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20 February 2018

MELROSE INDUSTRIES PLC

AUDITED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Melrose Industries PLC today announces its audited results, which are reported under IFRS, for the year ended 31 December 2017.

£m	Underlying[1] results	Statutory results
Revenue	2,092.2	2,092.2
Operating profit/(loss)	278.4	(6.9)
Profit/(loss) before tax	257.7	(27.6)
Diluted earnings per share	9.8p	(1.2)p

Highlights

- Nortek underlying[1] results are better on all measures; revenue growth is 2%[2] with increased momentum in the second half of the year when sales were up 4%[2], the operating margin is 15.2%, operating profit is up 52%[2] on last year and up 67%[2] on the last full year prior to acquisition
- The underlying[1] results are a key measure of performance and are shown alongside the statutory results. As 2017 was the first full year of Nortek ownership by Melrose, significant restructuring costs were incurred and, following the structural decline of the core gas turbine market for Brush, its balance sheet value has been reduced to £300 million. These two items are included in the adjustments made between statutory and underlying[1] results
- Consultations with employees have commenced to implement a restructuring plan which, when complete, will position Brush well for the future
- Cash generation is strong, with a record performance from Nortek. Net debt was £572 million representing leverage of 1.9x[3] underlying[1] EBITDA[4], significantly lower than at the time of the Nortek acquisition only sixteen months previously
- In line with the Melrose strategy, advisors have been appointed to confirm the appropriate future process and timetable for the disposal of Ergotron, Inc
- The proposed final dividend of 2.8 pence (2016: 1.9 pence) per share together with the interim dividend of 1.4 pence (2016: 0.3 pence[5]) results in a 91% increase in the full year dividend of 4.2 pence per share (2016: 2.2 pence[5])

Christopher Miller, Chairman of Melrose Industries PLC, today said:

"We are delighted with the performance Nortek is achieving freed from the previous culture of 'head office knows best'. Substantial long-term value is being created with significant investment in new technology, new products and operations. Brush is implementing a restructuring plan to reflect its changed market place which will position it well for the future. We are convinced that GKN would gain significantly from becoming part of an enlarged £10 billion UK industrial powerhouse, benefitting from the proven Melrose operating model."

1 Considered by the Board to be a key measure of performance. Underlying measures are defined in the glossary to the Financial Statements.
2 Proforma underlying[1] growth as described in the glossary to the Financial Statements.
3 Using net debt at average exchange rates.
4 Underlying[1] operating profit before depreciation and amortisation.
5 2016 interim dividend adjusted to include the effects of the 2016 Rights Issue.

An analysts' meeting will be held today at 11.00 am at Investec, 2 Gresham Street, London EC2V 7QP.

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CHAIRMAN'S STATEMENT

I am pleased to report on our 15th set of annual results since flotation in 2003.

CALENDAR YEAR 2017

2017 has been another successful year, with Nortek undergoing the fastest transformation of any acquisition we have made to date and improving its sales performance in the second half of the year. As a result, the Melrose Group revenue for the year was £2,092.2 million (2016: £889.3 million) and, despite declaring a statutory loss before tax of £27.6 million (2016: statutory loss of £69.3 million), the underlying[1] profit before tax was £257.7 million (2016: £96.4 million).

These results reflect the record performance of the Nortek businesses, which have increased their underlying[1] operating profits by 52%[2] from last year and 67%[2] from the last full year prior to our acquisition. This performance was achieved through increasing underlying[1] operating margins to 15.2%, which is a 5.5 percentage point improvement since the start of the year. This was our original three to five year aim at the time of acquisition and has been achieved in less than 18 months. There is more to come as investments continue at approximately double the rate of depreciation and the benefit of many of the 2017 improvements is still to be fully reflected. Melrose continues to invest in R&D and in the past five years has now expensed R&D costs equivalent to 4% of revenue within the Elster and Nortek businesses.

Unfortunately, although its Switchgear and Transformers businesses have continued to perform satisfactorily, Brush's Turbogenerator business has not been immune to the significant structural change in its key global gas turbine market, leading to the consultation process announced earlier this month to materially re-shape this business. The Board is committed to positioning the business well for the future.

Further details of these results are contained in the Chief Executive's and Finance Director's reviews and I would like to thank all employees for their efforts in helping to produce this strong performance.

In addition, we launched a formal offer for GKN plc on 1 February 2018, seeking to create a UK industrial powerhouse with a value in excess of £10 billion. The Board believes that GKN is a company in need of fundamental change to reverse its long-term underperformance. We believe GKN will respond to Melrose's methods and deliver lasting results for all stakeholders.

DIVIDEND

The Board proposes to pay a final dividend of 2.8 pence per share (2016: 1.9 pence), making a total of 4.2 pence for the year (2016: 2.2 pence[3]), an increase of 91% in line with its progressive annual dividend policy. This will be paid on 21 May 2018 to those shareholders on the register at 6 April 2018, subject to approval at the Annual General Meeting (AGM) on 10 May 2018.

BOARD MATTERS

As planned, John Grant retired at the conclusion of the 2017 AGM, having made a significant contribution to Melrose's success over the course of his ten years of service as a non-executive

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[1] Considered by the Board to be a key measure of performance. Underlying measures are defined in the glossary to the Financial Statements.

[2] Proforma underlying[1] growth as described in the glossary to the Financial Statements.

[3] 2016 interim dividend adjusted to include the effects of the 2016 Rights Issue.

Director. On John's retirement, the Chairman of the Remuneration Committee, Justin Dowley, took up the role of Senior Independent Director, with Liz Hewitt assuming the responsibilities of chairing the Audit Committee, while handing over her chairmanship of the Nomination Committee to David Lis. On 5 July 2017, Archie Kane was appointed to the Board as an independent non-executive Director and will be putting himself forward for election at this year's AGM in May.

I commend them all on their appointments, further details of which are included in the Governance Report of the Annual Report and Accounts.

The search for a suitable candidate to fill the fifth independent non-executive Director position was put on hold by the Board pending the outcome of the Company's bid for GKN plc. Your Board believes that it is appropriate for independent directors to be a majority of the Board and will resume this search as soon as possible.

PREMIUM LIST

As promised on completion of the acquisition of Nortek, we sought readmission to the Premium Segment of the Official List of the London Stock Exchange at the earliest opportunity and this was approved by the UK Listing Authority on 26 April 2017.

ANNUAL REPORT & ACCOUNTS

The Annual Report & Accounts will be posted on 10 April 2018.

STRATEGY

The scale and rate of success achieved by the Nortek businesses in such a short space of time demonstrates the continuing effectiveness of the Melrose model, which simplifies corporate structures and injects pace and accountability into businesses, while investing heavily for their long-term success. Whilst FKI has been a very successful acquisition, Brush is experiencing extremely difficult market conditions and your Board will continue to support the business through these times.

The Board believes that GKN is similarly well placed to benefit from Melrose's management and we have invited GKN shareholders to accept our offer to join us in creating a UK industrial powerhouse.

OUTLOOK

At present the majority of our businesses are based in the US, where markets are currently sound. We note some adverse headwinds from exchange rate movements, however, further improvement in our businesses building on their second half sales performance, as well as exciting acquisition opportunities, gives us confidence for 2018 and future years.

Christopher Miller
Chairman
20 February 2018

CHIEF EXECUTIVE'S REVIEW

The Melrose Group currently consists of four divisions, three of which were acquired with Nortek in 2016: the Air Management division, which includes the Heating, Ventilation & Air Conditioning (HVAC) and Air Quality & Home Solutions (AQH) businesses; the Security & Smart Technology division, comprising the Nortek Security & Control (NSC), Core Brands and GTO businesses; and the Ergonomics division, which comprises the Ergotron business. Energy is the fourth division and includes the Brush businesses from our FKI acquisition in 2008.

The Nortek businesses have built on a promising start under Melrose ownership to have an outstanding 2017, with improved momentum in sales coming through in the second half when sales were up 4%[2] on the second half of 2016. Freed from the restrictions of the formerly centralised group structure, operational management have improved underlying[1] operating profit by 52%[2] in their first full year and increased underlying[1] operating margins to 15.2%, being the original three to five year aim at the time of the acquisition and an improvement of more than 5 percentage points. This improvement has been funded by Melrose investments equal to approximately 2x depreciation, the full benefits of which are still unfolding. The businesses have also been extremely successful in converting this strong performance into cash, with a cash conversion rate under Melrose ownership of over 100%.

At HVAC, the strengthened and refocused management team is currently upgrading the key US production facilities and have made significant investment in the R&D centre in Saskatoon, Canada. A detailed product profitability review has led not only to the exiting of approximately 12% of low margin divisional sales, but has also better informed their approach to tendering.

Free from the distraction of the loss-making European business of Best S.p.A., which was sold in July 2017, AQH is part way through optimising a previously fragmented production footprint, including a site consolidation in Canada and increased production at the Hartford, US headquarters, made possible by an ongoing £16 million upgrade investment. An in-depth product portfolio review and accelerated R&D investment has supported the continued refreshing of the product range, with a number of new product launches due in 2018.

The consolidation of NSC, Core Brands and GTO businesses under one Security & Smart Technology management team has refocused the business on profitable channels, improving the product mix to take advantage of customer changes in the market. This has been supported by significant investment in tooling for new products.

Already a high margin business on acquisition, Melrose has supported Ergotron's expansion projects such as the growth in e-commerce and in the European and Asia Pacific markets, while restructuring its US production facility along with further development of Ergotron's market leading 'WorkFit' and medical cart products.

As previously announced, due to significant structural changes to the global gas turbine market caused by worldwide environmental policy, Brush commenced consultations with employees in relation to implementing a restructuring plan for its Turbogenerator business as described in greater detail below. The Board continues to be fully committed to supporting Brush and its management team in emerging from these adverse market conditions so as to be positioned to have the best possible long-term future.

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[1] Considered by the Board to be a key measure of performance. Underlying measures are defined in the glossary to the Financial Statements.

[2] Proforma underlying growth as described in the glossary to the Financial Statements.

OUTLOOK

The benefit from ongoing investment yet to fully materialise and the encouraging second half sales momentum in Nortek, balanced by the effect of exchange rates, position the Group well for 2018 and beyond, without taking future acquisition opportunities into account.

AIR MANAGEMENT

The Air Management division is the largest in the Melrose Group. It comprises the HVAC business based in St. Louis, Missouri; and AQH headquartered in Hartford, Wisconsin.

HVAC

Consolidation of the Nortek Air Solutions (NAS), Residential and Light Commercial businesses under one HVAC management team has removed unnecessary complexity in its business structure, product portfolios and cost base. This has freed the business up to make investments of more than £12 million across its NAS manufacturing base which enabled HVAC to increase the capacity of its clean room, premium air handler and healthcare operating room production capabilities, as well as upgrade to next generation plant and equipment and expand its two Canadian plants. HVAC also invested £9 million in new machinery and updated technologies for its Residential and Light Commercial facilities to drive utilisation and quality improvements.

These investments have been bolstered by the implementation of Value Analysis/Value Engineering (VAVE), Lean, ISO and other quality processes in the facilities to drive process and manufacturing, quality, productivity and accountability. A warehouse management system (Design for Manufacturing Assembly and Quality) and operational finance and costing tools have provided better visibility on its sales pipeline, logistics and costings.

In addition, inventory efficiency drives and supply chain initiatives to improve working capital have been very successful. There have also been significant improvements in safety and quality, with recordable injury rate and warranty costs falling by 47% and 20% respectively in 2017, with continued improvement expected.

2017 also heralded a refocus by the businesses on customers to materially improve service levels, including in one instance a 44% improvement in on-time delivery rates and the launch of a new account management programme. This will enable the business and customers alike to benefit from access to combined manufacturing capabilities, new product pipelines, expanded engineering support and distinctive innovation roadmaps, thereby addressing the market need for smart, energy efficient and sustainable solutions for buildings, homes and cities, and creating opportunities for customers to cross-sell multiple products.

This refocus on customers also involved a comprehensive technology roadmap and product profitability review, resulting in the exit of 12% of low margin divisional sales and enabling HVAC to make material and targeted investments in product development and innovation. This included funding the expansion of the CLEANSUITE® product family, expansion and new breakthrough technologies in data centre cooling and high-performance computing, expanding and updating the Residential product portfolio and leveraging sales synergies between its Light Commercial and Nortek Air Solutions product lines.

The key to this transformation has been a change in culture throughout the business to reinforce employee engagement, involvement and ownership, and provide the foundation for the next stage of improvements in 2018 and beyond.

OUTLOOK

Having invested heavily to improve performance and overcome operational issues and complexity while unifying the culture, HVAC has progressed from transforming the businesses to driving profitable growth. In 2018, the business will seek to capitalise on its distinctive capabilities and strong market positions to continue to grow and improve.

AIR QUALITY & HOME SOLUTIONS

AQH is a leading manufacturer of ventilation products for the professional remodelling and replacement market, residential new construction market and do-it-yourself market. It supplies to distributors and dealers of electrical and lighting products, kitchen and bathroom dealers, retail home centres and private label customers from its four manufacturing locations around the world. AQH enjoys a leading market share and installed base in US residential ventilation fans and range hoods.

AQH had a very productive 2017 as it reversed a recent history of underinvestment to address a number of operational challenges. Supported by significant Melrose investment, the business undertook a number of operational improvement projects, including a £16 million upgrade to the production facility at its headquarters in Hartford, Wisconsin, a consolidation of its Canadian footprint and US warehousing, and substantial automation, efficiency, and quality improvement programmes.

New technology, product launches and promotions by competitors had previously taken advantage and chipped away at AQH's strong market presence. The appointment of a new CEO with substantial large retail customer experience is reversing this trend through production upgrades, improved channel strategy, a refresh of the new product development schedule and a refocus of the management team on core product categories.

