

10 March 2010

## MELROSE PLC

### AUDITED RESULTS FOR YEAR ENDED 31 DECEMBER 2009

Melrose PLC today announces its audited results, which are reported under IFRS, for the year ended 31 December 2009.

#### Financial Highlights<sup>1</sup>

- Headline<sup>2</sup> 2009 Profit before Tax of £118.6 million (2008: £73.1 million<sup>3</sup>)
- Headline<sup>2</sup> 2009 Earnings Per Share of 16.6p (2008: 16.1p<sup>3</sup>)
- Basic Earnings Per Share after exceptional items and intangible asset amortisation of 11.0p (2008: 4.1p<sup>3</sup>)
- Profit before Tax of £82.0 million (2008: £23.5 million<sup>3</sup>)
- Headline<sup>2</sup> Operating Profit margins in the second half of 2009 of 13%
- Excellent cash generation, at constant exchange rates net working capital reduced by £148.3 million (over half) since FKI acquisition
- Net debt of £321.7 million (2008: £543.1 million) reduced by £221.4 million. Net debt is now 1.76 x EBITDA<sup>4</sup>
- Proposed second Interim Dividend of 4.8p per share (2008: Final Dividend of 4.25p) payable on 1 April 2010 to shareholders on the register on 19 March 2010 in lieu of the Final Dividend for this year. Together with the previous Interim Dividend of 2.9p (2008: 2.75p), this gives a full year dividend of 7.7p (2008: 7.0p) up 10.0%

Christopher Miller, Chairman of Melrose PLC, today said:

“Our first full year of ownership of FKI has exceeded our expectations, with margin improvements, debt reduction and cash generation being the highlights. In a very difficult year these results illustrate the quality of our businesses.

“Across the Group, sales in our early cycle businesses are now beginning to increase and in our later cycle businesses order books are reviving. For the moment it appears recovery which has been noticeable for several months in the East, may be on the way in the West.

“We continue to believe that market and economic conditions favour acquisitions over disposals at present and so we continue to look for the right opportunity. Fortunately, the strong growth potential of our existing businesses over the next few years gives us the ability to be patient.”

<sup>1</sup> continuing operations only unless otherwise stated

<sup>2</sup> before exceptional costs, exceptional income and intangible asset amortisation

<sup>3</sup> restated to include Logistex Europe (sold on 28 August 2009) within discontinued operations

<sup>4</sup> headline<sup>2</sup> operating profit before depreciation and amortisation

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 Melrose's seventh set of annual results since flotation in 2003.

### **RESULTS FOR THE GROUP**

These accounts report the results for the Group for the year to 31 December 2009 and comparatives for the previous year. FKI plc was acquired on 1 July 2008 and these accounts include its first full year contribution.

Revenue for the year was £1,298.5 million (2008: £895.3 million). Headline profit before tax (before exceptional costs, exceptional income and intangible asset amortisation) was £118.6 million (2008: £73.1 million) and headline basic earnings per share were 16.6p (2008:16.1p). Profit before tax was £82.0 million (2008: £23.5 million) and the basic earnings per share were 11.0p (2008: 4.1p).

Further explanation of these results is provided in the Finance Director's review.

### **FKI plc**

Our first full year of ownership of FKI has exceeded our expectations. The quality of its major businesses has been demonstrated in their resilience during the severe downturn in 2009. Changes in management and strategies as well as targeted capital expenditure have reaped early rewards. The geographic and sector spread of these businesses when added to their inherent strengths give us confidence that there is more to come over the next few years. At the same time continued focus by our management teams on permanent cash generation has produced excellent results.

2009 was an extraordinarily difficult year. The severe downturn which started in autumn 2008 was the starting point for substantial cost reductions in nearly all our businesses across the world. Our management teams are to be congratulated on their speed of reaction and the accuracy of their targeting. The result can be seen in improved Group profit margins even in the face of lower sales. Employees too must be thanked for their willingness to embrace sometimes painful change brought on by economic circumstances.

Operational cash generation, always a focus for Melrose, has again been exceptionally strong. At the Group level, after all items including exchange movements and disposals, net debt has been reduced by £221 million to £322 million, an extremely satisfying performance.

Capital expenditure, held back in 2009 in the face of the uncertain outlook, will rise again in 2010. It is also likely that the initial strong improvement in FKI's net working capital levels will now stabilise as an appropriate level is reached. These two factors will mean that 2010 is more normalised for cash generation although we still fully expect a strong performance at the operating level.

A more detailed review of Melrose's business and financial position is contained in the reviews of the Chief Executive and Finance Director on the following pages.

## **DIVIDENDS**

The Board intends to pay a second interim dividend of 4.8p per share (2008: final dividend of 4.25p) on 1 April 2010 to shareholders on the register on 19 March 2010 in lieu of a final dividend. This gives a total for the year of 7.7p (2008: 7.0p) an increase of 10% reflecting the Board's confidence in the future.

## **STRATEGY**

Melrose's strategy is by now well understood. We continue to look for businesses where our combination of increased management focus and strong but selective investment is likely to produce above average returns for investors. This strategy will include the sale of these businesses at the appropriate time, normally in a three to five year period, with proceeds being returned to shareholders in the most efficient way possible.

We continue to believe that market and economic conditions favour acquisitions over disposals at present and so we continue to look for the right opportunity. Fortunately, the strong growth potential of our existing businesses over the next few years gives us the ability to be patient and we will exercise our customary caution in our selection process.

## **OUTLOOK**

Across the Group, sales are now beginning to increase and order books are reviving. For the moment it appears recovery which has been noticeable for several months in the East, may be on the way in the West – although caution must be the watchword until this becomes established. Government debt reduction programmes which need to be carried out in many countries have not yet been implemented and it is very difficult to prejudge the timing and the effects of these.

In the meantime we are confident of the short and long term prospects of our businesses and satisfied that the actions we have taken in the downturn have left them very well placed for the incipient recovery.

Christopher Miller  
10 March 2010

## CHIEF EXECUTIVE'S REVIEW

Melrose owns a group of businesses with strong market positions serving different sectors and operating in different parts of the world, which has provided the Group with a considerable degree of protection from the economic downturn.

During the year there have been many positive operational achievements in the Group but the highlight has been the excellent cash generation. Although this was achieved partly on the back of lower capital expenditure in the year, it was largely as a result of profit and greatly reduced levels of working capital. Indeed, during the year 149% of headline operating profit was converted into cash, resulting in net debt at the year end of £321.7 million compared with £543.1 million at the beginning of the year. Net working capital of the Group was 8.8% of sales at 31 December 2009 compared with over 16% for the FKI group prior to its acquisition by Melrose. This has been achieved as a result of the consistent application of focused cash management disciplines throughout the year rather than by the use of temporary period end squeezes on working capital.

In addition, timely action by operating management to reduce costs in their businesses greatly limited the impact of the downturn in sales on profit. Since the downturn began, in excess of £80 million of payroll related costs on an annualised basis have been taken out of the businesses. It is estimated by management that approximately 70% of these costs are volume related and will therefore return as sales recover, with the remaining 30% being of a more permanent nature.

The Energy division as a whole had a very satisfactory year. Although sales in the year at Brush Turbogenerators were down on the previous year, profit was maintained. This was achieved by substantial operational efficiency gains at the three manufacturing plants, cost reductions and an increasing proportion of higher margin aftermarket sales. With signs of a gradual upturn in orders in this business going into the new year and with a lower and more efficient cost base, we are confident that 2010 will be a good year.

