaries	**–**	1.5
Acquisition of subsidiaries and non-controlling interests	**–**	(97.6)
Purchase of non-controlling interests	**(1.5)**	–
Dividends received from joint ventures	**2.2**	2.1
Dividends paid to non-controlling interests	**(0.4)**	(0.4)
Interest received	**0.8**	0.5
Net cash used in investing activities from discontinued operations	**(38.7)**	(126.1)
Net cash used in financing activities from discontinued operations	**–**	–

(1) Restated to include the results of the Elster disposal group (note 1) and Prelok within discontinued operations (note 9).

Net debt reconciliation

	31 December 2014 £m	Cash flow £m	Disposals £m	Other non-cash movements £m	Foreign exchange difference £m	31 December 2015 £m
Cash	70.5	(890.7)	3,261.9	–	9.7	**2,451.4**
Debt due within one year	(0.9)	0.3	0.6	–	–	**–**
Debt due after one year	(570.9)	594.8	–	(15.9)	(8.0)	**–**
Net (debt)/cash	(501.3)	(295.6)	3,262.5	(15.9)	1.7	**2,451.4**

27. Commitments and contingencies

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

	31 December 2015 £m	31 December 2014 £m
Amounts payable:		
Within one year	**2.2**	6.9
After one year but within five years	**1.1**	9.3
Over five years	**–**	2.6
	3.3	18.8

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length up to a period of five 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 Elster.

Capital commitments

At 31 December 2015, there were commitments of £0.8 million (31 December 2014: £19.2 million) relating to the acquisition of new plant and machinery.

28. Related parties

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

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

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

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24: "Related party disclosures". Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 70 and 71.

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Short-term employee benefits	**3.0**	2.7
Share-based payments	**2.7**	2.7
	5.7	5.4

29. Post Balance Sheet events

At a general meeting of New Melrose Industries PLC (subsequently renamed Melrose Industries PLC on 19 November 2015) held on 2 October 2015 and a general meeting of Melrose Industries PLC (subsequently renamed Melrose Holdings Limited on 19 November 2015) held on 29 October 2015, shareholders approved a Return of Capital of between £2.0 billion and £2.5 billion following the completion of the disposal of Elster. On 29 December 2015, the Company announced that the Return of Capital would be 240 pence per ordinary share totalling £2,388.5 million.

'B' shares with a total value of £2,388.5 million were created on 26 January 2016 resulting in a corresponding reduction in the Merger reserve. The 'B' shares were cancelled on 27 January 2016 and capital return payments representing the nominal value of the 'B' shares (240 pence each) were made to shareholders on 5 February 2016.

Alongside the capital return, on 28 January 2016 the number of ordinary shares in issue was consolidated in a ratio of 7 for 48 in order to maintain comparability of the Company's share price before and after the capital return. On 28 January 2016 the number of ordinary shares in issue became 145,134,353 each with a nominal value of 48/7 pence.

Further details of the capital return are provided on pages 50 and 51 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 2015 £m
Fixed assets		
Investment in subsidiaries	4	**2,764.8**
		2,764.8
Creditors: amounts falling due within one year		
Creditors	5	**(0.3)**
Net current liabilities		**(0.3)**
Net assets		**2,764.5**
Capital and reserves		
Issued share capital	6	**10.0**
Merger reserve		**2,500.9**
Retained earnings		**253.6**
Shareholders' funds		**2,764.5**

The financial statements were approved by the Board of Directors on 3 March 2016 and were signed on its behalf by:

Geoffrey Martin
Group Finance Director

Simon Peckham
Chief Executive

Registered number: 09800044

Company Statement of Changes in Equity

	Issued share capital £m	Merger reserve £m	Retained earnings £m	Total equity £m
At beginning of period	–	–	–	–
Loss for the period	–	–	(0.7)	(0.7)
Total comprehensive expense	–	–	(0.7)	(0.7)
Issue of share capital	263.8	2,500.9	–	2,764.7
Capital reduction	(253.8)	–	253.8	–
Credit to equity for equity-settled share-based payments	–	–	0.5	0.5
At 31 December 2015	**10.0**	**2,500.9**	**253.6**	**2,764.5**

Notes to the Company Balance Sheet

1. Significant accounting policies

Melrose Industries PLC ("the Company") was incorporated on 29 September 2015 as New Melrose Industries PLC. The Company changed its name to Melrose Industries PLC and was admitted to the London Stock Exchange as the new listed holding company of the Melrose Group on 19 November 2015.