AQH has developed a robust product development pipeline to strengthen its leadership position in North America. It also completed the launch of the Alliance range hood platform in 2017, which was the largest new product initiative in over ten years and demonstrates their interchangeable features and product depth.

With the loss-making European business of Best S.p.A. being sold in July, the business refocused its attention on its North American markets. The business is also expanding its professional channel sales model to sell and influence decision makers and builders earlier in the purchase process. The retail business continues to be competitive and will receive investment in further innovation, programming and promotions during 2018.

OUTLOOK

AQH is in the midst of a fundamental improvement to its operational capabilities, restructuring its product offering, materially improving its service levels and revitalising its brand presence. These ongoing improvements, the strength of professional customer relationships and the acceleration of new product launches in the second half of 2018, means the business is well positioned for further improvement this year.

SECURITY & SMART TECHNOLOGY

The Security & Smart Technology (SST) division comprises the Nortek Security and Control, Core Brands and GTO Access Systems (GTO) businesses. The decision was taken to consolidate these businesses under one management team, which is due to move into its brand new integrated office in Carlsbad, California in April 2018. SST is one of the world's leading developers and manufacturers of security, home automation and access control technologies for the residential and commercial markets, together with audio visual equipment for the residential audio video and professional video markets. It has expertise in the design and manufacture of wireless connectivity devices and strong brand presence in professional security, integrator and custom installer channels as well as relationships with top resellers.

The division operates in a rapidly evolving market in which consumers are increasingly demanding greater focus on software and connectivity from manufacturers and their service provider partners, as they embrace the possibilities of the Internet of Things (IoT). In response, under Melrose ownership, the division has improved and accelerated its product development processes to increase speed to market and service options for partners, as well as improving its operating efficiency to eliminate complexity and lower overall costs.

SST is utilising its increased R&D investment and consolidating its engineering and product development capabilities to enable increased leverage of software and hardware product platforms, thereby increasing speed to market and overall flexibility. This is ensuring it gains the maximum benefit for its increased R&D investment.

The division has launched a number of new, good margin, high technology additions to its product range, including the 2GIG® Vario Hybrid Security System which adds wireless connectivity to a hardwired security and home control solution, as well as the 2GIG® Rely DIY panel which allows service providers to enter the renters market. It has invested in the next generation smart garage door and gate operators equipped with full inter-connectivity, as well as additions to its premium ELAN home control system, which streamlines management of lighting, security, audio, video and other aspects of the connected home to a single device.

In addition to improved product development, SST continued a controlled expansion of its international sales structure through entry into strategic arrangements with key partners in Europe, the Middle East and Latin America.

In addition to the integration of the three businesses, which allowed the division to leverage its management, systems and engineering capabilities, SST continues a strong focus on efficiency programmes, such as factory investment and improvements, the restructure of distribution and logistics arrangements, and efforts to reduce product costs through improvements in its supply chain management.

OUTLOOK

The controlled broadening of its product offering into the smart ecosystem and sensor markets has allowed SST to explore the possibilities in the growing IoT market, which is linked to its traditional security business. We expect this trend to continue in 2018 and, following the consolidation, the division has a clear strategy that means it is well positioned to take advantage of these changing market developments.

ERGONOMICS

The Ergonomics division comprises Ergotron, a leading manufacturer and distributor of innovative ergonomic technology workstations including wall mounts, carts, arms and stands, headquartered in Minneapolis, US. The business is organised into three segments: Commercial, Original Design and Manufacture (ODM), and Consumer.

Ergotron's Commercial business is a top global manufacturer of products such as electronic medical records carts and workstations for hospitals, sit/stand desks and technology charging carts for education, and ergonomic arms and sit/stand desks for corporate offices. The ODM business manufactures ergonomic and charging products for top technology industry brands, and is an emerging leader in healthcare equipment carts for ultrasound and other specialty healthcare applications. The Consumer business sells ergonomic equipment through retail channels under the brands OmniMount and Ergotronhome.

Ergotron retains a strong market position in most of its key markets due to expertise in the design and manufacture of ergonomic technology workstations and computer mounts, utilising its Constant Force counterbalance technology. A strong supply chain enables Ergotron to leverage component suppliers from the global computer industry producing high quality, affordable products.

The 2017 results were impacted by a disrupted transition to a new warehousing partner in the US. This issue has been resolved and the 2018 outlook is strong. Competitive pressures in the sit/stand desk market impacted growth in Ergotron's premier WorkFit brand, while healthcare and OmniMount remained robust, and its ODM new business revenue continued to grow. Continual refreshment of the product portfolio remains the key to maintaining the business' market-leading position. Melrose has supported its expansion projects with approximately $1 million of additional revenue expenditure as it looks to build momentum in e-commerce with a new online portal, as well as to pursue markets in Europe and Asia Pacific.

The drop in profits in 2017 is mostly as a result of a one-off credit relating to a legal settlement received prior to our ownership in 2016.

OUTLOOK

With the 2017 operational issues resolved, Ergotron expects its core businesses to perform well in 2018. Several key business growth initiatives are in place that will contribute revenue in 2018, including a recently launched e-commerce site, an expanded European sales team, and expansion into the office furniture dealer channel. New product development is accelerating focus on an expanded product portfolio in healthcare, sit/stand desks, and OfficePro, a brand focused on the office dealer channel and the business is positive in its outlook for 2018.

ENERGY

The Energy division comprises: Brush Turbogenerators (Generators), which manufactures electricity generating equipment for gas turbines; Brush Transformers (Transformers), which designs and manufactures systems and power transformers; Hawker Siddeley Switchgear (Switchgear), a medium voltage AC switchgear and low voltage DC switchgear manufacturer; Harrington Generators International Limited (HGI), a specialist UK-based small generator manufacturer; and Brush Aftermarket (Aftermarket), which provides comprehensive support for customers throughout the manufactured product's life.

Brush's Generator business supplies the global gas turbine market, which had enjoyed a long period of growth. This was predicted to continue and, as a result, the business received significant investment under Melrose ownership, including the acquisition of the US aftermarket business GMS for £8 million in 2010 and its subsequent expansion to install a £6 million balancing pit, construction of the new £30 million turbogenerator factory in Changshu, China, the over £11 million upgrade of plant and equipment at the Loughborough facility and a further £7 million in its Plzen, Czech Republic site.

Unfortunately, the fossil power generation market experienced large scale disruption in a very short timescale. The growth of renewables has caused a substantial structural change that significantly impacted the gas turbine market, with orders falling more than 60% from the peak levels in 2011. This caused a 43% reduction in Generator's unit sales in 2017 alone.

Alongside certain mitigating actions taken during 2017, Brush conducted a full review of the Generator business. This culminated in the announcement on 1 February 2018 of Brush's intention to restructure its Generator production footprint, impacting the sites in Ridderkerk, Netherlands and Loughborough, UK. Brush has already closed its Changshu, China site just prior to year end. This restructure is aimed at reshaping Generators in light of the reduced generator volumes and ensuring it is well positioned for the future. The cash cost of these restructuring items is estimated to be £40 million and is expected to be materially complete by the end of 2018. These actions are expected to mitigate the current £12 million annual losses of the Turbogenerators business and align it to the new market conditions.

The Transformers and Switchgear businesses have performed satisfactorily. Brush has continued to invest in product development across all of its businesses putting it in a position to launch several innovative products in Generators and Switchgear during 2018, such as the new generation trailer set turbogenerator and the Quantum switchgear.

OUTLOOK

Global economic prospects remain uncertain in Brush's main markets and we expect the underlying trading environment in 2018 to remain very challenging for Generators. There is some optimism for Aftermarket performance in 2018 and Switchgear and Transformers should benefit from the launch of new products and geographic market expansion. However, this is not expected to result in material upside for the business in the short-term.

Despite the challenges, Brush is taking the difficult but necessary action to structurally reduce the cost base and position the business to the new market realities. Brush remains a strong business and these actions will simplify the structure, increase flexibility and responsiveness to the market, positioning the business for 2019 and beyond.

Simon Peckham
Chief Executive
20 February 2018

FINANCE DIRECTOR'S REVIEW

The results for the year ended 31 December 2017 include the first full year of ownership of Nortek. As a consequence, the results for the year are not directly comparable to 2016 as the prior year performance includes only four months of Nortek trading following its acquisition on 31 August 2016.

The statutory IFRS results, which are shown unadjusted on the face of the Income Statement, are presented below. The underlying results, which are used as an Alternative Performance Measure (APM) as described by the European Securities and Markets Authority (ESMA), are shown below the unadjusted statutory results and are described in more detail in the glossary to these Financial Statements. Lastly, to improve year-on-year comparability, a proforma measure is calculated, which presents the prior year, on a constant currency basis, as if Nortek had been owned for the full year. All three of these measures are discussed in this review and their definitions are explained in the glossary to the Financial Statements.

MELROSE GROUP SEGMENTAL SPLIT

The Melrose Group at 31 December 2017 consisted of four divisions, the Energy division, along with three divisions within Nortek, namely; the Air Management division, which contains both the Air Quality & Home Solutions business and the Heating, Ventilation & Air Conditioning (HVAC) business; the Security & Smart Technology division; and the Ergonomics division.

STATUTORY RESULTS

The Income Statement shows the unadjusted statutory results of the Group.

The statutory results for the year ended 31 December 2017 include revenue of £2,092.2 million (2016: £889.3 million), an operating loss of £6.9 million (2016: £61.6 million), a statutory loss before tax of £27.6 million (2016: £69.3 million) and diluted earnings per share (EPS), being a loss of 1.2p (2016: loss of 2.6p).

A table summarising the statutory results by division is shown in the segmental note of the Financial Statements.

The year ended 31 December 2017 was a year of significant transformation for Melrose, being the first full year of Nortek ownership and with Brush Turbogenerators experiencing structural changes in its end markets. Consequently these statutory results include significant amounts of items which are non-trading in nature, significant in size, volatile or are non-recurring. These are defined as non-underlying items. It is Melrose accounting policy to exclude these items from underlying results and the specific amounts that fall within these categories in the year are detailed below.

NON-UNDERLYING ITEMS

In reporting financial information, the Group presents underlying results, which are not defined or specified under the requirements of IFRS. The Board considers the underlying results to be a key Alternative Performance Measure to monitor how the businesses are performing because this provides a more meaningful comparison of how the businesses are managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.

Non-underlying items are defined as those which are significant in size or volatility or by nature are non-trading or non-recurring, and any item released to the Income Statement that was previously a fair value item booked on acquisition.

The following items have been classified as non-underlying in these Financial Statements:

An impairment charge totalling £144.7 million in respect of the carrying value of the assets held within the Brush business. This charge included £31.1 million in respect of the net assets of Brush China, which was closed in November 2017, and, following a review of the non-current assets, included £18.2 million in respect of fixed assets and £95.4 million in respect of goodwill. The impairment charge has been excluded from underlying results due to its one-off nature and size.

The amortisation of intangible assets acquired in business combinations are excluded from underlying results due to their non-trading nature and to enable comparison with companies that grow organically and do not have such a charge. Where intangible assets are trading in nature, such as computer software and development costs, the amortisation of these intangible assets are shown within underlying results.

Restructuring costs and other associated costs arising from significant strategy changes totalled £35.0 million (2016: £51.4 million), and included £1.1 million (2016: £nil) of losses incurred following the announcement of the closure of certain businesses. Within the Nortek businesses the cost of restructuring actions taken in the year was £29.1 million (2016: £45.3 million, of which £31.8 million related to the closure of the Nortek head office). These actions included the closure of loss making operations within the HVAC business, the removal of excess manufacturing capacity in the Air Quality & Home Solutions business and the consolidation of Nortek Security & Control, GTO and Core Brands into a single Security & Smart Technology division based in Carlsbad. Restructuring costs also included £5.9 million (2016: £6.1 million) within the Brush businesses relating to the closure of the China factory in November 2017 and realigning the cost base of Brush with the reduced revenue. Restructuring costs are excluded from underlying results due to their size and non-trading nature.

Acquisition and disposal costs incurred in the year ended 31 December 2017 totalled £5.8 million (2016: £38.7 million) and included the costs involved in returning the ordinary shares of the Company to the Premium List of the London Stock Exchange following on from the acquisition of Nortek, along with £1.8 million of committed costs associated with the potential acquisition of GKN plc. In the year ended 31 December 2016 acquisition and disposal costs related primarily to the acquisition of Nortek. These items are excluded from underlying results due to their non-trading nature.

The charge for the equity-settled Melrose Incentive Plan, including its associated employer's tax charge, is excluded from underlying results due to its size and volatility. The shares that would be issued in respect of the equity-settled Melrose Plan are included in the calculation of the underlying diluted earnings per share, which the Board considers to be a key measure of performance.

Certain items, primarily booked as fair value items on the acquisition of Nortek, have been settled for a more favourable amount than first anticipated. The release of any excess fair value item is shown within non-underlying profit to avoid positively distorting underlying results.

The net tax credit arising from the new US tax legislation enacted in December 2017, including an estimated repatriation charge and changes to closing deferred tax items due to a reduction in the Federal tax rate from 35% to 21%, has been included as non-underlying because of its size and one-off nature.

UNDERLYING RESULTS

Underlying results are the statutory results excluding non-underlying items. The underlying measures are used to partly determine the variable element of remuneration of senior management throughout the Group and are also in alignment with performance measures used by certain external stakeholders. The underlying measures are also one measure used to value individual businesses as part of the "Buy, Improve and Sell" Melrose strategy model.