In the Lifting division although Bridon had a record profit year in 2009, Crosby had a difficult year. Bridon benefited from a very strong opening order book with a good mix of high margin offshore oil and gas sales. Although this line of business is projected to decline in 2010 it will be counterbalanced by higher levels of activity in other sectors such as the bridge and stadia business. On the back of the continuing improvements in operational efficiency Bridon is well positioned to grow strongly as the upturn in the global economy develops. Crosby suffered a significant decline in sales in 2009 on the back of the fall in the gas price in late 2008, yet still managed to achieve a return on sales in excess of 10%, reflecting the intrinsic quality of the business. On the back of a significantly lower cost base and with signs of the distributors restocking, 2010 should see an improvement in the trading result.

As another of Melrose's early cycle businesses, Dynacast was quick to feel the effect of the economic downturn and as a result sales were significantly lower in 2009 than in the previous year. However, actions to reduce costs limited the impact on profit. With positive signs of Dynacast's markets improving, there is confidence that 2010 will be a year of recovery.

## **OUTLOOK**

The fragile signs of global economic recovery that emerged in the second half of 2009 have continued to build and as we enter the new year there is undoubtedly a much improved feeling of confidence, albeit tinged with some caution.

In our early cycle businesses this upturn has already been reflected in higher sales, whilst in our later cycle businesses order books have been improving, which will translate into higher sales as appropriate. On the back of operational efficiency gains in our manufacturing plants and lower costs, this should feed through strongly into better performance.

Barring any unforeseen events, we are very positive about the potential of the Group for this year.

## ENERGY

<b>Year ended 31 December</b>	<b>2009</b>	<b>2008*</b>
<b>£m</b>		
<b>Revenue</b>	<b>418.3</b>	<b>229.4</b>
<b>Headline Operating Profit</b>	<b>61.0</b>	<b>30.9</b>

\* since acquisition on 1 July 2008

## GENERATORS

Brush Turbogenerators is the world's largest independent manufacturer of electricity generating equipment for industrial, marine, oil and gas and offshore applications. With three plants in the UK, Holland and the Czech Republic, it designs, manufactures and services generators ranging from 10 mW to 250 mW for both steam and gas turbine applications and supplies a globally diverse customer base.

Marelli Motori, based in Italy, is one of the world's leading manufacturers of industrial electrical motors and generators with a product portfolio ranging from 12 kW to 4.5 mW.

Harrington is a specialised UK based generator manufacturer servicing the rail, telecommunications, construction and military markets.

The global power generation market softened in 2009 as economic activity declined and Brush Turbogenerators' new build sales reduced by 14% over 2008. However, management's strategy to focus on the more profitable generator aftermarket whilst at the same time aggressively controlling operating costs proved highly successful.

Aftermarket sales increased by 20% in the period and at the year end represented 25% of the business. Since the year end Brush Turbogenerators has acquired Generator and Motor Services ("GMS"), a US \$10 million sales aftermarket business based in Pittsburgh, USA. With an installed base of over 1,300 Brush machines operating in the Americas, GMS will provide a good local platform from which to exploit the exciting market potential of this sector.

It is particularly pleasing to note the progress made in the year in the Czech operation, Brush SEM. This follows the capital expenditure programme initiated post acquisition to invest in new machinery to alleviate capacity bottlenecks and improve productivity. Added to the cost reduction programme in 2009 this has resulted in a significant improvement in operating margins in 2009.

A new management structure was put in place at Brush HMA, Brush Turbogenerators' business in Holland, during 2009. This again has resulted in a more focused business operating on a more efficient and lower cost base.

Whilst still early in the process, a focused sales strategy is now delivering results at Turbogenerators. When coupled with the decision to extend the product range into higher output machines, this expands the customer and geographic base of the business.

The result of all these changes since acquisition is a more efficient cost base which is better aligned with market opportunities and thus able to exploit the growth potential more profitably.

After a record year in 2008, Marelli recorded lower sales in 2009 reflecting weaker conditions in its market. Management were swift to act and reduced costs and headcount. Management continued to focus on increasing the sales of larger and more profitable generators and motors in the year. Capital investment was directed at developing new products with more specialised and higher power applications such as the new 800 frame alternator and electric motor in high voltage.

Harrington's sales fell by 30% in 2009 as a result of a very weak UK market. Management responded quickly to cut costs and accelerated the transition of the business to more specialised applications where the company has developed market leading expertise.

## **OUTLOOK**

Although demand in Brush Turbogenerators' market has been soft in 2009, the year ended with an order book of £225 million, representing well over 50% of its budgeted sales, and there are preliminary signs of a gradual upturn going into 2010. We are hopeful that any such increase in sales on the back of the lower and more efficient cost base of the business, together with the exciting opportunities in the aftermarket, will result in a good year.

## **HAWKER SIDDELEY SWITCHGEAR ("HSS")**

HSS produces a wide range of indoor and outdoor electrical distribution equipment, principally electrical switchgear, and sells into global markets.

HSS's results for the year ended 31 December 2009 were excellent. On slightly lower sales compared to the previous year profit more than doubled. In addition, tight control of working capital in the period resulted in good conversion of profit into cash. HSS continued to focus on business process improvements, further refining its supply chain and applying lean principles throughout the company.

Both the UK and Australian operations had healthy sales in the year. This was underpinned by robust demand in the power distribution market and growth in orders in the mass transit markets in the UK and overseas where the company secured business on a number of high profile infrastructure projects.

The China facility in Shanghai commenced component manufacture in the latter part of the year and is set to play a key role in progressing the company's strategy for South East Asia. This business is well positioned in what should be a growing market over the next few years.

## **OUTLOOK**

HSS entered 2010 with an order book equivalent to seven months' sales. This, together with the ongoing operational improvements in the business and promising developments in new markets, gives us confidence that HSS will have another good year in 2010.

## **BRUSH TRANSFORMERS**

Brush Transformers manufactures mid-range power transformers for the UK electrical utilities and the oil and gas sector, principally in the Middle East.

Brush Transformers reported a good set of results for the year ended 31 December 2009 with profit significantly higher than in 2008 on similar sales. In addition, excellent cash management during the year resulted in very strong profit conversion into cash.

The UK business in Loughborough succeeded in retaining its key utility contracts with UK DNOs going into the next five year Ofgem review period starting in 2010. Although Ofgem has indicated that the DNO spend on the network will be higher than in the previous five year period, it is expected that year one will be slow.

The increase in profitability of the Company during the year was largely as a result of a continuing focus on operational efficiency improvements.

The joint venture in Abu Dhabi (Brush Transformers holds 49%), which serves the local utilities and oil markets had good sales and profit growth in its second year of operation. The factory continues to receive formal supply approval from local customers which is most encouraging.

Approval was granted during the year for a £1 million project to establish a manufacturing operation in Beijing to supply the local mining industry. It is expected that the factory will be operational in early 2011.

## **OUTLOOK**

Although UK demand for power transformers is expected to dip in 2010 (for the reasons explained above), the requirements from the oil and utility sectors in the Middle East remain positive. With ten months' order book cover, Brush Transformers starts 2010 with a degree of confidence.

## LIFTING PRODUCTS

<b>Year ended 31 December</b>	<b>2009</b>	<b>2008*</b>
<b>£m</b>		
<b>Revenue</b>	<b>419.0</b>	<b>232.3</b>
<b>Headline Operating Profit</b>	<b>62.5</b>	<b>35.7</b>

\* since acquisition on 1 July 2008

## BRIDON

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

Bridon reported a record operating profit in 2009. Although sales in the year were marginally down in volume terms over the previous year, profit was significantly higher, resulting in an impressive return on sales for the year. Bridon did benefit, however, from favourable movements in exchange rates during the year as sales in US Dollars and Euros increased in Sterling terms.

Cash generation was very strong in the year with 137% of headline operating profit being turned into cash, although part of this reflects some advance payments received during the year in respect of contracts won in the structures business (mostly stadia and bridge projects).

A record opening order book combined with solid activity in offshore oil and gas and energy-related coal mining were major factors behind these results. Bridon also benefited from a significant increase in demand related to global infrastructure construction, securing contracts for a major new bridge project in Norway and several new stadia to be built in 2010.