Basis of accounting
Melrose Industries PLC is a company incorporated in the United Kingdom under the Companies Act. 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 the Strategic Report on pages 02 to 44.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Melrose Industries PLC is considered to be pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

Melrose Industries PLC meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Melrose Industries PLC is consolidated in its Group financial statements. Exemptions have been taken in these separate Company financial statements in relation to share-based payments, presentation of a cash flow statement and remuneration of key management personnel.

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

Going concern
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' statement of going concern on page 26 of the Finance Director's review.

Investments
Investments in subsidiaries are measured at cost less impairment.

For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

Impairment of assets
Assets are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets
An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Share-based payments
The Company issues equity-settled share-based payments to certain employees. The required disclosures are included in the Group consolidated financial statements.

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.

Notes to the Company Balance Sheet continued

1. Significant accounting policies continued

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

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.

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. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, 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 experience 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 the revision and future periods if the revision affects both current and future periods.

Management are required to exercise their judgement when assessing assets for indicators of impairment and determining what the appropriate valuation should be. At 31 December 2015, the Company's principal asset, its investment in subsidiary undertakings, had a carrying amount of £2,764.8 million. Management use their judgement in estimating the recoverable amount of each investment. In addition to considering the current value of each investment's net asset position, management also consider future performance which may require management to exercise judgement relating to future cash flows, discount factors and long-term growth rates. Management draw upon experience as well as external resources in making these judgements.

3. 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 period. Melrose Industries PLC reported a loss for the financial period ended 31 December 2015 of £0.7 million.

The auditor's remuneration for audit services to the Company is disclosed in note 7 to the Group consolidated financial statements.

4. Investment in subsidiaries

	£m
At beginning of period	–
Additions	2,764.8
At 31 December 2015	**2,764.8**

Details of the Company's direct and indirect subsidiaries as at 31 December 2015 are shown below. Each of the subsidiaries listed below are included in the consolidated accounts of the Company.

The following subsidiary is directly owned by Melrose Industries PLC:

Subsidiary	Country of incorporation	Principal activity	Holding %
Melrose Holdings Limited	United Kingdom	Holding company	100

The following subsidiaries and significant holdings were indirectly owned by the Company as at 31 December 2015:

Subsidiaries	Country of incorporation	Principal activity	Equity interest %
Energy			
Bristol Meci Australasia Pty Limited	Australia	Holding company	100
Brush Aftermarket North America Inc.	USA	Holding company	100
Brush Canada Services Inc./Services Brush Canada Inc.	Canada	Engineering company	100
Brush Electrical Machines (Changshu) Co. Limited	China	Engineering company	100
Brush Electrical Machines Limited	United Kingdom	Engineering company	100
Brush HMA B.V.	Netherlands	Engineering company	100
Brush Japan KK	Japan	Engineering company	100
Brush SEM s.r.o.	Czech Republic	Engineering company	100
Brush Transformers Limited	United Kingdom	Engineering company	100
Brush Turbogenerators Inc.	USA	Engineering company	100
FKI Engineering Shanghai Limited	China	Non-trading company	100
FKI Switchgear (Hong Kong) Limited	Hong Kong	Non-trading company	100
Generator and Motor Services of Pennsylvania LLC	USA	Engineering company	100
Harrington Generators International Limited	United Kingdom	Engineering company	100
Hawker Siddeley Switchgear Limited	United Kingdom	Engineering company	100
Hawker Siddeley Switchgear Pty Limited	Australia	Engineering company	100
Mediterranean Power Electric Company Limited	Malta	Engineering company	26
Corporate			
Alcester Capricorn	United Kingdom	Dormant	100
Alcester EP1 Limited	United Kingdom	Non-trading company	100
Alcester Number 1 Limited	United Kingdom	Holding company	100
Alcester Overseas Limited	United Kingdom	Dormant	100
Alcester Plastics Company Limited	United Kingdom	Dormant	100
Alcester Precision Investments	United Kingdom	Dormant	100
BlueAzure Limited	United Kingdom	Dormant	100
Brush Electrical Engineering Company Limited	United Kingdom	Dormant	100
Brush Holdings Limited	United Kingdom	Holding company	100
Brush Properties Limited	United Kingdom	Holding company	100
Brush Scheme Trustees Limited	United Kingdom	Dormant	100
Brush Switchgear Limited	United Kingdom	Dormant	100
Colmore Lifting Limited	United Kingdom	Non-trading company	100
Colmore Overseas Holdings Limited	United Kingdom	Non-trading company	100
Danks Holdings Limited	United Kingdom	Dormant	100
Eachairn Aerospace Holdings Limited	United Kingdom	Holding company	100
Electro Dynamic Limited	United Kingdom	Dormant	100
FKI Distribution Limited	United Kingdom	Dormant	100
FKI Nominees Limited	United Kingdom	Non-trading company	100
FKI Plan Trustees Limited	United Kingdom	Dormant	100
Hamsard 2246	United Kingdom	Dormant	100
McKechnie Employee Services Limited	United Kingdom	Dormant	100
McKechnie 2005 Pension Scheme Trustee Limited	United Kingdom	Dormant	100
Melrose North America, Inc.	USA	Non-trading company	100
Melrose Overseas Holdings Limited	United Kingdom	Dormant	100
Melrose PFG Company Number 1 Limited	United Kingdom	Non-trading company	100
Melrose PLC	United Kingdom	Holding company	100
Melrose Propco Limited	United Kingdom	Non-trading company	100
Melrose UK Holdings Limited	United Kingdom	Holding company	100
Melrose UK 4 Limited	United Kingdom	Dormant	100
Melrose UK 5 Limited	United Kingdom	Non-trading company	100
Melrose USD 1 Limited	United Kingdom	Dormant	100
Precision House Management Services Limited	United Kingdom	Non-trading company	100