The underlying results in the year ended 31 December 2017 included an underlying operating profit of £278.4 million (2016: £104.1 million) and an underlying profit before tax of £257.7 million (2016: £96.4 million). The following table reconciles the statutory operating result to underlying operating profit:

	2017 £m	2016 £m
Operating loss	(6.9)	(61.6)
Impairment of Brush assets	144.7	-
Amortisation of intangible assets	81.4	36.3
Restructuring costs	35.0	51.4
Acquisition and disposal related costs	5.8	38.7
Removal of one-off uplift in the value of inventory	-	18.2
Equity-settled compensation scheme charges	24.2	22.8
Release of fair value items	(5.8)	(1.7)
Adjustments to statutory operating loss	285.3	165.7
Underlying operating profit	**278.4**	**104.1**

The underlying performance of each of the trading divisions is shown in the segmental note of the Financial Statements and the reasons for the performance are discussed in the Chief Executive's review. The underlying operating profit in Brush of £17.5 million included £2.1 million of losses incurred within the Brush China factory prior to its closure.

Central costs were £23.4 million (2016: £14.2 million), which included £15.8 million (2016: £14.2 million) of Melrose corporate costs and £7.6 million (2016: £nil) of costs relating to the Nortek divisional cash based long-term incentive plan, which was introduced during the year.

PROFORMA GROUP TRADING RESULTS

The results for 2017 are not directly comparable to 2016 because the prior year performance includes only four months of Nortek trading following its acquisition on 31 August 2016.

The table below presents a comparative which includes a proforma measure as if Nortek had been owned for the full year, converted to IFRS and presented under Melrose accounting policies. The Nortek full year results for 2016 were audited for the process of returning Melrose to the Premium List of the London Stock Exchange. The proforma measure also makes an allowance for the divisional cash based long-term incentive plan, finance costs of the acquisition and uses a consistent tax rate and number of shares in both years.

The table also presents a constant currency proforma growth after adjusting revenue for exited sales channels. This measurement of year-on-year growth is described in more detail in the glossary to these Financial Statements.

	2017 Actual £m	2016 Full Year £m	Proforma[1] growth %
Revenue			
Nortek[2,3]	1,873.2	1,830.2	+2%
Brush	219.0	246.4	-14%
Continuing Group	**2,092.2**	**2,076.6**	**Flat**
Underlying operating profit			
Nortek[3]	284.3	177.8	+52%
Brush	17.5	32.0	-47%
Continuing Group[4]	**278.4**	**188.0**	**+40%**
Underlying operating margin			
Nortek	15.2%	9.7%	+5.5ppts
Brush	8.0%	13.0%	-5.0ppts
Continuing Group	**13.3%**	**9.1%**	**+4.2ppts**
Underlying diluted EPS[5]	**9.8p**	**6.4p**	**+45%**

1 At constant currency, using 2016 average exchange rates in both 2016 and 2017.

2 Adjusting revenue growth for exited sales channels.

3 Nortek 2016 full year revenue of $2,480.7 million and underlying operating profit of $241.0 million as reported in the audited financial statements used for the Step Up to the Premium List of the London Stock Exchange.

4 Includes the Melrose central costs and an additional divisional LTIP charge of £7.6 million in 2016 as if Nortek was owned for the full year.

5 Underlying diluted EPS for 2016 calculated after using the same net finance costs, effective tax rate and number of shares as for 2017.

PROFIT ESTIMATE

On 1 February 2018 a trading update was published which, under Rule 28 of the City Code on Takeovers and Mergers, was deemed to include the following profit estimate:

"Nortek trading has been transformed more comprehensively and faster than envisaged at the time of the acquisition; underlying operating profits at constant currency are up approximately 50% compared to last year of $241.0 million and approximately 65% up on the full year prior to acquisition of $220.1 million."

A reconciliation of the proforma Nortek underlying operating profit, at constant currency, is presented in the glossary to these Financial Statements. This shows that Nortek proforma underlying operating profit was up 52% on 2016 and up 67% on 2015.

FINANCE COSTS AND INCOME

The net finance cost in 2017 was £20.7 million (2016: £7.7 million) and the net interest on external bank loans, overdrafts and cash balances was £16.0 million (2016: £5.9 million). The year-on-year increase reflecting that the Group was in a net cash position for eight months prior to acquiring Nortek on 31 August 2016, after which it was in a net debt position.

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

In addition, a £2.3 million (2016: £0.7 million) amortisation charge relating to the arrangement costs of raising the bank facility was incurred in 2017.

Also included in net finance costs is a net interest cost on net pension liabilities of £1.1 million (2016: £0.9 million) and a charge for the unwinding of discounts on long-term provisions of £1.3 million (2016: £0.2 million).

TAX

The statutory tax rate for the year ended 31 December 2017 was 13.4% (2016: 43.7%). This is lower than the underlying effective tax rate due to the deferred tax credit noted below, which is partially offset by certain non-underlying charges not being deductible for tax purposes.

The underlying effective tax rate for the full 12 months was 25.9% (2016: 27.0%). As expected, this rate represents a mixture of profits arising in the UK at lower tax rates and in the rest of the world at higher rates, particularly the US with a federal rate of 35%, plus state taxes.

As announced in January 2018, the tax event with most significance for the Group this year was the passing of the Tax Cuts and Jobs Act in the US on 22 December 2017. This changed the US Federal tax rate at which deferred tax assets and liabilities will reverse in the future from 35% to 21%, leading to a reassessment of deferred tax balances and a net non-underlying credit of £26.4 million.

The corporate tax paid during the year was £15.9 million (2016: £5.9 million). The Melrose Group continues to benefit from the utilisation of tax losses and other deferred tax assets.

The net deferred tax liability has reduced by £60.5 million to £19.8 million. This is because the deferred tax liability in respect of intangible assets was reduced as a result of the US law change and also because the Group has recognised additional deferred tax assets in respect of deductions arising from the Long-Term Incentive Plans.

LONG-TERM INCENTIVE PLANS

The Melrose 2012 Incentive Plan matured, as expected, on 31 May 2017 and was replaced by the new 2017 Incentive Plan, approved by shareholders, which mirrors the previous plan, except that the five year duration of the replacement plan is split between a three year performance period and a further two year holding period. Directors will be subject to malus and clawback provisions during the performance period and to clawback provisions for the duration of the subsequent holding period.

During the year the Remuneration Committee determined that 23,494 options held in respect of the 2012 Incentive Plan should be withheld by the Company in exchange for an equivalently valued £115.5 million cash payment being sufficient to allow holders to meet their income tax and employee national insurance liabilities in respect of the Incentive Plan.

The remaining 26,506 options were exercised on 30 May 2017 in exchange for 26,506 Incentive Shares, which were issued on 31 May 2017 and converted into 54,453,914 Melrose Ordinary Shares, increasing the total number of shares in issue by 2.9% at that date to 1,941,200,503.

At the start of the 2017 Incentive Plan the first tranche of options were granted. For accounting purposes the IFRS 2 charge has been calculated as if all options over the 2017 Incentive Plan have been granted on day one because of a common expectation, established at that date, between employees and the Company that the remaining options will be allocated annually in two more equal tranches over the three year performance period.

The charge to non-underlying profit in respect of the 2017 Incentive Plan will be £13.3 million per annum (previous Incentive Plan £4.0 million), excluding the associated employer’s tax charge. The increased charge reflects the relative size of the business at the time of inception of the 2017 Incentive Plan compared to that at inception of the 2012 Incentive Plan.

EARNINGS PER SHARE (EPS)

In accordance with IAS 33, the statutory basic and diluted EPS numbers are disclosed on the face of the Income Statement. In the year ended 31 December 2017 the diluted EPS was a loss of 1.2p (2016: a loss of 2.6p). There were no discontinued operations in 2017 or 2016.

The underlying diluted EPS for the year ended 31 December 2017 was 9.8p (2016: proforma of 6.4p), representing a 45% increase over the proforma calculation, described in the glossary to these Financial Statements, which is largely as a result of the 52% increase in Nortek underlying operating profits in the year.

CASH GENERATION AND MANAGEMENT

For the year ended 31 December 2017 the profit conversion to cash pre capital expenditure was 95% (2016: 123%). An analysis of the cash generation performance for the year is shown in the table below:

Cash flow from operating and investing activities (after all costs including tax)	**2017 £m**	**2016 £m**
Underlying operating profit	278.4	104.1
Depreciation[1]	34.7	18.1
Working capital movement	(16.1)	28.2
Underlying operating cash flow (pre capex)	**297.0**	**150.4**
Underlying EBITDA conversion to cash (pre capex) %	**95%**	**123%**
Net capital expenditure	(48.8)	(17.1)
Net interest and net tax paid	(30.7)	(8.6)
Defined benefit pension contributions	(4.2)	(10.5)
Incentive scheme tax related payments (including employer's tax)	(147.9)	-
Restructuring	(48.6)	(24.2)
Net other	(31.8)	(12.6)
Cash flow from operating and investing activities (after all costs including tax)	**(15.0)**	**77.4**

Movement in net debt[2]	**£m**	**£m**
Opening (net debt)/cash	**(541.5)**	**2,451.4**
Acquired net debt with Nortek	-	(1,056.5)
Net repayment, on acquisition, of the Nortek debt	-	429.8
Cash flow from trading (after all costs including tax)	(15.0)	77.4
Amount paid to shareholders	(63.0)	(2,394.3)
Foreign exchange and other non-cash movements	47.7	(49.3)
Closing net debt	**(571.8)**	**(541.5)**

1 Including amortisation of computer software and development costs.

2 Defined as the net of cash and cash equivalents, external bank borrowings and finance leases.

The total cash outflow from operating and investing activities included payments relating to restructuring provisions of £48.6 million (2016: £24.2 million), net capital expenditure in the Nortek businesses of £46.3 million, representing 1.8x depreciation, and £147.9 million of incentive scheme payments which included associated employer's tax.

Payments to defined benefit pension schemes in the year ended 31 December 2017 were £4.2 million compared to £10.5 million in 2016. The previous year included £8.8 million early contributions to the Brush UK Pension Plan following the disposal of the Elster businesses to Honeywell International Inc. in December 2015.

FAIR VALUE EXERCISE

In accordance with IFRS 3 “Business Combinations”, an extensive review of the opening Nortek assets, liabilities and accounting policies commenced following the acquisition in August 2016.

This review was completed in the first half of 2017. In accordance with IFRS 3 the 31 December 2016 Balance Sheet has been restated in these Financial Statements to reflect goodwill decreasing by £57.7 million, deferred tax liabilities by £63.8 million and inventory by £1.2 million. Provisions increased by £3.4 million, other payables by £1.8 million and deferred tax assets by £0.3 million.

DISPOSAL

On 10 August 2017 the disposal of the loss making Best S.p.A. operations to Electrolux A.G. was completed. The Best operations were previously shown within the Air Quality & Home Solutions business, within the Air Management division. Cash consideration, net of costs, was £9.2 million which was equal to the net assets that were disposed.

ASSETS AND LIABILITIES

The summary Melrose Group assets and liabilities are shown below:

	2017 £m	**2016[1] £m**
Fixed assets (tangible, intangible and goodwill)	2,456.5	2,881.2
Net working capital	241.0	225.2
Retirement benefit obligations	(17.6)	(33.4)
Provisions	(209.8)	(283.0)
Deferred tax and current tax	(26.2)	(90.5)
Net other	13.1	4.8
Total	**2,457.0**	**2,704.3**

1 Restated to reflect the completion of the acquisition accounting for Nortek.

These assets and liabilities are funded by:

	2017 £m	**2016 £m**
Net debt	(571.8)	(541.5)
Equity	(1,885.2)	(2,162.8)
Total	**(2,457.0)**	**(2,704.3)**

The reduction in net assets included the statutory loss for the year and primarily related to the adverse foreign exchange movements on the retranslation of foreign operations of £133.3 million in the year, along with the dividend payment to shareholders of £63.0 million.

GOODWILL, INTANGIBLE ASSETS AND IMPAIRMENT REVIEW

The total value of goodwill as at 31 December 2017 was £1,432.2 million (31 December 2016: £1,648.3 million) and intangible assets acquired with business combinations was £796.7 million (31 December 2016: £950.1 million). These items are split by division as follows:

31 December 2017	Nortek £m	Brush £m	Total £m
Goodwill	1,310.2	122.0	1,432.2
Intangible assets acquired with business combinations	734.2	62.5	796.7
Total goodwill and intangible assets	**2,044.4**	**184.5**	**2,228.9**

The goodwill and intangible assets have been tested for impairment as at 31 December 2017. In accordance with IAS 36 "Impairment of assets" the recoverable amount is assessed as being the higher of the fair value less costs to sell and the value in use.

The Board is comfortable that no impairment is required in respect of the goodwill and intangible assets of Nortek and that there are no reasonable possible changes in assumptions that would result in any impairment.

The Group reported on 21 November 2017 that a full review of the Energy group of cash generating units was underway following the continued worsening of the market, recent negative trading statements made by participants in the market sector and the deferral of Generator orders within Brush. As has been well-publicised, structural changes caused by worldwide environmental policy have triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush's turbogenerator sales falling. These circumstances resulted in a reduction in the forecasts of the Brush business and the communication, in the November trading statement, that the current order intake by Brush would result in a low single-digit margin during 2018.

At 31 December 2017 an agreed restructuring plan for the Brush business had not been publically announced or communicated to those affected by the restructure and therefore, in accordance with IAS 37 "Provisions", these were not considered to be committed at that date. The restructure plans were subsequently announced on 1 February 2018.

Under IAS 36, the value in use basis for calculating the recoverable amount prohibits the inclusion of future uncommitted restructuring plans, whilst the fair value less costs to sell basis of valuation allows the inclusion of these plans if it is deemed that a market participant would also restructure. The recent trading announcements by key players in the market in which Brush operates is considered to be a good indication that a market participant would restructure the business. With the restructuring being a material part of the Brush valuation this affects the result of the impairment review considerably.

The recoverable amount of the Brush assets using the fair value less costs to sell basis was £300 million, which gave a higher valuation than the value in use basis which was £177.5 million which excluded the benefits of the restructuring. Consequently Brush is valued at £300 million at 31 December 2017 and an impairment charge of £144.7 million has been recognised in the year, which included the write down of the Brush China assets of £31.1 million, following the announcement of its closure in November 2017, an impairment of certain fixed assets of £18.2 million and a £95.4 million impairment to goodwill.