Bridon's High-Performance Crane and Industrial business was hardest hit by the recession, suffering a significant decline in sales as commercial construction and industrial production slowed dramatically in the wake of the global financial crisis.

Product development efforts have been focused on seeking to meet customers' increasing specification requirements for demanding applications. In addition to a number of product enhancements, during the year Tiger DuraCore was introduced into the market. This is the next generation of shovel hoist ropes for use in surface mining, made with a combination of wire rope strands and polymer cores and outer covering which are capable of withstanding extreme operating conditions.

During the year an investment of approximately £3 million to increase Bridon's manufacturing capability for large multistrand ropes in its German factory was approved, along with significant upgrades in its North American ropery and UK based testing facilities. In addition work has continued to improve the factory in Hangzhou, China, to ensure Bridon quality standards and it is expected that sales will increase both domestically and for export. The programme to upgrade the wire mill in Doncaster is on schedule.

## **OUTLOOK**

While an improving global economy will help to stimulate modest growth in construction and industrial production, it is expected that market conditions in Bridon's High-Performance Crane and Industrial business will remain subdued in 2010, particularly in North America. However, Bridon should benefit from the various stadia and bridge contracts secured in 2009, and also expects to see improvements in its efforts to further penetrate developing markets such as China, Southeast Asia and Brazil.

Against the backdrop of a global economy that is struggling to find its feet, Bridon enters 2010 with cautious optimism. With oil prices back up to the US \$70-\$80 per barrel range, offshore and land-based oilfield activity is expected to increase gradually through the year. The firmer oil price is also expected to benefit Bridon's mining business, positively affecting activity levels in the Canadian Tar Sands as well as the overall demand for coal. As a result of Bridon's broad product range and global presence, the business is well positioned to take advantage of the improving conditions in both of these key market sectors.

## **CROSBY**

Crosby is a world leader in the manufacture and sale of fittings and blocks to the oil and gas, construction and mining sectors, primarily through a global network of specialist distributors.

As signalled in last year's Annual Report, Crosby has faced very difficult market conditions in 2009. Despite a drop in revenue of over 25% this business has still produced a double digit return on sales which is a testament to its quality.

With its greater exposure to the onshore gas markets – in contrast to Bridon – where projects tend to be smaller and customers have been more affected by the global credit squeeze, Crosby's sales responded sharply to the fall in the gas price in late 2008. As a result, early action was taken to cut costs, which has included a large reduction in headcount, the elimination of overtime, inventory reductions and continued emphasis on lean manufacturing at all manufacturing locations.

With a fall in demand from the OEM crane business, Crosby has witnessed a return to its long-term historical product mix of lifting fittings sold through its traditional distributor base. In recognition of this, management has redoubled its efforts to gain market share by working closer with its distributors focusing on more technical training, improving customer service support and building further on the relationships with these key customers.

In addition, during the year there was an increased emphasis on building on the strength of the Crosby name overseas through a focus on the growth opportunities in Europe, Asia Pacific (especially China) and Latin America. In 2009 crane block and sheave manufacturing centres were brought on line in Belgium and China. Establishing these two operations closer to their end markets greatly reduces lead times and will enable Crosby to better service its customers.

Crosby has built its business in Europe through a series of acquisitions of different companies over the years and these businesses have operated to a large degree independently of each other. During the year a restructuring of these operations was undertaken in order to rationalise and co-ordinate the manufacturing and sales functions, which has resulted in a considerably leaner and more efficient business.

## **OUTLOOK**

Although Crosby's markets remain difficult, demand has stabilised and there are signs of distributors restocking. Although it is too early to tell whether this is sustainable, being ultimately dependent on final customer demand, it is nevertheless a reassuring and necessary first step in any recovery.

Crosby is a first class business and with the steps taken to reduce costs and improve efficiency during the year it is very well positioned to recover strongly as the global recovery takes hold.

## DYNACAST

<b>Year ended 31 December</b>	<b>2009</b>	<b>2008</b>
<b>£m</b>		
<b>Revenue</b>	<b>208.7</b>	<b>246.3</b>
<b>Headline Operating Profit</b>	<b>21.3</b>	<b>33.4</b>

Dynacast is a global manufacturer of precision engineered, die-cast metal components and assemblies. The products are manufactured using proprietary die-casting technology and are supplied to a wide range of end markets, including automotive, healthcare, telecommunications, consumer electronics and computer hardware and peripherals.

Dynacast's results for 2009, in common with a lot of other engineering businesses, reflect a very tough year. Trading in the first half was particularly difficult, with underlying sales about a third below the comparable period in 2008. As reported in the Interim Statement, early and decisive cost cutting by management mitigated the impact of the fall in sales on profit. Trading conditions improved slowly in the second half of the year such that for the year as a whole the underlying fall in sales over 2008 reduced to 25%. It is notable, however, that despite this Dynacast has still produced operating margins of over 10% this year.

The profit in 2009 includes a foreign exchange gain on translation of just over £2 million, reflecting the general weakness of Sterling in the period and a significantly improved contribution from Fishercast, which was acquired in August 2008.

The price of zinc, Dynacast's primary raw material, rose steadily in 2009, mirroring its fall in 2008, though the average LME cost in 2009 fell to US \$1,658 compared to US \$1,869 in 2008. Average aluminium alloy prices also declined in 2009 and the combined effect of this accounts for approximately £10 million of the fall in revenue from 2008 to 2009. Dynacast benefits from the ability to pass on its metal costs, as a result of which these price movements have no significant impact on profit.

A very focused approach to the management of cash resulted in an excellent 181% conversion of profit into cash in 2009.

Sales in Europe after adjusting for metal prices and exchange rates were down over 30% in 2009 compared to 2008. Although decisive and radical steps were taken to reduce costs, the legal and social framework in Europe makes it more difficult to implement such programmes expeditiously. As a consequence, full implementation of the cost reduction actions was not completed until the end of May.

North America was the worst affected region with underlying revenue down approximately 40% in the period. Continued turmoil in the automotive sector, coupled with the global recession, hit this region very hard. Here cost reduction plans were implemented swiftly. Fishercast Canada produced very good results in 2009 with margins well ahead of expectations.

Underlying revenue in Asia fared better in 2009 falling approximately 15% compared with 2008. Growth in the sales of electronics components into the Chinese market were a factor in limiting the sales decline. Dynacast opened its new 4,500 square metre factory in Dongguan, South China in July and it is performing in line with plan. Management remain encouraged by the prospects in this region.

Dynacast continues to assess its manufacturing capacity against regional demand and growth prospects. The sales decline in North America has led to overcapacity in that market. Accordingly the decision was taken in late 2009 to close the Montreal die casting facility and transfer its production to other North American plants. This is budgeted to cost £6.8 million and will reduce operating costs while retaining sufficient capacity for future growth.

## **OUTLOOK**

The stabilisation in Dynacast's markets, noted at the time of the Interim Results, has progressed into a general improvement in demand. Although some of the costs taken out of the business will reverse on the back of increasing volumes, it is expected that some efficiency gains will be retained and that these will have a beneficial impact on profit as sales increase.

## OTHER INDUSTRIAL

<b>Year ended 31 December</b>	<b>2009</b>	<b>2008*</b>
<b>£m</b>		
<b>Revenue</b>	<b>252.5</b>	<b>187.3</b>
<b>Headline Operating Profit</b>	<b>20.6</b>	<b>13.4</b>

\* For FKI businesses since acquisition on 1 July 2008 and MPC for full calendar year and restated to show Logistex Europe as discontinued due to its sale

## TRUTH

Truth designs and manufactures operating hardware, hinges and locks for North American producers of windows, patio doors and skylights utilised in both the new construction and the repair and remodel residential markets. Most of Truth's products are manufactured in its plants in Minnesota, USA and Ontario, Canada.