Notes to the Company Balance Sheet continued

4. Investment in subsidiaries continued

Subsidiaries	Country of incorporation	Principal activity	Equity interest %
Prelok Limited	United Kingdom	Dormant	100
Prelok Specialist Products Limited	United Kingdom	Non-trading company	100
Sageford UK Limited	United Kingdom	Holding company	100
Whipp & Bourne Limited	United Kingdom	Non-trading company	100
Zebra 123 Limited	United Kingdom	Dormant	100

5. Creditors

	31 December 2015 £m
Amounts falling due within one year:	
Amounts owed to Group undertakings	**0.2**
Accruals and other payables	**0.1**
	0.3

The Directors consider that amounts owed to Group undertakings approximate to their fair value.

6. Issued share capital

Share Capital	31 December 2015 £m
Allotted, called up and fully paid	
995,206,966 ordinary shares of 1p each	**10.0**
	10.0

On 19 November 2015, a scheme of arrangement approved by the High Court of England and Wales became effective and resulted in New Melrose Industries PLC (subsequently renamed Melrose Industries PLC on 19 November 2015) becoming the new holding company of Melrose Industries PLC (subsequently renamed Melrose Holdings Limited on 19 November 2015) and its subsidiaries. The arrangement resulted in the issue of 1 new 26.5 pence New Melrose Industries PLC ordinary share for each 7/55 pence Melrose Industries PLC ordinary share. New Melrose Industries PLC consequently issued 995,206,966 ordinary shares with a total nominal value of £263.8 million. The market capitalisation of the Melrose Group at that date was £2,764.7 million. The difference between the market capitalisation and the total nominal value of shares issued of £2,500.9 million has been taken to the Merger reserve.

On 20 November 2015, Melrose Industries PLC received Court confirmation of the reduction in its Issued share capital pursuant to which the nominal value of each ordinary share was reduced from 26.5 pence to 1 penny effective on 23 November 2015. This resulted in Issued share capital decreasing by £253.8 million and Retained earnings increasing by an equivalent amount.

Details of share-based payments are given in note 22 to the Group consolidated financial statements.

7. Related party transactions

The Company has taken the exemption in FRS 102.33: "Related party information" not to disclose intercompany balances and transactions in the period with fully owned subsidiary undertakings.

8. Post Balance Sheet events

At a general meeting of the Company held on 2 October 2015, shareholders approved a Return of Capital of between £2.0 billion and £2.5 billion following the completion of the disposal of Elster. On 29 December 2015, the Company announced that the Return of Capital would be 240 pence per ordinary share totalling £2,388.5 million.

'B' shares with a total value of £2,388.5 million were created on 26 January 2016 resulting in a corresponding reduction in the Merger reserve. The 'B' shares were cancelled on 27 January 2016 and capital return payments representing the nominal value of the 'B' shares (240 pence each) were made to shareholders on 5 February 2016.

Alongside the capital return, on 28 January 2016 the number of ordinary shares in issue was consolidated in a ratio of 7 for 48 in order to maintain comparability of the Company's share price before and after the capital return. On 28 January 2016, the number of ordinary shares in issue became 145,134,353 each with a nominal value of 48/7 pence.

As a consequence of the Return of Capital, the carrying value of the investment in subsidiaries was revised to be in line with the remaining value of the Group.