PROVISIONS

Total provisions at 31 December 2017 were £209.8 million (31 December 2016: £283.0 million). Despite the £106.7 million (2016: £85.6 million) net charge to operating profit in the year, provisions decreased primarily because of the net utilisation of the restructuring provision at Nortek, along with the £31.7 million payment made in the year in respect of the employer related tax on the 2012 Melrose equity-settled incentive plan, which matured in the year.

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

	Total £m
At 31 December 2016[1]	**283.0**
Net charge to underlying operating profit	62.4
Charge to non-underlying operating profit	48.7
Release of fair value items to non-underlying operating profit	(4.4)
Spend against provisions	(163.9)
Other (including foreign exchange)	(16.0)
At 31 December 2017	**209.8**

1 Restated to reflect the completion of the acquisition accounting for Nortek.

In 2017 there was a net charge to underlying operating profit of £62.4 million which included the £7.6 million charge for Nortek divisional cash based long-term incentive plans but mainly related to warranty, product liability and workers' compensation type charges, which are matched by similar cash payments in the year.

The charge to non-underlying operating profit of £48.7 million included £13.4 million of Melrose equity-settled incentive plan related costs in respect of employer related tax. The remaining charge to non-underlying operating profit primarily related to restructuring items.

Included within other movements in provisions are foreign exchange movements, the unwind of discounting on sizeable provisions and the provisions included in the Best S.p.A. businesses which were disposed of on 10 August 2017.

PENSIONS

At 31 December 2017 the accounting net deficit of the Melrose Group's defined benefit pension plans was £17.6 million (2016: £33.4 million). Total plan assets at 31 December 2017 were £524.7 million (2016: £522.6 million) and total plan liabilities were £542.3 million (2016: £556.0 million). The plan assets and liabilities at 31 December 2017 were split as follows:

	UK Plans £m	US Plans £m	Other Plans £m	Total £m
Plan liabilities	(288.5)	(252.6)	(1.2)	(542.3)
Plan assets	283.0	241.1	0.6	524.7
Net deficit	(5.5)	(11.5)	(0.6)	(17.6)

The net deficit on the UK Plans included a surplus of £8.3 million (31 December 2016: £17.1 million) for the Brush UK Plan.

The values of the Melrose Group plans were updated at 31 December 2017 by independent actuaries to reflect the latest key assumptions. A summary of the assumptions used are shown below:

	2017 UK %	2017 US %	2016 UK %	2016 US %
Discount rate	2.5	3.4	2.7	3.9
Inflation (RPI)	3.2	n/a	3.3	n/a

It is noted that a 0.1 percentage point decrease in the discount rate would increase the pension liabilities of the Melrose Group by £8.0 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 £18.3 million, or 3%.

Annual contributions to the Melrose Group defined benefit pension plans are expected to be approximately £3.2 million in 2018.

FINANCIAL RISK MANAGEMENT

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

Liquidity risk management

The Melrose Group's net debt position at 31 December 2017 was £571.8 million (31 December 2016: £541.5 million)

Melrose has a five year multi-currency US $1.25 billion committed bank facility which commenced on 6 July 2016 to assist with the acquisition of Nortek and consists of a US $350 million term loan facility and a US $900 million revolving credit facility. Loans drawn under this facility are guaranteed by Melrose Industries PLC and certain of its subsidiaries, and there is no security over any of the Melrose assets in respect of this facility.

The facility has two financial covenants. There is a net debt to underlying EBITDA (underlying operating profit before depreciation and amortisation) covenant and an interest cover covenant, both of which are tested half yearly, each June and December.

The first of these covenants is set at 3.5x leverage for each of the half yearly measurement dates for the remainder of the term of the facility. For the year ended 31 December 2017 it was approximately 1.9x (31 December 2016: 1.9x), showing significant headroom compared to the covenant test.

The interest cover covenant is set at 4.0x throughout the life of the facility and was 19.6x at 31 December 2017 (31 December 2016: 20.7x), affording comfortable headroom compared to the covenant test.

At 31 December 2017 the term loan was fully drawn down and the revolving credit facility was drawn down by US $455 million, split US $274 million and £134 million. The core currency of Nortek is the US dollar, and debt is drawn down to protect the Melrose Group as efficiently as possible from currency fluctuations on net assets and profit.

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

Cash, deposits and marketable securities amounted to £16.3 million at 31 December 2017 (31 December 2016: £42.1 million) and are offset against gross debt of £588.1 million (31 December 2016: £583.6 million) to arrive at the net debt position of £571.8 million (31 December 2016: £541.5 million). The combination of this cash and the size of the new facility allows the Directors to consider that the Melrose Group has sufficient access to liquidity for its current needs.

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

Finance cost risk management

The bank margin on the Melrose bank facility depends on the Melrose Group leverage, and ranges from 0.85% to 2.00%; as at 31 December 2017 the margin was 1.35% (31 December 2016: 1.35%).

The Melrose Group holds interest rate swap arrangements to fix the cost of LIBOR. The profile of the interest rate swaps has been designed to hedge, on average, 70% of the interest exposure on the projected gross debt as it reduces over the five year term. Under the terms of these swap arrangements, the Melrose Group will pay a weighted average fixed cost of 1.0% up to 31 December 2019, and 0.9% until the remaining swaps terminate on 6 July 2021.

The interest on the swaps is payable annually in arrears on 1 July. The bank margin is payable monthly.

Exchange rate risk management

The Melrose Group trades in various countries around the world and is exposed to many different foreign currencies. The Melrose Group therefore carries an exchange rate risk that can be categorised into three types, transaction, translation and disposal related risk as described in the paragraphs 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 twelve 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.

The Melrose Group's annual revenue is heavily denominated in US Dollars, with 82% of revenue being denominated in this currency, and therefore the largest foreign exchange rate exposure is the translation risk from changes in the US Dollar exchange rate relative to Sterling. In addition, the Melrose Group has foreign currency exposure, the largest being a transactional exchange rate exposure due to certain Nortek US businesses transacting in the Chinese Renminbi. The following exchange rates were used in respect of these two currencies during the year:

US Dollar	Twelve month average rate	Four month average (Nortek businesses)	Closing rate
2017	1.29	N/A	1.35
2016	1.36	1.26	1.23
CNY			
2017	8.71	N/A	8.80
2016	8.99	8.56	8.57

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 below illustrates what the movement in proforma revenue and underlying operating profit has been in 2017 as a result of changes in foreign exchange rates.

The translation difference in 2017	£m
Revenue has increased by	100.0
Underlying operating profit has increased by	15.1

For reference, in respect of the continuing Melrose 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/ (decrease) in underlying operating profit £m**
For every 10 per cent strengthening of the US Dollar against Sterling	27.3
For every 10 per cent strengthening of the Chinese Renminbi against Sterling	(4.7)

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 underlying operating profit £m**
For every 10 per cent strengthening of the US Dollar against Sterling	31.9
For every 10 per cent strengthening of the Chinese Renminbi against Sterling	(23.8)

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

Lastly, and potentially most significantly for Melrose, exchange risk 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 or Capital Return to shareholders. Protection against this risk is considered on a case-by-case basis.

Contract and warranty risk

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

Commodity cost risk management

The cumulative expenditure on commodities is important to the Melrose Group and the risk of base commodity costs increasing is mitigated 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. On occasions, Melrose does enter into financial instruments on commodities when this is considered to be the most efficient way of protecting against movements.

GOING CONCERN

The Melrose Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review. In addition, the consolidated financial statements include details of the Melrose 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 Melrose Group has adequate financial resources and has a consistent cash generation record, and, as a consequence, the Directors believe that the Melrose 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 Melrose 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.

POST BALANCE SHEET EVENTS

On 17 January 2018 the Melrose Group announced the terms of a firm offer to acquire the entire issued share capital of GKN plc and on 1 February 2018 issued a public offer document containing the full terms and conditions of the offer.

In conjunction with this offer, the Company entered into a senior term and revolving credit facilities agreement with Lloyds Bank plc and Royal Bank of Canada as original lenders which is subject to the acquisition taking place. The new facilities agreement provides for term facilities and revolving credit facilities in an aggregate principal amount up to £2.6 billion, US $2.0 billion and €0.5 billion. The maturity of the facilities ranges from 3 years and 6 months to 5 years, after the date of the agreement of the new facility.

On 1 February 2018 Melrose announced that Brush had commenced consultations with employees in relation to restructuring its Turbogenerator business to reflect the reduced levels of activity. These reduced levels have been caused by worldwide environmental policy which has triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush's turbogenerator sales falling.

This restructuring involves the intended closure of the turbogenerator production facility at Ridderkerk, Netherlands and the transfer of its 4-pole turbogenerator production to the facility in Plzen, Czech Republic, while the factory in Changshu, China has already been closed. In the UK, Brush has entered into consultation with its workforce about the future of 2-pole turbogenerator production at the Loughborough, UK facility, which accounts for approximately half the workforce at the site. The 520-strong workforce employed at Brush's other UK sites in the transformers, switchgear and mobile generator businesses remain unaffected.

The cash cost of these restructuring items is estimated to be £40 million and is expected to be materially complete by the end of 2018.

Geoffrey Martin
Group Finance Director
20 February 2018

Consolidated Income Statement

Continuing operations	Notes	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Revenue	3	**2,092.2**	889.3
Cost of sales		**(1,439.4)**	(626.0)
Gross profit		**652.8**	263.3
Net operating expenses		**(659.7)**	(324.9)
Operating loss		**(6.9)**	(61.6)
Finance costs		**(21.5)**	(9.5)
Finance income		**0.8**	1.8
Loss before tax		**(27.6)**	(69.3)
Tax	5	**3.7**	30.3
Loss after tax for the year attributable to owners of the parent		**(23.9)**	(39.0)
Earnings per share			
- Basic	7	**(1.2)p**	(2.6)p
- Diluted	7	**(1.2)p**	(2.6)p

Underlying Results

Underlying operating profit	4	**278.4**	104.1
Underlying profit before tax	4	**257.7**	96.4
Underlying profit after tax	4	**190.9**	70.4
Underlying basic earnings per share	7	**9.9p**	4.7p
Underlying diluted earnings per share	7	**9.8p**	4.4p

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Loss for the year	**(23.9)**	(39.0)
Items that will not be reclassified subsequently to the Income Statement:		
Net remeasurement gain on retirement benefit obligations	**12.1**	22.7
Income tax charge relating to items that will not be reclassified	**(1.1)**	(3.3)
	11.0	19.4
Items that may be reclassified subsequently to the Income Statement:		
Currency translation on net investments	**(133.3)**	104.3
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	**(0.5)**	-
Gains on cash flow hedges	**8.9**	5.3
Transfer to Income Statement on cash flow hedges	**(4.1)**	0.3
Income tax (charge)/credit relating to items that may be reclassified	**(0.7)**	5.4
	(129.7)	115.3
Other comprehensive (expense)/income after tax	**(118.7)**	134.7
Total comprehensive (expense)/income for the year attributable to owners of the parent	**(142.6)**	95.7

Consolidated Statement of Cash Flows

Continuing operations	Notes	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Net cash from operating activities	11	**32.4**	50.6
Investing activities			
Disposal of businesses		**10.8**	-
Disposal costs		**(0.2)**	(0.1)
Net cash disposed		**(1.4)**	-
Purchase of property, plant and equipment		**(47.7)**	(16.8)
Proceeds from disposal of property, plant and equipment		**2.1**	0.3
Purchase of computer software and capitalised development costs		**(3.2)**	(0.6)
Dividends received from joint ventures		**0.6**	0.9
Acquisition of subsidiaries		**(9.2)**	(1,130.0)
Cash acquired on acquisition of subsidiaries		**-**	9.4
Interest received		**0.8**	1.8
Net cash used in investing activities		**(47.4)**	(1,135.1)
Financing activities			
Return of Capital		**-**	(2,388.5)
Net proceeds from Rights Issue		**-**	1,612.0
Repayment of borrowings		**-**	(1,092.4)
New bank loans raised		**56.0**	557.4
Costs of raising debt finance		**-**	(10.9)
Repayment of finance leases		**(1.0)**	-
Dividends paid	6	**(63.0)**	(5.8)
Net cash used in financing activities		**(8.0)**	(1,328.2)
Net decrease in cash and cash equivalents		**(23.0)**	(2,412.7)
Cash and cash equivalents at the beginning of the year	11	**42.1**	2,451.4
Effect of foreign exchange rate changes	11	**(2.8)**	3.4
Cash and cash equivalents at the end of the year	11	**16.3**	42.1

As at 31 December 2017, the Group had net debt of £571.8 million (31 December 2016: £541.5 million). A reconciliation of the movement in net debt is shown in note 11.

Consolidated Balance Sheet

	Notes	31 December 2017 £m	Restated[1] 31 December 2016 £m
Non-current assets			
Goodwill and other intangible assets		**2,237.6**	2,609.3
Property, plant and equipment		**218.9**	271.9
Interests in joint ventures		**0.4**	-
Deferred tax assets		**49.3**	49.6
Derivative financial assets		**4.1**	5.2
Trade and other receivables		**1.9**	5.2
		2,512.2	2,941.2
Current assets			
Inventories		**275.4**	296.1
Trade and other receivables		**332.0**	365.8
Derivative financial assets		**9.9**	3.8
Cash and cash equivalents		**16.3**	42.1
		633.6	707.8
Total assets	3	**3,145.8**	3,649.0
Current liabilities			
Trade and other payables		**366.5**	428.2
Interest-bearing loans and borrowings		**0.4**	0.5
Derivative financial liabilities		**1.3**	4.2
Current tax liabilities		**6.4**	10.2
Provisions	9	**92.2**	140.5
		466.8	583.6
Net current assets		**166.8**	124.2
Non-current liabilities			
Trade and other payables		**1.8**	13.7
Interest-bearing loans and borrowings		**587.7**	583.1
Deferred tax liabilities		**69.1**	129.9
Retirement benefit obligations		**17.6**	33.4
Provisions	9	**117.6**	142.5
		793.8	902.6
Total liabilities	3	**1,260.6**	1,486.2
Net assets		**1,885.2**	2,162.8
Equity			
Issued share capital	10	**133.1**	129.4
Share premium account		**1,492.6**	1,492.6
Merger reserve		**108.7**	112.4
Other reserves		**(2,329.9)**	(2,329.9)
Hedging reserve		**8.6**	4.5
Translation reserve		**(66.0)**	67.8
Retained earnings		**2,538.1**	2,686.0
Total equity attributable to owners of the parent		**1,885.2**	2,162.8

[1] Restated to reflect the completion of the acquisition accounting for Nortek (note 8).