Truth has staged an excellent recovery in the year ended 31 December 2009. As one of Melrose's early cycle businesses, sales, particularly into the repair and remodel market (in contrast to the new build sector), began to see a pick up in the second quarter of the year. Although revenue in the year was some 10% lower than in the previous year, profit more than doubled, reflecting the changes made by the new senior management appointed in June 2009.

New housing starts in the US, to which Truth's performance is broadly correlated, were more than 50% lower in 2009 than at their recent peak in 2005/2006. It is against this market background that the Truth performance in 2009 should be judged.

In addition, an aggressive and targeted sales and marketing campaign allied to new product introductions resulted in significant market share gains. This was assisted by a pick-up in Truth's Canadian new build market in the year.

A major strategic initiative was undertaken in the year to outsource the manufacturing of lower margin product to China. This will have the effect of freeing up valuable space in Truth's Minnesota plant to focus on the production of higher margin casement units, thereby reducing overtime spend and permitting a more evenly balanced manufacturing schedule over the year, taking account of the seasonality of Truth's sales. Management estimate that once fully implemented this outsourcing programme will add some 20% to Truth's capacity in this plant.

## OUTLOOK

Although there are signs of recovery in the Canadian, North-Eastern and South-Central US builders' markets, as a result of the continuation of the policy of shedding lower margin sales, it is not expected that Truth's top line will grow significantly in 2010. Nevertheless, the improvement in market sentiment together with the substantial operational efficiency gains and cost reductions give confidence for further profit improvement in 2010.

## **HARRIS**

Harris is a leader in scrap and waste reduction equipment design, engineering, manufacturing and servicing. It operates out of two plants in Georgia, USA, and has full service capability and serves the scrap metal and fibre recycling industries.

Harris performed well in 2009 considering the extraordinary global economic and financial conditions and the capital intensive nature of its business. Sales declined by nearly 30% in the year compared to 2008, but the impact on profit for the year was mitigated by a significant cost reduction programme resulting in a headcount decline of 36% in the year. As a result Harris achieved a creditable return on sales in the period of over 10%.

The weakness in the global economy and the shortage in the availability of credit reduced the prices of scrap metal and fibre in 2009 – key determinants in the activity levels in this industry. Recyclers reduced demand for capital equipment in the year resulting in a decline in Harris' order intake during the year of nearly 60%.

Harris continued its commitment to invest in design and engineering capability to provide highly engineered solutions for customised applications through its new product development group in 2009. Harris expects that up to one quarter of its orders for 2010 could be for newly-launched products.

Harris' continued push into the parts and services business has progressed well during the year with aftermarket sales representing about 30% of Harris' sales in 2009 compared to approximately 20% in 2008.

## **OUTLOOK**

A healthy increase in fourth quarter 2009 orders and a good start to the new year, together with positive trends in steel and scrap pricing, indicate that conditions in Harris' markets are showing signs of recovery. Harris is well positioned to meet the opportunities and challenges in 2010 – with the new products coming on stream, the increasing (higher margin) aftermarket sales and the lower, more efficient cost base give confidence of a satisfactory outcome.

## **BRUSH TRACTION (“TRACTION”)**

Traction specialises in the refurbishment and re-engineering of railway locomotives and components from its two sites at Loughborough and Kilmarnock.

Although the trading result was lower in 2009 than in the previous year, reflecting the scheduled ending of the major High Speed Train (“HST”) contract, it was nevertheless a satisfactory outcome.

During the year the major activities at Loughborough derived from a contract to overhaul Eurotunnel shuttle locomotives and smaller continuation contracts to repower other operators' HST power cars with the new MTU diesel engine and associated equipment. Kilmarnock completed a contract to refurbish catering vehicles for First Great Western together with other vehicle and overhaul work.

The rail vehicle industry is generally late cycle, particularly at the heavier end where contracts can take months, if not years, to be awarded and similar timescales to fulfil. Thus, apart from the wheel overhaul business at Kilmarnock, which was adversely affected in 2009, sales and output for the group were not seriously affected by the recession in 2009.

## **OUTLOOK**

As a result of this lagged effect, it is expected that 2010 will be a more difficult year for Traction, although with signs of economic recovery the wheelset overhaul business is showing signs of picking up in 2010. With continuing steps to reduce costs and improve operational efficiencies, we are hopeful of a satisfactory outturn in 2010.

## **MPC**

MPC manufactures engineered plastic injection moulded and extruded components and metal pressings for sectors including food and beverage packaging, automotive, construction and industrial.

Revenue and profit were significantly lower in the year ended 31 December 2009 due to the general economic downturn, which particularly affected the UK automotive and building markets. However, as signalled in the Interim Report, MPC recovered strongly in the second half of 2009 after trading near breakeven in the first half. Despite these poor trading conditions MPC delivered a resilient performance, reflecting the intrinsic quality of the business with its highly specialised engineering skills together with stringent cost control and efficiency measures.

Most importantly, throughout this year, major efforts were made to focus on MPC's core skills to maintain its proven levels of technical differentiation. During the year, this has proved highly successful with orders for the design, development and manufacture of new products for key customers such as Marks & Spencer, Makita, Jaguar Land Rover and Wavin. A number of these wins are linked to a move into a manufacturing niche using new materials and technologies building on MPC's core engineering skills.

## **OUTLOOK**

MPC currently enjoys its largest ever new business order book, the majority of which will go 'live' in 2011. The forecasts for 2010 reflect not only a modest recovery in general trading but a number of good margin new product introductions. As the economy begins to recover and competitors continue to struggle, MPC is well positioned to capitalise on market opportunities and benefit at the same time from weaker Sterling. We look forward with confidence to a successful 2010.

David Roper  
10 March 2010

## FINANCE DIRECTOR'S REVIEW

The year to 31 December 2009 was the first full year since the acquisition of FKI plc on 1 July 2008, which increased the size of the Melrose Group by approximately six times. Consequently the results shown for the year ended 31 December 2009 cannot easily be compared to the results for the year ended 31 December 2008 in a meaningful way.

In compliance with IFRS 5 the comparative results for the year to 31 December 2008 have been restated to include the Logistex Europe business, which was sold on 28 August 2009, within discontinued operations.

### Group trading results – continuing operations

The continuing operations at 31 December 2009 include four trading divisions, namely Energy, Lifting, Dynacast and Other Industrial.

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

For the year ended 31 December 2009 the Group achieved revenue from continuing operations of £1,298.5 million (2008: £895.3 million), headline operating profit of £149.7 million (2008: £96.6 million) and operating profit of £113.1 million (2008: £70.1 million). Headline profit before tax was £118.6 million (2008: £73.1 million) and profit before tax was £82.0 million (2008: £23.5 million).

The most comparable measure of performance year on year is headline earnings per share ("EPS"). In 2009 headline basic EPS was 16.6p (2008: 16.1p), representing a 3% increase on 2008. After exceptional costs, exceptional income and intangible asset amortisation, the EPS was 11.0p (2008: 4.1p).