Further details of the capital return are provided on pages 50 and 51 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, together with the accompanying form of proxy, 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 11.30 a.m. on 11 May 2016 for the purposes set out below. 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 2015, 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 2015, as set out on pages 64 to 81 (save for pages 76 to 81) of the Company's 2015 Annual Report.
3. To approve the Directors' remuneration policy, as set out on pages 76 to 81 of the Company's 2015 Annual Report.
4. To declare a final dividend of 2.6 pence per ordinary share for the year ended 31 December 2015.
5. To re-elect Christopher Miller as a Director of the Company.
6. To re-elect David Roper as a Director of the Company.
7. To re-elect Simon Peckham as a Director of the Company.
8. To re-elect Geoffrey Martin 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 £3,317,356; and

    (B) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £6,634,713 (such amount to be reduced by the aggregate nominal amount of any allotments or grants made under paragraph (A) of this resolution) in connection with an offer by way of a rights issue:

    (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

    (ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

    and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of any territory or any other matter,

    such 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 2017, but, in each case, so that the Company may make offers or agreements before the authority expires which would or might require shares to be allotted or Rights to be granted after the authority expires, and so that the Directors may allot shares or grant Rights in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Special resolutions

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 a rights issue only):

    (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

    (ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

    and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of any territory or any other matter; and

    (B) to the allotment (otherwise than in the circumstances set out in paragraph (A) of this resolution) of equity securities pursuant to the authority granted by paragraph (A) of resolution 14 up to an aggregate nominal amount of £995,206,

    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 2017, but, in each case, so that the Company may make offers or agreements before the power expires which would or might require equity securities to be allotted 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 14,513,435;

    (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 2017;

    (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

AWestley

Adam Westley
Company Secretary
24 March 2016

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 2015 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 "2015 Annual Report") before shareholders each year at the Annual General Meeting ("AGM").

Resolutions 2 and 3 – Approval of Directors' remuneration report and Directors' remuneration policy

The Directors' remuneration report (the "Directors' Remuneration Report") is 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 "Directors' Remuneration Policy").

The annual statement from the Chairman of the Remuneration Committee, set out on pages 64 to 67 of the 2015 Annual Report, summarises, for the year ended 31 December 2015, 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 68 to 76 of the 2015 Annual Report, provides details of the remuneration paid to Directors in respect of the year ended 31 December 2015, including base salary, taxable benefits, short-term incentives, 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 76 to 81 of the 2015 Annual Report, provides details of the Company's policy on Directors' remuneration (including the policy on payments for loss of office).

The Directors' Remuneration Report (other than the part containing the Directors' Remuneration Policy) is subject to an annual advisory shareholder vote by way of an ordinary resolution. Resolution 2 is to approve the Directors' Remuneration Report (other than the part containing the Directors' Remuneration Policy).

The Directors' Remuneration Policy is subject to a binding shareholder vote by way of an ordinary resolution at least once every three years. The policy was approved by shareholders at the AGM held on 13 May 2014 in respect of the former holding company of the Melrose Group. However, due to the introduction of a new holding company for the Melrose Group during 2015, the Company is required to seek shareholder approval for the Directors' Remuneration Policy in respect of the new holding company. The Directors' Remuneration Policy set out on pages 76 to 81 of the 2015 Annual Report reflects the policy approved by shareholders at the AGM held on 13 May 2014 (to the extent that the policy remains applicable going forwards).

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.

Resolution 3 is to approve the Directors' Remuneration Policy. The Directors' Remuneration Policy will, subject to shareholder approval, take effect from the conclusion of the AGM.

If the Directors' Remuneration Policy is approved and remains unchanged, it will be valid for up to three years without new shareholder approval. If the Company wishes to change the Directors' Remuneration Policy, it must first seek approval of the amended policy from the shareholders. If the Directors' Remuneration Policy is not approved for any reason, the Company will, if and to the extent permitted by the Act, continue to make payments (including payments for loss of office) to the current and any former Directors in accordance with any existing contractual arrangements and will seek the approval of a proposed revised Directors' Remuneration Policy from the shareholders as soon as practicable.

Resolution 4 – Declaration of final dividend

The Board is recommending, and shareholders are being asked to approve, the declaration of a final dividend of 2.6 pence per ordinary share for the year ended 31 December 2015. The final dividend will, subject to shareholder approval, be paid on 16 May 2016 to the holders of ordinary shares whose names are recorded on the register of members of the Company at the close of business on 8 April 2016.