The financial statements were approved and authorised for issue by the Board of Directors on 20 February 2018 and were signed on its behalf by:

……………………………………………… ………………………………………………

Geoffrey Martin
Group Finance Director

Simon Peckham
Chief Executive

Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Other reserves £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity attributable to owners of the parent £m
At 1 January 2016	10.0	-	2,500.9	(2,329.9)	-	(37.8)	2,702.2	2,845.4
Loss for the year	-	-	-	-	-	-	(39.0)	(39.0)
Other comprehensive income	-	-	-	-	4.5	105.6	24.6	134.7
Total comprehensive income/(expense)	-	-	-	-	4.5	105.6	(14.4)	95.7
Return of Capital	-	-	(2,388.5)	-	-	-	-	(2,388.5)
Issue of new shares	119.4	1,492.6	-	-	-	-	-	1,612.0
Dividends paid	-	-	-	-	-	-	(5.8)	(5.8)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	4.0	4.0
At 31 December 2016	129.4	1,492.6	112.4	(2,329.9)	4.5	67.8	2,686.0	2,162.8
Loss for the year	-	-	-	-	-	-	(23.9)	(23.9)
Other comprehensive income/(expense)	-	-	-	-	4.1	(133.8)	11.0	(118.7)
Total comprehensive income/(expense)	-	-	-	-	4.1	(133.8)	(12.9)	(142.6)
Dividends paid	-	-	-	-	-	-	(63.0)	(63.0)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	10.1	10.1
Deferred tax on share-based payment transactions	-	-	-	-	-	-	33.4	33.4
Incentive scheme related[1]	3.7	-	(3.7)	-	-	-	(115.5)	(115.5)
At 31 December 2017	**133.1**	**1,492.6**	**108.7**	**(2,329.9)**	**8.6**	**(66.0)**	**2,538.1**	**1,885.2**

[1] On 31 May 2017, the Melrose 2012 Incentive Plan crystallised. Of the 50,000 options in issue, 23,494 were withheld by the Company in exchange for a cash payment sufficient to allow holders to meet their income tax and employee national insurance liabilities in respect of the Incentive Plan. This resulted in 23,494 options being exercised for £115.5 million in cash and being paid to the tax authorities on behalf of the option holders. The remaining 26,506 options were converted into 54,453,914 ordinary shares of 48/7 pence each and resulted in a £3.7 million increase to Issued share capital and an equivalent reduction to the Merger reserve.

Notes to the financial statements

1. Corporate information

The financial information included within this preliminary announcement does not constitute the Company's statutory financial statements for the years ended 31 December 2017 or 31 December 2016 within the meaning of s435 of the Companies Act 2006, but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 have been delivered to the Registrar of Companies and those for the year ended 31 December 2017 will be delivered to the Registrar of Companies during April 2018. The auditor has reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs during April 2018.

The Group has adopted a number of standards and amendments which became mandatory during the current financial year. These changes have had no significant impact on the Group's financial statements. The accounting policies followed are the same as those detailed within the 2016 Annual Report which are available on the Group's website www.melroseplc.net.

The Board of Directors approved the preliminary announcement on 20 February 2018.

Alternative Performance Measures

The Group presents Alternative Performance Measures ("APMs") in addition to the unadjusted statutory results of the Group. These are presented in accordance with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA").

To provide more clarity and in response to increased guidance, the APMs used by the Group are set out in the glossary to these Financial Statements and the reconciling items between statutory and underlying results are listed below and described in more detail in note 4 to the Financial Statements.

Underlying profit/(loss) excludes items which are significant in size or volatility or by nature are non-trading or non-recurring, and excludes any item released to the Income Statement that was previously a fair value item booked on acquisition.

On this basis, the following items were included within adjusted items for the year ended 31 December 2017:

- Impairment charges that are considered to be significant in nature and/or value to the trading performance of the business.
- Amortisation of intangible assets that are acquired in a business combination.
- Significant restructuring costs and other associated costs arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Acquisition and disposal costs.
- The charge for the equity-settled Melrose Incentive Plan, including its associated employer's tax charge.
- The release of fair value items booked on acquisitions.
- The net impact arising from the new US tax legislation with the US Federal tax rate moving from 35% to 21%.

The Board consider the underlying results to be a key measure to monitor how the businesses are performing because this provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.

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

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

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group'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 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.

There are no critical judgements, apart from those involving estimations, to disclose within the scope of paragraph 122 of IAS 1: “Presentation of financial statements”.

Key sources of estimation uncertainty

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

Assumptions used to determine the carrying amount of the Energy segment

IAS 36: “Impairment of assets” requires that the carrying amount of assets does not exceed their recoverable amount. Recoverable amount is defined as the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs of disposal and its value in use.

The Group reported on 21 November 2017 that a full review of the Energy group of CGUs was underway following the continued worsening of the market, recent negative trading statements made by participants in the market sector and the deferral of Generator orders within Brush. As has been well-publicised, structural changes caused by worldwide environmental policy have triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush’s turbogenerator sales falling. These circumstances resulted in a reduction in the forecasts of the Brush business and the communication, in the November trading statement, that the current order intake by Brush would result in a low single-digit margin during 2018.

Given the challenging current market conditions affecting the Energy segment, management conducted a review of the carrying value of property, plant and equipment and computer software as at 31 December 2017 using a value in use calculation. This required the entity to estimate the future cash flows expected to arise from the property, plant and equipment and use a suitable discount rate in order to calculate present value. Management draws upon experience as well as external resources in making these estimates. Based on this testing, an impairment loss of £18.2 million was identified in relation to specific items of property, plant and equipment and computer software. At 31 December 2017, the carrying amount of property, plant and equipment and computer software was £70.1 million (31 December 2016: £118.2 million). The key estimates used to derive these non-current asset discounted cash flow valuations were revenue changes, operating margins (impacting EBITDA) and market conditions that impact long-term growth rates and discount rates.

As a result of its closure in November 2017, a reassessment of the value of the assets in Brush China resulted in a write down of £31.1 million and therefore the valuation of these assets is no longer considered a key source of estimation uncertainty.

Goodwill and intangible assets are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired and at least annually.

Under IAS 36, the value in use basis for calculating the recoverable amount prohibits the inclusion of future uncommitted restructuring plans, however, the fair value less costs to sell basis valuation should reflect all future events (including restructuring) that would affect the expected cash flows for a market participant. The recent trading announcements by key players in the market in which Brush operates is considered to be a good indication that a market participant would restructure the business and therefore the restructuring impact should be included in the calculation.

For the purposes of this impairment test, the Energy group of CGUs has been measured using the higher of a fair value less disposal costs basis and a value in use basis. The fair value less cost to sell basis gives a value of £300 million (net of expected costs of disposal), which is more than the recoverable amount calculated using the value in use basis of £177.5 million. The fair value less costs to sell basis has therefore been used in the impairment assessment of the Energy group of CGUs, in accordance with IAS 36.

Fair value is the price that would be expected to be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value, the Group uses market-observable data to the extent it is available. The Group engaged third party valuation specialists as necessary and worked closely with these specialists to establish appropriate valuation techniques and market based inputs to the model. Fair value less disposal costs has been estimated using discounted cash flow projections, approved by management. The key estimates used to derive this valuation are the timing and impact of restructuring, potential reduction of future sales, operating margins (impacting EBITDA) and market conditions that impact long-term growth rates and discount rates. These are considered to be the main risk areas and are discussed in more detail in note 8.

Based on the impairment testing completed at year end, an impairment loss of £95.4 million was identified in relation to the assets of the Brush CGU, and hence goodwill has been written down accordingly. At 31 December 2017, the carrying amount of goodwill and other intangible assets in this division (not including computer software and development costs) was £184.5 million (31 December 2016: £283.0 million). Further information on the carrying amount of these assets, including a sensitivity analysis on the key assumptions, is provided in note 8.

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

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. In addition judgement is made in determining mortality rate assumptions to be used when valuing the Group's defined benefit obligations. At 31 December 2017, the Group's retirement benefit obligation deficit was £17.6 million (31 December 2016: £33.4 million).

3. Segment information

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

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

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

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

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

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

All operating segments are classified as continuing operations.

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

No single customer contributed 10% or more to the Group's revenue in either 2017 or 2016.

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

Segment revenues and results

The following tables present the revenue, results and certain asset and liability information regarding the Group's operating segments and central cost centres for the year ended 31 December 2017 and the comparative year.

Year ended 31 December 2017	Energy £m	Air Management £m	Security & Smart Technology £m	Ergonomics £m	Nortek central £m	Nortek total £m	Central[(1)]-corporate £m	**Total £m**
Revenue	219.0	1,159.6	440.7	272.9	-	1,873.2	-	**2,092.2**
Underlying operating profit/(loss)	17.5	146.1	70.7	69.6	(2.1)	284.3	(23.4)	**278.4**
Impairment of Brush assets	(144.7)	-	-	-	-	-	-	**(144.7)**
Amortisation of intangible assets	(8.8)	(35.3)	(20.2)	(17.1)	-	(72.6)	-	**(81.4)**
Restructuring costs	(5.9)	(19.0)	(6.7)	(2.1)	(1.3)	(29.1)	-	**(35.0)**
Acquisition and disposal costs	-	-	-	-	-	-	(5.8)	**(5.8)**
Melrose equity-settled compensation scheme	-	-	-	-	-	-	(24.2)	**(24.2)**
Release of fair value items	0.3	3.2	1.8	0.5	-	5.5	-	**5.8**
Operating (loss)/profit	(141.6)	95.0	45.6	50.9	(3.4)	188.1	(53.4)	**(6.9)**
Finance costs								**(21.5)**
Finance income								**0.8**
Loss before tax								**(27.6)**
Tax								**3.7**
Loss for the year								**(23.9)**

(1) Includes £7.6 million (2016: £nil) of costs relating to divisional Long-term Incentive Plans.

Year ended 31 December 2016	Energy £m	Air Management £m	Security & Smart Technology £m	Ergonomics £m	Nortek central £m	Nortek[(1)] total £m	Central-corporate £m	Total £m
Revenue	246.4	416.5	130.4	96.0	-	642.9	-	889.3
Underlying operating profit/(loss)	32.0	46.8	17.1	24.4	(2.0)	86.3	(14.2)	104.1
Amortisation of intangible assets	(8.5)	(15.1)	(6.9)	(5.8)	-	(27.8)	-	(36.3)
Restructuring costs	(6.1)	(12.4)	(1.1)	-	(31.8)	(45.3)	-	(51.4)
Acquisition and disposal costs	-	-	-	-	-	-	(38.7)	(38.7)
Melrose equity-settled compensation scheme	-	-	-	-	-	-	(22.8)	(22.8)
Release of fair value items	1.7	-	-	-	-	-	-	1.7
Removal of one-off uplift in value of inventory	-	(13.0)	(3.4)	(1.8)	-	(18.2)	-	(18.2)
Operating profit/(loss)	19.1	6.3	5.7	16.8	(33.8)	(5.0)	(75.7)	(61.6)
Finance costs								(9.5)
Finance income								1.8
Loss before tax								(69.3)
Tax								30.3
Loss for the year								(39.0)

(1) Includes four months trading of Nortek following its acquisition on 31 August 2016.

	Total assets		Total liabilities	
		Restated[1]		Restated[1]
	31 December 2017 £m	31 December 2016 £m	**31 December 2017 £m**	31 December 2016 £m
Energy	**376.4**	549.2	**69.5**	97.8
Air Management	**1,399.2**	1,569.2	**367.2**	497.4
Security & Smart Technology	**630.5**	692.2	**127.3**	160.7
Ergonomics	**670.3**	756.5	**103.4**	144.6
Nortek central	**0.5**	5.3	**(10.3)[2]**	(31.0)[2]
Nortek total	**2,700.5**	3,023.2	**587.6**	771.7
Central - corporate	**68.9**	76.6	**603.5**	616.7
Total	**3,145.8**	3,649.0	**1,260.6**	1,486.2

[1] Restated to reflect the completion of the acquisition accounting for Nortek (note 8).
[2] IAS 12 requires the set off of deferred tax assets and liabilities in the same tax jurisdiction. The £10.3 million (31 December 2016: £31.0 million) negative balance within Nortek central liabilities represents £36.7 million (31 December 2016: £85.5 million) of Nortek central deferred tax assets which have been treated as negative liabilities to represent the required offset, and £26.4 million (31 December 2016: £54.5 million) of other Nortek central liabilities.

	Capital expenditure[1]		Depreciation[1]	
Continuing operations	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Energy	**1.8**	3.6	**9.2**	9.0
Air Management	**44.4**	10.3	**18.9**	6.4
Security & Smart Technology	**3.1**	1.8	**3.1**	1.0
Ergonomics	**2.4**	1.1	**2.8**	1.0
Nortek Central	**-**	0.1	**0.7**	0.5
Nortek total	**49.9**	13.3	**25.5**	8.9
Central - corporate	**-**	-	**-**	0.2
Total	**51.7**	16.9	**34.7**	18.1

[1] Including computer software and development costs.