### Trading results by division – continuing operations

A split of revenue and headline operating profit by division is as follows:

	2009 revenue £m	2009 headline operating profit/ (loss) £m	2009 return on revenue	2008 return on revenue <sup>1</sup>	2009 headline operating profit/ (loss) before depreciation and amortisation £m	2009 return on revenue	2008 return on revenue <sup>1</sup>
Energy	418.3	61.0	14.6%	13.5%	68.5	16.4%	15.1%
Lifting	419.0	62.5	14.9%	15.4%	71.7	17.1%	17.3%
Dynacast	208.7	21.3	10.2%	13.6%	30.1	14.4%	16.7%
Other Industrial	252.5	20.6	8.2%	7.2%	28.0	11.1%	9.3%
Central - corporate	-	(8.9)	N/A	N/A	(8.2)	N/A	N/A
Central - LTIPs <sup>2</sup>	-	(6.8)	N/A	N/A	(6.8)	N/A	N/A
<b>Group</b>	<b>1,298.5</b>	<b>149.7</b>	<b>11.5%</b>	<b>10.8%</b>	<b>183.3</b>	<b>14.1%</b>	<b>13.1%</b>

<sup>1</sup> Melrose ownership period only

<sup>2</sup> Long term incentive plans

The performance of each of these trading divisions is discussed in detail in the Chief Executive's review. It is pleasing to see that the Group's headline operating profit return on revenue percentage improved from 10.8% in 2008 to 11.5% in 2009. Indeed in the second half of 2009 it increased further to 13.0%. This was driven by strong performances in the Energy and Other Industrial divisions and a full year contribution from the higher margin Energy and Lifting divisions.

Central costs comprise £8.9 million (2008: £10.6 million) of Melrose PLC corporate costs and a Long Term Incentive Plan ("LTIP") charge of £6.8 million (2008: £6.2 million). The LTIP cost includes a charge for the Melrose PLC LTIP of £1.8 million (2008: £2.0 million) and a charge for the LTIP schemes for divisional management of £5.0 million (2008: £4.2 million). This latter amount in 2009 relates to a charge for cash-based incentive schemes to reward improvements in business performance over the period to 2014.

### **Discontinued operations**

All three businesses which were shown as 'held for sale' within discontinued operations in 2008 have been sold within 2009.

On 22 June 2009, Melrose sold Logistex North America to Intelligrated Inc for sales proceeds of £24.6 million less disposal costs of £1.3 million and a cumulative exchange movement recycled through the Income Statement of £6.4 million. Logistex North America had net assets of £22.0 million, resulting in a profit on disposal of £7.7 million.

The Welland business was sold on 10 June 2009 for net proceeds of £0.8 million and Rhombus was sold on 3 April for net proceeds of £1.5 million. A cumulative exchange movement of £1.4 million was recycled through the Income Statement. These two businesses had combined net assets of £5.5 million resulting in a loss of £0.3 million and £1.5 million respectively.

In addition to the businesses held for sale last year, the Logistex Europe business was also sold on 28 August 2009 to Beumer Group for sales proceeds of £26.1 million less disposal costs of £2.5 million and a cumulative exchange movement recycled through the Income Statement of £3.6 million. Logistex Europe had net assets of £23.4 million, giving a profit on disposal of £3.8 million.

A profit for the year from discontinued operations of £24.6 million (2008: loss of £61.2 million) has been included in the Income Statement consisting of the following items:

<b>Discontinued</b>	<b>£m</b>
Operating profit of discontinued businesses	15.2
Profit on disposal of businesses	9.7
Other	5.4
Tax on discontinued businesses	(5.7)
<b>Total</b>	<b>24.6</b>

## **Finance costs and income**

The headline net finance cost in 2009 was £31.1 million (2008: £23.5 million). Prior to the FKI acquisition on 1 July 2008 the Group was in a net cash in hand position and consequently for the first half of 2008 the Group had net finance income.

Net interest on external bank loans, overdrafts and cash balances was £20.3 million (2008: £18.3 million), which is protected from interest rate changes by a number of interest rates swaps which fix the interest rate on £366.5 million (US \$546.0 million and €33.3 million) of term debt. More detail on these swaps is given in the finance cost risk management section of this review. In 2009 the Group had a blended interest rate of 3.5%.

Also included in the net finance cost is a £2.1 million (2008: £1.4 million) amortisation charge for the initial costs of raising the £750 million term loan facility, a net interest cost on pension plans in excess of their expected return on assets of £6.6 million (2008: £1.8 million); unwinding of discounts on long term provisions of £1.6 million (2008: £0.8 million) and other finance costs of £0.5 million (2008: £1.2 million).

## **Earnings per share and the number of shares in issue**

In accordance with IAS 33, two basic earnings per share (EPS) numbers are disclosed on the face of the Income Statement, one for continuing operations which is 11.0p (2008: 4.1p) and one that also includes discontinued operations, which is 16.0p (2008: loss of 15.3p). In addition two fully diluted EPS calculations are shown which allow for the potential number of shares to be awarded using the current value of the Melrose PLC LTIP. This currently shows a 2% dilution on the continuing EPS.

Importantly, a headline basic EPS number is shown. The Melrose Board believe that this gives a better reflection of the performance in the year as it strips out the impact of exceptional costs, exceptional income and intangible asset amortisation. The headline EPS for the year to 31 December 2009 is 16.6p (2008: 16.1p) which represents a 3% increase.

As a consequence of the equity issue for the FKI acquisition on 1 July 2008 the number of shares in issue increased from 133.7 million to 497.6 million. Consequently the weighted average number of shares in 2008 was 315.6 million as the equity issue occurred half way through the year. In 2009 there were no further equity issues and so the weighted average was 497.6 million.

## **Exceptional costs and income**

Melrose has continued to undertake significant action to improve the operational and financial performance of the Group. To achieve this exceptional costs and exceptional income have been incurred and, along with intangible asset amortisation, these have been highlighted on the face of the Income Statement. Exceptional operating costs amounted to £23.9 million (2008: £12.9 million), exceptional income to £14.0 million (2008: £nil) and intangible asset amortisation to £26.7 million (2008: £13.6 million). Exceptional operating costs and income consist of the following items:

	<b>Total</b>
	<b>£m</b>
<b>Exceptional operating costs</b>	
Labour related one-off costs	(15.4)
Restructuring costs	(8.5)
<b>Total</b>	<b>(23.9)</b>
<b>Exceptional operating income</b>	
US retiree benefit plan closures	9.0
Release of fair value provisions	5.0
<b>Total</b>	<b>14.0</b>

The Group incurred £15.4 million of labour related one-off costs, relating primarily to headcount reductions, in response to the economic downturn. In addition, the Group incurred £8.5 million of costs relating to restructuring programmes which include plant closures and relocations.

During the year, certain US retiree benefit plans have been closed resulting in a release of an accrual for the future retirement benefit obligation for continuing operations of £9.0 million. In addition, due to management actions in 2009, £5.0 million of surplus provisions have been released to exceptional income so as not to distort headline results.

### Cash generation and management

Melrose has a strong track record of generating cash from its businesses. A key performance measure for Melrose is the percentage of profit conversion to cash. This represents the amount of cash (post working capital movement and capital expenditure) that is generated from headline operating profit. In the year to 31 December 2009 149% (2008: 166%) of headline operating profit has been converted to cash. This means that the long term Melrose headline operating profit conversion to cash from 2003 to 2009 is now 132%.

The cash generation has been achieved across all divisions as shown in the table below:

<b>£m</b>	<b>Energy</b>	<b>Lifting</b>	<b>Dynacast</b>	<b>Other Industrial</b>	<b>Central</b>	<b>Total continuing</b>	<b>Dis- continued</b>	<b>Total</b>
Headline operating profit/(loss)	61.0	62.5	21.3	20.6	(15.7)	149.7	15.2	164.9
Headline operating cash generation (post capex)	92.2	92.6	38.6	28.3	(11.1)	240.6	5.5	246.1
Headline profit conversion to cash (%)	151%	148%	181%	137%	(71%)	161%	36%	149%

This excellent cash generation has enabled Melrose to generate £154.5 million of cash from trading after all costs including tax in the year to 31 December 2009. Importantly, since the acquisition of FKI on 1 July 2008, £245.0 million of cash has been generated from trading after all costs including tax. In addition, £48.6 million of net cash has been generated from disposals and £56.7 million has been paid to shareholders. This has meant that, at constant exchange rates, net debt has reduced by £237.0 million, 51% since the acquisition of FKI on 1 July 2008.