Resolutions 5 to 11 (inclusive) – Re-election of Directors

In accordance with the UK Corporate Governance Code (the "Code") and the Company's articles of association (the "Articles"), every Director (with the exception of the senior non-executive director, Perry Crosthwaite, who will retire at the conclusion of the AGM and will not stand for re-election) will stand for re-election at the AGM. Biographical details of each Director can be found on pages 48 and 49 of the 2015 Annual Report. All of the non-executive Directors standing for re-election are currently 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 ("Section 551 authority"). The authority contained in paragraph (A) of the resolution will be limited to an aggregate nominal amount of £3,317,356, being approximately one-third of the Company's issued ordinary share capital as at 23 March 2016 (being the last business day prior to the publication of this notice).

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 £6,634,713, representing approximately two-thirds of the Company's issued ordinary share capital as at 23 March 2016, 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 2017. 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 £995,206, representing approximately 10% of the Company's issued ordinary share capital as at 23 March 2016.

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 2017. 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 14,513,435 ordinary shares, representing 10% of the Company's issued ordinary share capital as at 23 March 2016.

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 2017. 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 Act, as amended by 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). 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.

The Company intends to only use the shorter notice period where this flexibility is merited by the purpose of the meeting and is considered to be in the interests of shareholders generally, and not as a matter of routine. 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.

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, speak and vote at the AGM is also entitled to appoint a proxy to exercise all or any of his/her rights to attend, speak and vote at the AGM in his/her place. 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 (or, in the event of an adjournment, not less than 48 hours before the stated time of the adjourned meeting (excluding any part of a day which is not a working day)). 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/her and the shareholder by whom he/she 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/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in paragraphs 1 and 2 can only be exercised by the holders of ordinary shares in 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 p.m. on 9 May 2016 (or, in the event of an adjournment, on the date which is two days, excluding any day which is not a working day, before the time of the adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. As at 23 March 2016 (being the last business day prior to the publication of this notice), the Company's issued share capital consists of 145,134,353 ordinary shares of 48/7 pence each, carrying one vote each.
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 (available at **www.euroclear.com**). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
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. 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 11.30 a.m. on 9 May 2016. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
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/her 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 Uncertificated 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 AGM 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: (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer has already been given on a website in the form of an answer to a question; and/or (iii) 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 during 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 AGM or any related documents (including the form of proxy) 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 AGM and at the place of the AGM 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 Voting ID, Task ID and Shareholder Reference Number which are set out on the enclosed form of proxy. The return of the form of proxy by post or registering your vote online will not prevent you from attending the AGM 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 then clicking on the link to vote under their Melrose Industries PLC holding details. The on-screen instructions give details on how to complete the appointment process. A proxy appointment made electronically will not be valid if sent to any address other than those provided or if received after 11.30 a.m. on 9 May 2016.

Company and shareholder information

As at 31 December 2015, there were 8,891 holders of ordinary shares of 1 penny each in the capital of the Company. Analyses of these shareholdings as at 31 December 2015 are set out in the table below.

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	7,335	82.5%	8,315,460	0.8%
5,001–50,000	1,049	11.8%	13,707,077	1.4%
50,001–500,000	302	3.4%	51,274,068	5.2%
Over 500,000	205	2.3%	921,910,361	92.6%
Total	**8,891**	**100.0**	**995,206,966(1)**	**100.0**
Held by				
Individuals	5,563	62.6%	32,956,411	3.3%
Institutions	3,328	37.4%	962,250,555	96.7%
Total	**8,891**	**100.0**	**995,206,966(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 50 and 51 of the Directors' Report and within note 29 to the financial statements, the total number of issued ordinary shares in the capital of the Company was reduced from 995,206,992 ordinary shares with a nominal value of 1 penny each to 145,134,353 ordinary shares with a nominal value of 48/7 pence each, with effect from 8 a.m. on 28 January 2016. Subject to allowance for fractional entitlements, shareholders continued to own the same proportion of ordinary shares in the Company after the Return of Capital and the Share Capital Consolidation as they did before.

Financial calendar 2016

Ex-dividend date for final dividend	7 April 2016
Record date for final dividend	8 April 2016
Annual General Meeting	11 May 2016
Payment date of final dividend	16 May 2016
Announcement of interim results	August 2016
Intended payment of interim dividend	October 2016
Preliminary announcement of 2016 results	March 2017

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A range of shareholder information is available at Equiniti's online portfolio service **www.shareview.co.uk**, where you can register for a Shareview Portfolio to access information about your holding and undertake a number of activities, including appointing a proxy, 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) 20 7930 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

Notes

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