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	
				Restated[2]
Continuing operations	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m	**31 December 2017 £m**	31 December 2016 £m
UK	**104.7**	88.9	**130.3**	183.3
Europe	**124.2**	82.3	**108.8**	181.4
North America	**1,767.8**	638.8	**2,207.3**	2,480.1
Other	**95.5**	79.3	**10.1**	36.4
Total	**2,092.2**	889.3	**2,456.5**	2,881.2

[1] Revenue is presented by destination.
[2] Restated to reflect the completion of the acquisition accounting for Nortek (note 8).

4. Reconciliation between profit and underlying profit

As described in note 1, underlying profit/(loss) is an alternative performance measure used by the Board to monitor the underlying trading performance of the Group. The Board considers the underlying results to be a key measure to monitor how the businesses are performing because this provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.

A reconciliation between the statutory loss and underlying profit is shown below:

Continuing operations	Notes	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Operating loss		**(6.9)**	(61.6)
Impairment of Brush assets	a	**144.7**	-
Amortisation of intangible assets	b	**81.4**	36.3
Restructuring costs	c	**35.0**	51.4
Acquisition and disposal costs	d	**5.8**	38.7
Removal of one-off uplift in value of inventory	e	**-**	18.2
Melrose equity-settled compensation scheme	f	**24.2**	22.8
Release of fair value items	g	**(5.8)**	(1.7)
Total adjustments to operating loss[(1)]		**285.3**	165.7
Underlying operating profit		**278.4**	104.1

[(1)] Of the adjustments to operating loss, £285.3 million (2016: £147.5 million) is included within net operating expenses and £nil (2016: £18.2 million) within cost of sales.

a. The results for the year ended 31 December 2017 included an impairment charge totalling £144.7 million in respect of the carrying value of the assets held within the Brush business. This charge included £31.1 million in respect of the net assets of Brush China, which was closed in November 2017, and, following a review of the non-current assets, included £18.2 million in respect of fixed assets and £95.4 million in respect of goodwill. The impairment charge has been excluded from underlying results due to its one-off nature and size.

b. The amortisation of intangible assets acquired in business combinations are excluded from underlying results due to their non-trading nature and to enable comparison with companies that grow organically and do not have such a charge. Where intangible assets are trading in nature, such as computer software and development costs, the amortisation of these intangible assets are shown within underlying results.

c. Restructuring costs and other associated costs arising from significant strategy changes totalled £35.0 million (2016: £51.4 million) and included £1.1 million (2016: £nil) of losses incurred following the announcement of the closure of certain businesses. Within the Nortek businesses the cost of restructuring actions taken in the year was £29.1 million (2016: £45.3 million, of which £31.8 million related to the closure of the Nortek head office). These actions included the closure of loss making operations within the HVAC business, the removal of excess manufacturing capacity in the Air Quality & Home Solutions business and the consolidation of Nortek Security & Control, GTO and Core Brands into a single Security & Smart Technology division based in Carlsbad. Restructuring costs also included £5.9 million (2016: £6.1 million) within the Brush businesses relating to the closure of the China factory and realigning the cost base of Brush with the reduced revenue. Restructuring costs are excluded from underlying results due to their size and non-trading nature.

d. Acquisition and disposal costs incurred in the year ended 31 December 2017 totalled £5.8 million (2016: £38.7 million) and included the costs involved in returning the ordinary shares of the Company to the Premium List of the London Stock Exchange following on from the acquisition of Nortek, along with £1.8 million of committed costs associated with the potential acquisition of GKN plc. In the year ended 31 December 2016 acquisition and disposal costs related primarily to the acquisition of Nortek. These items are excluded from underlying results due to their non-trading nature.

e. The one-off loss of profit effect of being required to uplift the value of inventory acquired in an acquisition to that close to its selling price was excluded from the year ended 31 December 2016 underlying results due to its size and non-recurring nature.

f. The charge for the equity-settled Melrose Incentive Plan, including its associated employer's tax charge, is excluded from underlying results due to its size and volatility. The shares that would be issued in respect of the equity-settled Melrose Plan are included in the calculation of the underlying diluted earnings per share, which the Board consider to be a key measure of performance.

g. During the year ended 31 December 2017 certain items, primarily booked as fair value items on the acquisition of Nortek, have been settled for a more favourable amount than first anticipated. The release of any excess fair value item is shown within non-underlying profit to avoid positively distorting underlying results.

Continuing operations	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Loss before tax	**(27.6)**	(69.3)
Adjustments to loss before tax per above	**285.3**	165.7
Underlying profit before tax	**257.7**	96.4

Continuing operations	Notes	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Loss for the year		**(23.9)**	(39.0)
Adjustments to loss before tax per above		**285.3**	165.7
Net effect of new tax legislation in the US	h	**(26.4)**	-
Incremental deferred tax asset recognition on UK losses	i	**-**	(10.4)
Tax effect of adjustments to underlying profit before tax	5	**(44.1)**	(45.9)
Adjustments to loss for the year		**214.8**	109.4
Underlying profit for the year		**190.9**	70.4

h. The net tax credit arising from the new US tax legislation enacted in December 2017, including an estimated repatriation charge and changes to closing deferred tax items due to a reduction in the Federal tax rate from 35% to 21%, has been included as non-underlying because of its size and one-off nature.

i. During the year ended 31 December 2016 deferred tax assets on UK tax losses, which are now considered accessible following acquisition and disposal activities, were recognised. This is excluded from underlying results due to its size, volatility and non-trading nature.

5. Tax

Continuing operations	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Analysis of charge/(credit) in year:		
Current tax		
In respect of current year	**13.1**	6.0
In respect of prior year	**0.2**	(3.0)
Deferred tax		
In respect of current year	**6.4**	(22.5)
Adjustments to deferred tax attributable to changes in tax rates	**(39.4)**	(0.4)
Loss utilisation against US repatriation charge	**16.0**	-
Recognition of previously unrecognised UK tax losses	**-**	(10.4)
Total income tax credit	**(3.7)**	(30.3)

The total income tax credit of £3.7 million (2016: £30.3 million) is comprised of a current tax charge of £13.3 million (2016: £3.0 million) and a deferred tax credit of £17.0 million (2016: £33.3 million).

The deferred tax credit for the year has been materially affected by the reduction of corporate tax rates in the UK and the US. In the UK, the Finance Act 2016 enacted future reductions in the rate of UK Corporation Tax and excess losses arising in the current year have been recognised in the closing Balance Sheet at the rates at which the benefit is likely to reverse. This has resulted in an effective deferred tax charge of £3.0 million (2016: credit of £0.4 million) which is included in underlying tax.

In addition, the new US tax measures enacted in December 2017 include a reduction of the Federal tax rate from 35% to 21% with effect from 1 January 2018, requiring a revaluation of the US deferred tax assets and liabilities at 31 December 2017. The reduction in the deferred tax liability held in respect of intangible assets results in a tax credit of £99.5 million (2016: £nil), whilst the reduction in the deferred tax assets held within the Group's subsidiaries results in a tax charge of £57.1 million (2016: £nil). Together with a charge of £16.0 million (2016: £nil) in respect of the US repatriation charge, these amounts total £26.4 million (2016: £nil) which is classified as non-underlying tax.

In addition, the tax effect of non-underlying items incurred in the year was a credit of £44.1 million (2016: £45.9 million) which comprises £2.5 million (2016: £nil) in respect of impairment of Brush assets, £10.0 million (2016:

£18.2 million) in respect of restructuring costs, £0.3 million (2016: £3.9 million) in respect of acquisition and disposal costs, £30.0 million (2016: £12.8 million) in respect of the amortisation of intangible assets, £nil (2016: £6.8 million) in respect of the required uplift in the value of inventory acquired with Nortek, £2.9 million (2016: £4.5 million) in respect of Melrose equity-settled compensation scheme, and a charge of £1.6 million (2016: £0.3 million) in respect of the release of fair value provisions and other items.

The tax credit for the year for continuing operations can be reconciled to the loss per the Income Statement as follows:

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Loss on ordinary activities before tax:	**(27.6)**	(69.3)
Tax on loss on ordinary activities at weighted average rate 14.22% (2016: 40.82%)	**(3.9)**	(28.3)
Tax effect of:		
Disallowable expenses within underlying items	**5.4**	1.6
Disallowable items in respect of non-underlying items	**21.7**	7.3
Temporary differences not recognised in deferred tax	**11.0**	2.7
Tax credits, withholding taxes and other rate differences	**(0.9)**	(0.2)
Prior year tax adjustments	**(10.6)**	(3.0)
Tax credit classified as non-underlying (note 4)	**(26.4)**	(10.4)
Total tax credit for the year	**(3.7)**	(30.3)

The reconciliation has been performed at a blended Group tax rate of 14.22% (2016: 40.82%) which represents the weighted average of the tax rates applying to profits and losses in the jurisdictions in which those results arose.

In addition to the amount charged to the Income Statement, a tax credit of £31.6 million (2016: £2.1 million) has been recognised in equity. This represents a tax charge of £1.1 million (2016: £3.3 million) in respect of retirement benefit obligations, a tax charge of £0.7 million (2016: £1.1 million) in respect of movements on cash flow hedges, a tax credit of £nil (2016: £1.3 million) in respect of tax charged on foreign exchange gains and a tax credit of £33.4 million (2016: £5.2 million) in respect of share based payments.

6. Dividends

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Final dividend for the year ended 31 December 2015 paid of 2.6p (0.5)p[1]	**-**	3.8
Interim dividend for the year ended 31 December 2016 paid of 1.4p (0.3)p[1]	**-**	2.0
Final dividend for the year ended 31 December 2016 paid of 1.9p	**35.8**	-
Interim dividend for the year ended 31 December 2017 paid of 1.4p	**27.2**	-
	63.0	5.8

(1) Adjusted to include the effects of the Rights Issue (note 7).

Proposed final dividend for the year ended 31 December 2017 of 2.8p per share (2016: 1.9p per share) totalling £54.4 million (2016: £35.8 million).

The final dividend of 2.8p was proposed by the Board on 20 February 2018 and, in accordance with IAS 10: “Events after the reporting period”, has not been included as a liability in these financial statements.

7. Earnings per share

Earnings attributable to owners of the parent	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Earnings for basis of earnings per share from continuing operations	**(23.9)**	(39.0)

	Year ended 31 December 2017 Number	Year ended[(1)] 31 December 2016 Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share (million)	**1,918.7**	1,499.3
Further shares for the purposes of diluted earnings per share (million)	**22.5**	89.8
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share (million)	**1,941.2**	1,589.1

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

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

On 1 June 2017 the number of Ordinary Shares in issue increased by 54.5 million following the crystallisation of the 2012 Melrose Incentive Plan which increased the number of shares in issue from 1,886.7 million to 1,941.2 million.

Earnings per share	**Year ended 31 December 2017 pence**	Year ended 31 December 2016 pence
Basic earnings per share	**(1.2)**	(2.6)
Diluted earnings per share	**(1.2)**	(2.6)

Underlying earnings	Note	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Underlying earnings for the basis of underlying earnings per share from continuing operations	4	**190.9**	70.4

Underlying earnings per share

Continuing operations	**Year ended 31 December 2017 pence**	Year ended 31 December 2016 pence
Underlying basic earnings per share	**9.9p**	4.7p
Underlying diluted earnings per share	**9.8p**	4.4p

8. Goodwill and other intangible assets

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

	31 December 2017 £m	Restated[1] 31 December 2016 £m
Energy	**122.0**	212.9
Air Management	**580.5**	636.1
Security & Smart Technology	**320.2**	350.6
Ergonomics	**409.5**	448.7
Nortek total	**1,310.2**	1,435.4
Total operations	**1,432.2**	1,648.3

[1] Restated to reflect the completion of the acquisition accounting for Nortek.

The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired. In accordance with IAS 36: "Impairment of assets" the Group values goodwill at the recoverable amount, being the higher of the value in use basis and the fair value less costs to sell basis.

Value in use calculations have been used to determine the recoverable amount of goodwill allocated to each group of cash-generating units ("CGUs") within Nortek. The calculation uses the latest approved forecast extrapolated to perpetuity using growth rates shown below, which do not exceed the long-term growth rate for the relevant market. Based on impairment testing completed at the year end, no impairment was identified in respect of the Nortek businesses. No reasonable possible change in key assumptions would result in an impairment in any of the Nortek group of CGUs.

The Group reported on 21 November 2017 that a full review of the Energy group of CGUs was underway following the continued worsening of the market, recent negative trading statements made by participants in the market sector and the deferral of Generator orders within Brush. As has been well-publicised, structural changes caused by worldwide environmental policy have triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush's turbogenerator sales falling. These circumstances resulted in a reduction in the forecasts of the Brush business and the communication, in the November trading statement, that the current order intake by Brush would result in a low single-digit margin during 2018.

At 31 December 2017 an agreed restructuring plan had not been publically announced or communicated to those affected by the restructure and therefore, in accordance with IAS 37: "Provisions, contingent liabilities and contingent assets", these costs were not considered to be committed. The restructuring plan was subsequently announced on 1 February 2018.

Under IAS 36, the value in use basis for calculating the recoverable amount prohibits the inclusion of future uncommitted restructuring plans, however, the fair value less costs to sell basis valuation should reflect all future events (including restructuring) that would affect the expected cash flows for a market participant. The recent trading announcements by key players in the market in which Brush operates is considered to be a good indication that a market participant would restructure the business and therefore the restructuring impact should be included in the calculation.

The fair value less costs to sell calculation does not include any synergistic savings as these synergies would not be available to most market participants.

The inclusion of the impacts of the restructuring plan, risk adjusted downwards to reflect the inherent execution risk, results in the fair value less cost to sell basis giving a value of £300 million (net of expected costs of disposal), which is more than the recoverable amount calculated using the value in use basis of £177.5 million. The fair value less costs to sell basis has therefore been used in the impairment assessment of the Energy group of CGUs, in accordance with IAS 36.