	2009 Full year £m	Since FKI acquisition (1 July 2008) £m
<b>Movement in net debt</b>		
Opening net (debt)/cash	(543.1)	22.3
Acquired net debt	-	(471.7)
Net cash flow of acquisitions	-	(11.2)
Net cashflow from disposals	48.6	48.6
Cash flow from trading (after all costs including tax)	154.5	245.0
Amount paid to shareholders	(35.6)	(56.7)
Foreign exchange movement	56.0	(98.1)
Other non-cash movement	(2.1)	0.1
<b>Closing net debt</b>	<b>(321.7)</b>	<b>(321.7)</b>

The detail of the cash flow from trading and the net cash flow of acquisitions is shown below:

	2009 Full year £m	Since FKI acquisition (1 July 2008) £m
<b>Cash flow from trading (including discontinued operations)</b>		
Headline operating profit	164.9	243.7
Depreciation and computer software amortisation	36.0	55.0
Working capital movement	69.1	148.3
Net capital expenditure	(23.9)	(50.4)
Headline operating cash flow (post capex)	246.1	396.6
<b>Headline profit conversion to cash %</b>	<b>149%</b>	<b>163%</b>
Net interest and net tax paid	(12.9)	(54.0)
Pension contributions	(32.1)	(48.1)
Other (including restructuring costs)	(46.6)	(49.5)
<b>Cash inflow from trading</b>	<b>154.5</b>	<b>245.0</b>

Melrose had a Balance Sheet leverage of 1.76x net debt to headline operating profit before depreciation and amortisation at 31 December 2009. Due to excellent cash generation this represents a significant reduction in the leverage for the Group compared to the start of 2009 when the leverage was 2.65x.

## Capital expenditure

The pay back on capital projects is a key part of the Melrose strategy to improve operational performance. Inevitably during 2009 capital expenditure opportunities were reduced, due to the economic environment, and the Group spent 0.7x depreciation. By division, the capital expenditure in the year was as follows:

	Energy	Lifting	Dynacast	Other Industrial	Central	Total
Net capital expenditure £m	9.5	6.0	3.3	4.0	-	22.8
Depreciation £m	7.5	9.2	8.8	7.4	0.7	33.6
Net capital expenditure to depreciation ratio	1.3x	0.7x	0.4x	0.5x	-	0.7x
Melrose five year (2005-2009) average annual multiple						1.3x

The net capital spend to depreciation ratio is expected to increase in 2010. The five year Melrose average annual net capital spend is comfortably in excess of depreciation at 1.3x.

## Working capital management

The Melrose Board is focused on achieving the correct amount of working capital to allow each division to have the most suitable balance between commercial and financial efficiency. To ensure this happens, working capital days cover targets are set for each business unit for inventory, trade receivables and trade payables.

During Melrose's ownership of FKI the cash generated from working capital, at constant exchange rates, has been £148.3 million, which represents a 56% reduction in net working capital. A further measure of improvement is that the percentage of net working capital to sales for the Melrose Group has reduced to 8.8% at 31 December 2009 compared to over 16% for the FKI group prior to its acquisition. Importantly, these improvements to working capital have been achieved without an artificial squeeze to working capital at the financial period end.

## Tax

As expected, the headline Income Statement tax rate in 2009 was 30% (2008: 30%).

This is broadly in line with the Group's natural tax rate, based on the mix of 2009 contributions of profit by country and the standard statutory tax rate in those countries. The overall effect on the Group of higher rates in North America and certain European countries is offset by the benefit that continues to arise from lower tax rates in the Far East and other European countries.

The rate after exceptional items and intangible asset amortisation is 33% (2008: 43%), which is higher than the headline rate because certain exceptional costs are not expected to give rise to tax deductions.

The headline cash tax rate of 3% (2008: 22%) is particularly low due to benefits arising from the utilisation of prior year losses and other deferred tax assets. A £9.8 million refund was received in the US in respect of losses carried back against profits of earlier years. In the longer term, the headline cash tax rate is expected to trend toward the headline Income Statement tax rate as available losses and other deferred tax assets are used up.

The total amount of tax losses in the Group has decreased mainly as a result of utilisation against current year profits and to settle tax authority enquiries at no cash tax cost. Deferred tax has been recognised on losses and other tax assets only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The division between recognised and unrecognised losses is as follows:

<b>Tax losses</b>	<b>Recognised £m</b>	<b>Unrecognised £m</b>	<b>Total £m</b>
UK	13.6	209.3	222.9
North America	-	-	-
Rest of world	-	28.5	28.5
<b>Total 2009</b>	<b>13.6</b>	<b>237.8</b>	<b>251.4</b>
<b>Total 2008</b>	<b>53.5</b>	<b>339.0</b>	<b>392.5</b>

The Group's net deferred tax liability is £103.2 million (2008: £106.4 million). A £112.9 million (2008: £127.7 million) deferred tax liability is provided in respect of brand names and customer relationships acquired. This liability does not represent a future cash tax payment and will unwind as the brand names and customer relationships are amortised.

## Assets and liabilities

The summary Melrose Group assets and liabilities are shown below:

	31 December 2009 £m	31 December 2008 <sup>1</sup> £m
Fixed assets (including computer software)	254.3	293.9
Intangible assets	403.1	456.0
Goodwill	779.2	829.4
Net working capital	114.3	216.9
Retirement benefit obligations	(169.1)	(143.3)
Provisions	(144.2)	(158.9)
Deferred tax and current tax	(152.5)	(140.0)
Net assets held for sale	-	20.4
Other	(0.1)	(22.1)
<b>Total</b>	<b>1,085.0</b>	<b>1,352.3</b>

<sup>1</sup> Restated to reflect the finalisation of the acquisition accounting of FKI plc

These assets and liabilities are funded by:

	31 December 2009 £m	31 December 2008 £m
Net debt	(321.7)	(544.8) <sup>1</sup>
Equity	(763.3)	(807.5)
<b>Total</b>	<b>(1,085.0)</b>	<b>(1,352.3)</b>

<sup>1</sup> Excludes net cash in hand of £1.7m shown in net assets held for sale

## Goodwill, intangible assets and impairment review

The total value of goodwill as at 31 December 2009 is £779.2 million (2008: £829.4 million) and intangible assets £403.1 million (2008: £456.0 million). These items are split by division as follows:

	Energy £m	Lifting £m	Dynacast £m	Other Industrial £m	Total £m
Goodwill	245.1	292.6	203.5	38.0	779.2
Intangible assets	139.8	221.2	22.8	19.3	403.1
Net other assets	22.7	40.9	15.5	2.7	81.8
<b>Total carrying value</b>	<b>407.6</b>	<b>554.7</b>	<b>241.8</b>	<b>60.0</b>	<b>1,264.1</b>

The non-current assets have been tested for impairment as at 31 December 2009. The Melrose PLC Board is comfortable no impairment is required.

## Pensions

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

The current market value of the assets of the UK pension plans, namely the FKI and the McKechnie UK defined benefit plans (the 'UK Plans') are insufficient to satisfy the liabilities to members when they are valued on a basis consistent with IAS 19. The net accounting deficit on these plans was £129.2 million at 31 December 2009 (2008: £69.3 million). These plans had assets at 31 December 2009 of £671.6 million (2008: £610.7 million of which £14.1 million were unrecognised in accordance with IAS19 to stop the deficit being smaller than the amount of the committed payments), and liabilities of £800.8 million (2008: £665.9 million). The strategy to fund this deficit is discussed later in this section.

In addition, a US defined benefit plan for FKI exists. At 31 December 2009, this had assets of £174.4 million (2008: £182.9 million), liabilities of £191.4 million (2008: £210.9 million) and consequently a deficit of £17.0 million (2008: £28.0 million).