Based on the impairment testing completed at year end, an impairment loss of £95.4 million was identified in relation to these assets, and hence goodwill has been written down accordingly. Combined with the £31.1 million write down of assets in Brush China following its closure in November 2017 and the £18.2 million impairment of fixed assets, tested separately on a value in use basis as required by IAS 36 a total impairment charge of £144.7 million is shown in non-underlying items (note 4).

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

31 December 2017

Group of CGUs	Basis of valuation	Carrying value of goodwill £m	Pre-tax discount rates[(a)]	Post-tax discount rates	Period of forecast	Key assumptions applied in the forecast cash flow projections[(b)]	Long-term growth rates[(c)]
Energy[(d)]	Fair value less costs of disposal	122.0[(1)]	11.9%	10.0%	5 years	Revenue growth, restructuring impact, operating margins	2.2%
Air Management	Value in use	580.5	12.6%	9.8%	4 years	Revenue growth, operating margins	3.0%
Security & Smart Technology	Value in use	320.2	12.6%	9.8%	4 years	Revenue growth, operating margins	3.0%
Ergonomics	Value in use	409.5	12.6%	9.8%	4 years	Revenue growth, operating margins	3.0%

[(1)] Following a goodwill impairment charge in the year of £95.4 million.

31 December 2016

Group of CGUs	Basis of valuation	Restated[(1)] carrying value of goodwill £m	Pre-tax discount rates[(a)]	Post-tax discount rates	Period of forecast	Key assumptions applied in the forecast cash flow projections[(b)]	Long-term growth rates[(c)]
Energy	Value in use	212.9	11.0%	9.2%	5 years	Revenue growth, operating margins	2.2%
Air Management	Value in use	636.1	12.8%	9.7%	4 years	Revenue growth, operating margins	3.0%
Security & Smart Technology	Value in use	350.6	12.7%	9.7%	4 years	Revenue growth, operating margins	3.0%
Ergonomics	Value in use	448.7	12.6%	9.7%	4 years	Revenue growth, operating margins	3.0%

[(1)] Restated to reflect the completion of the acquisition accounting for Nortek.

[(a)] Pre-tax risk adjusted discount rates

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

The discount rate used for the Energy group of CGUs has been risk adjusted to reflect the execution risk inherent in future restructuring plans in the fair value less costs of disposal approach.

[(b)] Assumptions applied in financial forecasts

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

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

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 the 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. As described above, the impacts of the planned restructuring have been included in deriving future operating margins within the Energy group of CGUs using a fair value less costs to sell basis. The timing of these assumed restructuring impacts have been risk adjusted to reflect the execution risk inherent in future restructuring plans of a market participant and are also a key driver for operating margins in the forecast period.

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

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

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

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

(c) Long-term growth rates

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

(d) Energy group of CGUs

The previous full impairment test performed at 30 June 2017 indicated that although headroom had decreased from 31 December 2016, the recoverable amount was still in excess of the carrying amount. It is evident that market conditions have deteriorated further since this date and Brush is facing some of the most challenging market conditions it has ever experienced.

The recoverable amount of the Energy group of CGUs has been determined based on fair value less costs of disposal, which was higher than value in use. The valuation technique used is an income approach, based on discounted future cash flow projections relevant to a market participant. This methodology includes a risk adjusted assessment of the results of the restructuring plan that was announced on 1 February 2018. It has been assumed that a market participant would also restructure the business based on the economic data in the market and the announcements made by key players in the market.

Key assumptions used in the calculation of recoverable amounts are discount rates, revenue growth, operating margins and long-term growth rates.

Discount rates

The estimate of fair value less disposal costs was determined using a post-tax discount rate of 10.0%. This discount rate has been risk adjusted to reflect the execution risk inherent in future restructuring plans and hence is higher than would be the case under a non-restructured basis.

Revenue growth

Structural changes caused by worldwide environmental policy have triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush's turbogenerator sales falling. The continuing impacts arising from this downturn in the market are a key assumption. In addition the revenue assumptions applied to Switchgear, Transformers and Aftermarket are a key assumption.

Revenue is forecast to increase by a compound annual growth rate of 0.2% over the five year projection period.

Restructuring impact and operating margins
Over the five year period, operating margins and EBITDA are anticipated to increase as the impact of the restructuring savings materialise. The timing and quantitative impact of these restructuring benefits is a key assumption.

Long-term growth rates
The Energy group of CGUs has five years of cash flows included in their discounted cash flow model. A long-term growth rate into perpetuity has been determined based upon the nominal GDP rates for the countries in which the business operates and the long-term compound annual growth rate estimated by management.

The fair value measurement of the Energy group of CGUs is categorised within Level 3 of the fair value hierarchy set out in IFRS13: "Fair value measurement".

Based on the impairment testing completed at year end, an impairment loss of £95.4 million was identified in relation to these assets, and hence goodwill has been written down accordingly. Combined with the £31.1 million write down of assets in Brush China following its closure in November 2017 and the £18.2 million impairment of fixed assets, tested separately on a value in use basis as required by IAS 36 a total impairment charge of £144.7 million is shown in non-underlying items (note 4).

Sensitivity analysis
The Energy group of CGUs has been measured at fair value less costs of disposal, a methodology required by IAS 36: "Impairment of assets". Following the above impairment, the recoverable amount is equal to the carrying amount and therefore any adverse movement in a key assumption may lead to further impairment.

The discount rate has been risk adjusted to reflect the uncertainty of achieving the cash flows within the forecast. However, for illustration purposes a further 0.1 percentage point increase in the discount rate could result in an impairment of £4.5 million. A further £0.5 million reduction in annual and terminal value operating profit could result in an impairment of £4.9 million. A further 0.1 percentage point decrease in the long-term growth rate could result in an impairment of £3.5 million.

Acquisition of businesses

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

Nortek is a leading diversified global manufacturer of innovative air management, security, home automation and ergonomic and productivity solutions (note 3).

The amounts recognised in respect of the identifiable assets and liabilities assumed on the acquisition of Nortek were set out in the 2016 Annual Report. During the year, the Group has completed its review of the assets and liabilities acquired. As a result the Group recorded its final adjustments to the opening balance sheet of Nortek at the half year. In accordance with IFRS 3: "Business combinations" the acquisition Balance Sheet at 31 August 2016 has been restated to reflect this. These adjustments also impacted the Balance Sheet at 31 December 2016 and increased provisions by £3.4 million, deferred tax assets by £0.3 million and other payables by £1.8 million whilst reducing inventory by £1.2 million and deferred tax liabilities by £63.8 million. The corresponding adjustment is to decrease goodwill by £57.7 million. The measurement period was closed at 30 June 2017.

9. Provisions

	Surplus leasehold property costs £m	Environmental and legal costs £m	Warranty related costs £m	Product liability £m	Employee related £m	Other £m	Total £m
At 1 January 2017[1]	20.8	66.8	86.9	42.5	8.9	57.1	283.0
Utilised	(4.2)	(18.7)	(22.8)	(5.7)	(34.6)	(77.9)	(163.9)
Net charge to operating profit[2]	(2.1)	(2.0)	14.2	3.4	35.7	57.5	106.7
Transfer from accruals	-	1.3	1.6	-	-	0.7	3.6
Unwind of discount	0.1	0.1	-	-	-	1.1	1.3
Transfer to held for sale[3]	-	(1.0)	(1.0)	-	-	(2.9)	(4.9)
Exchange differences	(1.1)	(3.6)	(6.0)	(3.2)	(0.7)	(1.4)	(16.0)
At 31 December 2017	**13.5**	**42.9**	**72.9**	**37.0**	**9.3**	**34.2**	**209.8**
Current	4.6	15.9	33.2	10.5	5.6	22.4	92.2
Non-current	8.9	27.0	39.7	26.5	3.7	11.8	117.6
	13.5	42.9	72.9	37.0	9.3	34.2	209.8

(1) Restated to reflect the completion of the acquisition accounting for Nortek (note 8).
(2) Includes restructuring charges and other non-underlying items of £44.3 million and £62.4 million relating to items charged through underlying operating profit.
(3) Transferred to liabilities held for sale at 30 June 2017 in accordance with IFRS 5, subsequently disposed on 10 August 2017.

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 seven years.

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

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

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

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

Where appropriate, provisions have been discounted using a discount rate of 3% (31 December 2016: 3%).

10. Issued capital and reserves

Share Capital	**31 December 2017 £m**	31 December 2016 £m
Allotted, called-up and fully paid		
1,941,200,503 (31 December 2016: 1,886,746,589) Ordinary Shares of 48/7p each (31 December 2016: 48/7p each)	**133.1**	129.4
12,831 (31 December 2016: nil) 2017 Melrose Incentive Plan Shares of £1 each	**-**	-
	133.1	129.4

On 1 June 2017 the number of Ordinary Shares in issue increased by 54,453,914 following the crystallisation of the 2012 Melrose Incentive Plan which increased the number of Ordinary Shares in issue from 1,886,746,589 to 1,941,200,503.

During the course of the year, 12,831 of the 2017 Melrose Incentive Plan options issued to the Directors and senior management were exercised and resulted in the creation of 12,831 of 2017 Melrose incentive shares with a nominal value of £1 each.

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.

11. Cash flow statement

	Note	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Reconciliation of underlying operating profit to cash generated by continuing operations			
Underlying operating profit	4	**278.4**	104.1
Adjustments for:			
Depreciation of property, plant and equipment		**30.9**	15.9
Amortisation of computer software and development costs		**3.8**	2.2
Restructuring costs paid and movements in provisions		**(73.4)**	(37.6)
Defined benefit pension contributions paid		**(4.2)**	(10.5)
(Increase)/decrease in inventories		**(8.1)**	15.0
Decrease in receivables		**8.1**	22.5
Decrease in payables		**(16.1)**	(9.3)
Acquisition costs		**(7.6)**	(41.3)
Tax paid		**(15.9)**	(5.9)
Interest paid		**(15.6)**	(4.5)
Incentive scheme tax related payments		**(147.9)**	-
Net cash from operating activities		**32.4**	50.6

Net debt reconciliation

	31 December 2016 £m	Cash flow £m	Other non-cash movements £m	Foreign exchange difference £m	**31 December 2017 £m**
Bank borrowings	(582.0)	(56.0)	(0.9)	51.4	**(587.5)**
Finance leases	(1.6)	1.0	-	-	**(0.6)**
Gross debt	(583.6)	(55.0)	(0.9)	51.4	**(588.1)**
Cash	42.1	(23.0)	-	(2.8)	**16.3**
Net debt	(541.5)	(78.0)	(0.9)	48.6	**(571.8)**

Net debt is presented in the closing Balance Sheet at year end exchange rates. For bank covenant testing purposes net debt is converted using average exchange rates for the year, which increases net debt at 31 December 2017 by £22.8 million (31 December 2016: decreases net debt by £51.1 million) to £594.6 million (31 December 2016: £490.4 million).

12. Post Balance Sheet events

On 17 January 2018 the Melrose Group announced the terms of a firm offer to acquire the entire issued share capital of GKN plc and on 1 February 2018 issued a public offer document containing the full terms and conditions of the offer.

In conjunction with this offer, the Company entered into a senior term and revolving credit facilities agreement with Lloyds Bank plc and Royal Bank of Canada as original lenders which is subject to the acquisition taking place. The new facilities agreement provides for term facilities and revolving credit facilities in an aggregate principal amount up to £2.6 billion, US $2.0 billion and €0.5 billion. The maturity of the facilities ranges from 3 years and 6 months to 5 years, after the date of the agreement of the new facility.

On 1 February 2018 Melrose announced that Brush had commenced consultations with employees in relation to restructuring its Turbogenerator business to reflect the reduced levels of activity. These reduced levels have been caused by worldwide environmental policy which has triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush's turbogenerator sales falling.

This restructuring involves the intended closure of the turbogenerator production facility at Ridderkerk, Netherlands and the transfer of its 4-pole turbogenerator production to the facility in Plzen, Czech Republic, while the factory in Changshu, China has already been closed. In the UK, Brush has entered into consultation with its workforce about the future of 2-pole turbogenerator production at the Loughborough, UK facility, which accounts for approximately half the workforce at the site. The 520-strong workforce employed at Brush's other UK sites in the transformers, switchgear and mobile generator businesses remain unaffected.

The cash cost of these restructuring items is estimated to be £40 million and is expected to be materially complete by the end of 2018.

Alternative Performance Measures ("APMs")

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

In the reporting of financial information, the Group uses certain measures that are not required under IFRS. These additional measures (commonly referred to as Alternative Performance Measures) provide additional information on the performance of the business and trends to shareholders. These measures are consistent with those used internally, and are considered critical to understanding the financial performance and financial health of the Group. APMs are considered to be a key measure to monitor how the businesses are performing because this provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.

These alternative performance measures may not be directly comparable with similarly titled profit measures reported by other companies and they are not intended to be a substitute for, or superior to, IFRS measures.

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income Statement Measures</td></tr>
<tr><td>Proforma revenue and proforma revenue growth</td><td>Revenue and movement in revenue per the Income Statement</td><td>Full year impact of acquisitions, revenue from exited sales channels and translational currency impacts</td><td>
The year-on-year change in revenue from sales that are continuing, retranslating the current year revenue at the average actual periodic exchange rates used in the prior year.

This measure includes the full year impact of businesses acquired and excludes the impact of exited sales channels from both years to provide a more direct comparative of year-on-year performance.