The assumptions used to calculate the IAS 19 deficit of the pension plans within the Melrose Group are considered carefully by the Board of Directors. For the FKI UK Plans a male aged 65 in 2009 is expected to live for a further 20.1 years. This is assumed to increase by 1.6 years (8%) for a male aged 65 in 2024. A summary of the key assumptions of the UK Plans are shown below:

	<b>2009 Assumption %</b>	<b>2008 Assumption %</b>
Discount rate	5.75	6.30
Inflation	3.45	2.75
Salary increases	3.95	3.25

It is noted that a 0.1 percentage point decrease in the discount rate would increase the pension liability on the main UK FKI defined benefit plan by £9.4 million and a 0.1 percentage points increase to inflation would increase the liability on this plan by £5.0 million. Furthermore, an increase by one year in the expected life of a 65 year old male member would increase the pension liability on this plan by £17.3 million, 2.8%.

The Melrose Group contributes £18.0 million to the FKI UK defined benefit plan and £6.1 million cash to the McKechnie UK defined benefit plan per annum. Both plans are being formally valued again based on the position as at 31 December 2008 and new cash contribution agreements will be signed in due course as a result.

The long term strategy for the UK Plans is to concentrate on the cash flows required to fund the liabilities as they fall due. These cash flows extend many years into the future and the ultimate objective is that the total pool of assets derived from future company contributions and the investment strategy allows each cash payment to members to be made when due. In addition, the strategy includes reducing the volatility of liabilities wherever commercially viable and ensuring that employees have a market competitive pension benefit and are treated fairly.

The McKechnie UK defined benefit plan is closed both to new members and current members' future service. The FKI UK defined benefit plan is closed to new members. During 2009 the FKI US defined benefit plan was closed to future service and post retirement benefits were terminated on the majority of the US retiree benefit plans. In total these latter two actions reduced liabilities by £21.9 million in 2009.

## **Risk management**

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

### **Liquidity risk management**

The Group's net debt position improved significantly during the year, ending 31 December 2009 at £321.7 million compared with £543.1 million a year earlier. This decrease in net debt resulted from strong operational cash generation, business disposals and favourable exchange rate translation of foreign currency denominated net debt.

The Group derives its debt from a £750 million syndicated term loan and revolving credit facility which matures in April 2013. The £500 million term loan component of this facility is subject to a 15% repayment amortisation that progressively takes place between April 2011 and April 2013, with allowance made for any repayments made before this period. The £250 million revolving credit component of the facility is not subject to any such repayments.

The £500 million term loan portion of this facility was converted into currency loans comprising US \$686.0 million, €58.3 million and £50.0 million. During 2009 the Group used disposal proceeds to repay US \$80.0 million of the US Dollar loans, leaving US \$606.0 million, €58.3 million and £50.0 million outstanding at 31 December 2009. Consequently using the exchange rates as at 31 December 2009 the facility is now equivalent to £475.7 million.

Undrawn facility headroom at 31 December 2009 was £224.9 million compared with £108.6 million a year earlier. The facility has two financial covenants: a net debt to headline EBITDA (headline operating profit before depreciation and amortisation) covenant and an interest cover covenant. The first covenant, which now calculates net debt at average exchange rates during the period, is set at 3.25x for December 2009 reducing by 0.25x each year until 2013. At these exchange rates the net debt to headline EBITDA at 31 December 2009 was 1.83x allowing significant headroom compared to the covenant test. The interest cover covenant remains at 3.5x throughout the life of the facility. At 31 December 2009 the actual interest cover was 6.1x which also affords comfortable headroom compared to the covenant test. Covenant tests are performed each June and December.

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

Cash, deposits and marketable securities amounted to £147.5 million at 31 December 2009 (2008: £167.7 million) and are offset against gross debt of £469.2 million (2008: £710.8 million) to arrive at the net debt position of £321.7 million (2008: £543.1 million). In combination with the undrawn committed facility headroom of £224.9 million (2008: £108.6 million), the Directors consider that the Group has sufficient access to liquidity for its current needs.

In accordance with the reporting requirements on going concern issued by the Financial Reporting Council the Directors acknowledge that the economic environment causes uncertainty as to the trading outcome for 2010. The Group has committed borrowing facilities until April 2013. In addition, the breadth of the end markets that the Melrose Group companies fall into, both by sector and geographically, gives some balance to various market and economic cycle risks. Furthermore, as a result of the excellent cash generation record, which has allowed net debt at constant exchange rates to halve in the last eighteen months, the financial headroom has significantly improved. The Group's forecasts take into account reasonable possible changes to trading performances. As a consequence the Directors believe that the Group can manage its business risks successfully and accordingly the Group financial statements have been prepared on a going concern basis.

#### Finance cost risk management

The Group maintained a net debt position throughout 2009. In early 2009 the Group sought protection from exposure to changes in interest rates by entering into a number of interest rate swaps to fix £366.5 million (US \$546.0 million and €33.3 million) of term debt. Under the terms of these swaps, the Group has fixed the underlying interest rate at 2.1% for US Dollars and 2.6% for the Euro through to early 2013. At 31 December 2009 this produced a blended interest rate of 3.5% on the £750 million facility, calculated after inclusion of the current 1.75% margin but before amortisation of arrangement fees and non-utilisation fees.

#### Exchange rate risk management

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

## Exchange rates used in the period

	Average rate	Closing rate
US Dollar		
2009	1.57	1.62
2008	1.74 <sup>1</sup>	1.46
Euro		
2009	1.12	1.13
2008	1.23 <sup>1</sup>	1.05

<sup>1</sup> Average rate for the six months post FKI acquisition (1 July 2008 to December 2008)

The effect on the key headline numbers in 2009 for the continuing Group due to the translation movement of exchange rates from 2008 to 2009 is shown below. The table illustrates the translation movement in revenue and headline operating profit if the 2008 average exchange rates had been used to calculate the 2009 results rather than the 2009 average exchange rate.

The translation difference in 2009	£m
Revenue decrease	74.1
Headline operating profit decrease	8.5

For reference, guidelines to show the net translation exchange risks that the Group currently carries and an indication of the unhedged transaction risk, are shown below:

Sensitivity of profit to translation and unhedged transaction exchange risk	Increase in headline operating profit
For every 10 cent strengthening of the US Dollar against Sterling	£4 million
For every 10 cent strengthening of the Euro against Sterling	£4 million

As the translation risk is not a cash cost, no exchange instruments are used to protect against this risk. However, when the Group has net debt, the hedge of having a multicurrency debt facility funding these foreign currency trading units protects against some of this risk.

The most significant exchange risk that the Group takes arises when a division that is predominantly based in a foreign currency is sold. The proceeds for those divisions will most likely be received in a foreign currency and therefore an exchange risk arises if these proceeds are converted back to Sterling, for instance to pay a dividend to shareholders. Protection against this risk is taken on a case-by-case basis.

## Commodity cost risk management

As Melrose owns engineering businesses across various sectors the cumulative expenditure on commodities is significant to the Group results. The Group addresses the risk of base commodity costs increasing by, wherever possible, passing on the cost increases to customers or by having suitable purchase agreements with its suppliers which sometimes fix the price over some months into the future. On occasions, Melrose does enter into financial instruments on commodities when this is considered to be the most efficient way of protecting against movements.