This measure is presented as a means of eliminating the effects of exchange rate fluctuations, acquisitions and business closures on the year-on-year reported results.
<table>
<tr><th>Group - Revenue</th><th>2017 £m</th><th>2016 £m</th><th>%</th></tr>
<tr><td>Statutory</td><td>2,092.2</td><td>889.3</td><td></td></tr>
<tr><td>Full year impact of acquisitions</td><td>-</td><td>1,187.3</td><td></td></tr>
<tr><td>Exited sales channels</td><td>(28.8)</td><td>(108.4)</td><td></td></tr>
<tr><td>Impact of foreign exchange</td><td>(100.0)</td><td>-</td><td></td></tr>
<tr><td>Proforma revenue at constant currency</td><td>1,963.4</td><td>1,968.2</td><td>flat</td></tr>
</table>
<table>
<tr><th>Nortek - Revenue</th><th>2017 £m</th><th>2016 £m</th><th>%</th></tr>
<tr><td>Statutory (note 3)</td><td>1,873.2</td><td>642.9</td><td></td></tr>
<tr><td>Full year impact of acquisitions</td><td>-</td><td>1,187.3</td><td></td></tr>
<tr><td>Exited sales channels</td><td>(28.8)</td><td>(108.4)</td><td></td></tr>
<tr><td>Impact of foreign exchange</td><td>(92.5)</td><td>-</td><td></td></tr>
<tr><td>Proforma revenue at constant currency</td><td>1,751.9</td><td>1,721.8</td><td>+2%</td></tr>
</table>
<table>
<tr><th>Brush - Revenue</th><th>2017 £m</th><th>2016 £m</th><th>%</th></tr>
<tr><td>Statutory (note 3)</td><td>219.0</td><td>246.4</td><td></td></tr>
<tr><td>Impact of foreign exchange</td><td>(7.5)</td><td>-</td><td></td></tr>
<tr><td>Proforma revenue at constant currency</td><td>211.5</td><td>246.4</td><td>-14%</td></tr>
</table>
</td></tr>
<tr><td>Non-underlying items</td><td>None</td><td>See note 4</td><td>
Those items which the Group excludes from its underlying profit metrics in order to present a further measure of the Group's performance.

Underlying profit/(loss) excludes items which are significant in size or volatility or by nature are non-trading or non-recurring, and excludes any item released to the Income Statement that was previously a fair value item booked on acquisition.

The Board consider the underlying results to be a key measure to monitor how the businesses are performing because this provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.
</td></tr>
</table>

<table>
<tr><td></td><td></td><td></td><td>The underlying measures are used to partly determine the variable element of remuneration of senior management throughout the Group and are also in alignment with performance measures used by certain external stakeholders. The underlying measures are also one measure used to value individual businesses as part of the “Buy, Improve and Sell” Melrose strategy model.</td></tr>
<tr><td>Underlying operating profit/(loss)</td><td>Operating profit/(loss)(1)</td><td>Non-underlying items (note 4)</td><td>Profit before the impact of non-underlying items, finance costs, finance income and tax.

As discussed above, the Group uses underlying profit measures to provide a useful and more comparable measure of the ongoing performance of the Group. These are adjusted from statutory measures to remove non-underlying items, the nature of which are disclosed above.</td></tr>
<tr><td>Underlying operating margin</td><td>Operating margin(2)</td><td>Non-underlying items (note 4)</td><td>Underlying operating profit as a percentage of revenue.</td></tr>
<tr><td>Proforma underlying operating profit growth</td><td>Movement in operating profit/(loss)(1) per the Income Statement</td><td>Non-underlying items (note 4), full year impact of acquisitions and translational currency impacts</td><td>The year-on-year change in underlying operating profit including the full year impact of acquisitions, retranslating the current year underlying operating profit at the average actual periodic exchange rates used in the prior year.

This measure is presented as a means of eliminating the effects of exchange rate fluctuations and acquisitions on the year-on-year reported results.

To aid comparability, the full year impact of acquisitions includes an additional charge of £7.6 million for divisional long-term incentive plans in 2016 as if Nortek were owned for the full year.

<table>
<tr><th>Group - Underlying operating profit</th><th>2017 £m</th><th>2016 £m</th><th>%</th></tr>
<tr><td>As reported</td><td>278.4</td><td>104.1</td><td></td></tr>
<tr><td>Full year impact of acquisitions</td><td>-</td><td>83.9</td><td></td></tr>
<tr><td>Impact of foreign exchange</td><td>(15.1)</td><td>-</td><td></td></tr>
<tr><td>At constant currency</td><td>263.3</td><td>188.0</td><td>+40%</td></tr>
</table>
<table>
<tr><th>Nortek - Underlying operating profit</th><th>2017 £m</th><th>2016 £m</th><th>%</th></tr>
<tr><td>As reported (note 3)</td><td>284.3</td><td>86.3</td><td></td></tr>
<tr><td>Full year impact of acquisitions</td><td>-</td><td>91.5</td><td></td></tr>
<tr><td>Impact of foreign exchange</td><td>(14.5)</td><td>-</td><td></td></tr>
<tr><td>At constant currency</td><td>269.8</td><td>177.8[a]</td><td>+52%</td></tr>
</table>
[a] Translated at an average GBP:USD exchange rate of 1.3554 equates to $241.0 million.
<table>
<tr><th>Nortek - Underlying operating profit</th><th>2017 £m</th><th>2015 £m</th><th>%</th></tr>
<tr><td>As reported (note 3)</td><td>284.3</td><td>-</td><td></td></tr>
<tr><td>Full year impact of acquisitions</td><td>-</td><td>144.0</td><td></td></tr>
<tr><td>Impact of foreign exchange</td><td>(43.6)</td><td>-</td><td></td></tr>
<tr><td>At constant currency</td><td>240.7</td><td>144.0[a]</td><td>+67%</td></tr>
</table>
[a] Translated at an average GBP:USD exchange rate of 1.5284 equates to $220.1 million.
<table>
<tr><th>Brush - Underlying operating profit</th><th>2017 £m</th><th>2016 £m</th><th>%</th></tr>
<tr><td>As reported (note 3)</td><td>17.5</td><td>32.0</td><td></td></tr>
<tr><td>Impact of foreign exchange</td><td>(0.6)</td><td>-</td><td></td></tr>
<tr><td>At constant currency</td><td>16.9</td><td>32.0</td><td>-47%</td></tr>
</table>
</td></tr>
<tr><td>Underlying EBITDA</td><td>None</td><td>Not applicable</td><td>Underlying operating profit before depreciation and impairment of property, plant and equipment and before the amortisation and impairment of computer software and development costs.

Underlying EBITDA is one measure used to value individual businesses as part of the “Buy, Improve and Sell” Melrose strategy model and by certain external stakeholders to measure performance.

<table>
<tr><th>Underlying EBITDA</th><th>2017 £m</th><th>2016 £m</th></tr>
<tr><td>Underlying operating profit</td><td>278.4</td><td>104.1</td></tr>
<tr><td>Depreciation</td><td>30.9</td><td>15.9</td></tr>
<tr><td>Amortisation</td><td>3.8</td><td>2.2</td></tr>
<tr><td>Underlying EBITDA</td><td>313.1</td><td>122.2</td></tr>
</table>
</td></tr>
</table>

<table>
<tr><td>Underlying profit/(loss) before tax</td><td>Profit/(loss) before tax</td><td>Non-underlying items (note 4)</td><td>Profit before the impact of non-underlying items and tax.

As discussed above, the Group uses underlying profit measures to provide a useful and more comparable measure of the ongoing performance of the Group. These are adjusted from statutory measures to remove non-underlying items, the nature of which are disclosed above.</td></tr>
<tr><td>Underlying profit/(loss) after tax</td><td>Profit/(loss) after tax</td><td>Non-underlying items (note 4)</td><td>Profit after tax attributable to owners of the parent and before the impact of non-underlying items.

As discussed above, the Group uses underlying profit measures to provide a useful and more comparable measure of the ongoing performance of the Group. These are adjusted from statutory measures to remove non-underlying items as well as non-underlying tax and the tax effects of non-underlying items, the nature of which are disclosed above.</td></tr>
<tr><td>Underlying Income Statement tax rate</td><td>Effective tax rate</td><td>Non-underlying items, non-underlying tax and the tax impact of non-underlying items (note 4)</td><td>The income tax charge for the Group excluding non-underlying tax and the tax impact of non-underlying items divided by underlying profit before tax.

This measure is a useful indicator of the ongoing tax rate for the Group.

<table>
<tr><th>Underlying Income Statement tax rate</th><th>2017 £m</th><th>2016 £m</th></tr>
<tr><td>Tax credit per Income Statement</td><td>3.7</td><td>30.3</td></tr>
<tr><td>Non-underlying tax</td><td>(26.4)</td><td>(10.4)</td></tr>
<tr><td>Tax impact of non-underlying items</td><td>(44.1)</td><td>(45.9)</td></tr>
<tr><td>Underlying tax charge</td><td>(66.8)</td><td>(26.0)</td></tr>
<tr><td>Underlying profit before tax</td><td>257.7</td><td>96.4</td></tr>
<tr><td>Underlying Income Statement tax rate</td><td>25.9%</td><td>27.0%</td></tr>
</table></td></tr>
<tr><td>Underlying diluted earnings per share</td><td>Diluted earnings per share</td><td>Non-underlying items (note 4)</td><td>Profit after tax attributable to owners of the parent and before the impact of non-underlying items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.

The Board considers this to be a key measure of performance.</td></tr>
<tr><td>Proforma underlying diluted earnings per share and proforma underlying diluted earnings per share growth</td><td>Diluted earnings per share</td><td>Full year impact of acquisitions, non-underlying items (note 4) and translational currency impacts</td><td>Underlying diluted earnings per share adjusted to include the full year impact of businesses acquired and, for growth purposes, translational currency impacts.

This measure uses the proforma underlying operating profit, described above, and to aid comparability, this measure also makes allowance for the same net finance costs, effective tax rate and number of shares in both periods to aid comparability.

<table>
<tr><th>Proforma underlying diluted earnings per share</th><th>2017 £m</th><th>2017 constant currency £m</th><th>2016 £m</th></tr>
<tr><td>Proforma underlying operating profit</td><td>278.4</td><td>263.3</td><td>188.0</td></tr>
<tr><td>Finance costs (proforma)</td><td>(20.7)</td><td>(20.7)</td><td>(20.7)</td></tr>
<tr><td>Tax (proforma)</td><td>(66.8)</td><td>(62.8)</td><td>(43.3)</td></tr>
<tr><td>Underlying proforma profit after tax</td><td>190.9</td><td>179.8</td><td>124.0</td></tr>
<tr><td>Number of shares (million)</td><td>1,941.2</td><td>1,941.2</td><td>1,941.2</td></tr>
<tr><td>Proforma underlying diluted earnings per share</td><td>9.8p</td><td>9.3p</td><td>6.4p</td></tr>
</table>
Proforma underlying diluted earnings per share growth at constant currency is 45%.</td></tr>
<tr><td>Interest cover</td><td>None</td><td>Not applicable</td><td>Underlying EBITDA as a multiple of net interest payable on bank loans and overdrafts.

This measure is used for bank covenant testing.</td></tr>
<tr><td colspan="4">Balance Sheet Measures</td></tr>
<tr><td>Net debt</td><td>Cash and cash equivalents less interest-bearing</td><td>Reconciliation of net debt (note 11)</td><td>Net debt comprises total borrowings (interest-bearing loans and finance leases) and cash and cash equivalents.</td></tr>
</table>

	loans and borrowings		Net debt is one measure that could be used to indicate the strength of the Group's Balance Sheet position and is a useful measure of the indebtedness of the Group.
Net debt at average exchange rates	Cash and cash equivalents less interest-bearing loans and borrowings	Translational currency impacts	Net debt (as above) is presented in the Balance Sheet translated at year end exchange rates. For bank covenant testing purposes net debt is converted using average exchange rates for the year.

Net debt	**31 Dec 17 £m**	31 Dec 16 £m
As reported	**571.8**	541.5
Impact of foreign exchange	**22.8**	(51.1)
At average exchange rates	**594.6**	490.4

Leverage or net debt to underlying EBITDA	None	Not applicable	Net debt at average exchange rates divided by underlying EBITDA for existing businesses at each year end. This measure is used for bank covenant testing.
Working capital	Inventories, trade and other receivables less trade and other payables	Not applicable	Working capital comprises inventories, current and non-current trade and other receivables, and current and non-current trade and other payables.
Cash Flow Measures			
Underlying operating cash flow (pre capex)	Net cash from operating activities	Non-working capital items	Underlying operating cash flow (pre capex) is calculated as underlying EBITDA adjusted for movements in working capital. This measure provides additional useful information in respect of cash generation and is consistent with how business performance is measured internally.

Underlying operating cash flow	**2017 £m**	2016 £m
Underlying EBITDA	**313.1**	122.2
(Increase)/decrease in inventory	**(8.1)**	15.0
Decrease in receivables	**8.1**	22.5
Decrease in payables	**(16.1)**	(9.3)
Underlying operating cash flow	**297.0**	150.4

Underlying profit conversion to cash (pre capex) percentage	None	Not applicable	Underlying operating cash flow (pre capex) as a percentage of underlying EBITDA, being 95% in 2017 and 123% in 2016. This is a key performance measure that is used by the Board to measure performance.
Other Measures			
Capital expenditure (capex)	Additions to non-current assets	Refer to definition	Calculated as the purchase of property, plant and equipment and computer software, and expenditure on capitalised development costs during the year, excluding any assets acquired as part of a business combination.
Capital expenditure to depreciation ratio	None	Not applicable	Capital expenditure divided by depreciation of property, plant and equipment and amortisation of computer software and development costs.
Dividend per share	None	Not applicable	Amount payable by way of dividends in terms of pence per share.

(1) Operating profit/(loss) is not defined within IFRS but is a widely accepted profit measure being profit/(loss) before finance costs, finance income and tax.

(2) Operating margin is not defined within IFRS but is a widely accepted profit measure being derived from operating profit/(loss)(1) divided by revenue.