Geoffrey Martin  
10 March 2010

## CONSOLIDATED INCOME STATEMENT

		Year ended 31 December 2009 £m	Restated <sup>(2)</sup> year ended 31 December 2008 £m
<b>Continuing operations</b>			
Revenue	2	1,298.5	895.3
Cost of sales		(970.3)	(677.9)
Gross profit		<b>328.2</b>	217.4
Headline <sup>(1)</sup> operating expenses		(178.9)	(120.7)
Share of results of joint ventures		0.4	(0.1)
Intangible asset amortisation		(26.7)	(13.6)
Exceptional costs	3	(23.9)	(12.9)
Exceptional income	3	14.0	-
Total net operating expenses		(215.1)	(147.3)
Operating profit		<b>113.1</b>	70.1
Headline <sup>(1)</sup> operating profit	2	<b>149.7</b>	96.6
Headline <sup>(1)</sup> finance costs		(36.2)	(28.2)
Exceptional finance costs	3	-	(23.1)
Total finance costs		(36.2)	(51.3)
Finance income		5.1	4.7
Profit before tax		<b>82.0</b>	23.5
Headline <sup>(1)</sup> profit before tax		<b>118.6</b>	73.1
Headline <sup>(1)</sup> tax		(36.1)	(21.8)
Tax on exceptional items and intangible asset amortisation		8.8	11.7
Total tax	4	(27.3)	(10.1)
Profit for the year from continuing operations		<b>54.7</b>	13.4
Headline <sup>(1)</sup> profit for the year from continuing operations		<b>82.5</b>	51.3
<b>Discontinued operations</b>			
Profit/(loss) for the year from discontinued operations	5	<b>24.6</b>	(61.2)
<b>Profit/(loss) for the year</b>		<b>79.3</b>	(47.8)
<b>Attributable to:</b>			
Equity holders of the parent		<b>79.5</b>	(48.3)
Minority interests		(0.2)	0.5
		<b>79.3</b>	(47.8)
<b>Earnings per share</b>			
From continuing operations			
- Basic	6	<b>11.0p</b>	4.1p
- Fully diluted	6	<b>10.8p</b>	4.1p
- Headline <sup>(1)</sup> basic	6	<b>16.6p</b>	16.1p
- Headline <sup>(1)</sup> fully diluted	6	<b>16.3p</b>	16.1p
From continuing and discontinued operations			
- Basic	6	<b>16.0p</b>	(15.3p)
- Fully diluted	6	<b>15.6p</b>	(15.3p)

<sup>(1)</sup> Before exceptional costs, exceptional income and intangible asset amortisation.

<sup>(2)</sup> Restated to include the results of Logistex Europe within discontinued operations.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
<b>Profit/(loss) for the year</b>		<b>79.3</b>	(47.8)
Currency translation on net investments		<b>(32.8)</b>	123.0
Currency translation adjustments on minority interests		<b>(0.2)</b>	(1.5)
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	5	<b>(11.4)</b>	(8.9)
Gains/(losses) on cash flow hedges		<b>5.9</b>	(19.8)
Transfer to Income Statement on cash flow hedges		<b>11.8</b>	1.1
Actuarial loss on net pension liabilities	9	<b>(89.9)</b>	(8.2)
Limit on pension plan surplus	9	<b>14.1</b>	(14.1)
<b>Other comprehensive income before tax</b>		<b>(102.5)</b>	71.6
Tax relating to components of other comprehensive income	4	<b>13.0</b>	3.6
<b>Other comprehensive income after tax</b>		<b>(89.5)</b>	75.2
<b>Total comprehensive income for the year</b>		<b>(10.2)</b>	27.4
<b>Attributable to:</b>			
Equity holders of the parent		<b>(9.8)</b>	28.4
Minority interests		<b>(0.4)</b>	(1.0)
		<b>(10.2)</b>	27.4

<sup>(1)</sup> The Consolidated Statement of Comprehensive Income replaces the Consolidated Statement of Recognised Income and Expense. The year ended 31 December 2008 has been restated to include £0.7million of expense previously shown directly in equity.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
Net cash from operating activities from continuing operations	11	176.8	79.8
Net cash (used in)/from operating activities from discontinued operations	11	(2.0)	38.8
<b>Net cash from operating activities</b>		<b>174.8</b>	<b>118.6</b>
<b>Investing activities</b>			
Disposal of businesses	5	49.2	(1.5)
Net cash disposed	5	(0.6)	-
Purchase of property, plant and equipment		(22.9)	(30.3)
Proceeds on disposal of property, plant and equipment		1.0	0.6
Purchase of computer software		(0.9)	(0.5)
Dividends received from joint ventures		0.2	0.2
Dividends paid to minority interests		(0.2)	(0.5)
Interest received		3.8	4.2
Acquisition of subsidiaries		-	(257.0)
Cash acquired on acquisition of subsidiaries		-	85.3
Net cash from/(used in) investing activities from continuing operations		29.6	(199.5)
Net cash used in investing activities from discontinued operations	11	(1.3)	(3.8)
<b>Net cash from/(used in) investing activities</b>		<b>28.3</b>	<b>(203.3)</b>
<b>Financing activities</b>			
Net proceeds on issue of shares		-	279.5
Disposal of financial instruments		-	17.1
Net movement on borrowings		(185.8)	(19.4)
Costs of raising finance		-	(11.8)
Exceptional finance costs paid		-	(17.9)
Repayment of obligations under finance leases		(0.1)	(2.6)
Dividends paid		(35.6)	(19.4)
FKI dividend paid		-	(17.7)
Capital distribution		-	(7.4)
Net cash (used in)/from financing activities from continuing operations		(221.5)	200.4
Net cash used in financing activities from discontinued operations	11	-	(0.6)
<b>Net cash (used in)/from financing activities</b>		<b>(221.5)</b>	<b>199.8</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year	11	167.7	46.4
Effect of foreign exchange rate changes	11	(1.8)	6.2
<b>Cash and cash equivalents at end of year</b>	<b>11</b>	<b>147.5</b>	<b>167.7</b>
Cash classified as held for sale		-	(2.0)
<b>Cash and cash equivalents in continuing Group at end of year</b>		<b>147.5</b>	<b>165.7</b>

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

## CONSOLIDATED BALANCE SHEET

		31 December 2009 £m	Restated <sup>(1)</sup> 31 December 2008 £m	1 January 2008 £m
<b>Non-current assets</b>				
Goodwill and other intangible assets		1,184.3	1,287.4	207.4
Property, plant and equipment		252.3	291.9	60.7
Interests in joint ventures		0.3	0.1	-
Derivative financial assets	10	0.6	-	0.4
Deferred tax assets		22.1	29.8	3.1
		<b>1,459.6</b>	<b>1,609.2</b>	<b>271.6</b>
<b>Current assets</b>				
Inventories		222.6	327.9	29.7
Trade and other receivables		213.0	335.8	67.0
Derivative financial assets	10	2.0	3.1	-
Cash and cash equivalents		147.5	165.7	46.4
Assets held for sale		-	92.9	-
		<b>585.1</b>	<b>925.4</b>	<b>143.1</b>
<b>Total assets</b>	2	<b>2,044.7</b>	<b>2,534.6</b>	<b>414.7</b>
<b>Current liabilities</b>				
Trade and other payables		319.5	443.7	77.9
Interest-bearing loans and borrowings	8	1.3	0.7	8.1
Derivative financial liabilities	10	2.8	25.3	-
Current tax liabilities		49.3	33.6	7.8
Provisions		44.6	62.4	3.5
Liabilities held for sale <sup>(2)</sup>		-	72.5	-
		<b>417.5</b>	<b>638.2</b>	<b>97.3</b>
<b>Net current assets</b>		<b>167.6</b>	<b>287.2</b>	<b>45.8</b>
<b>Non-current liabilities</b>				
Trade and other payables		1.8	3.1	-
Interest-bearing loans and borrowings	8	467.9	709.8	13.1
Derivative financial liabilities	10	0.2	-	-
Deferred tax liabilities		125.3	136.2	8.1
Retirement benefit obligations	9	169.1	143.3	25.2
Provisions		99.6	96.5	3.5
		<b>863.9</b>	<b>1,088.9</b>	<b>49.9</b>
<b>Total liabilities</b>	2	<b>1,281.4</b>	<b>1,727.1</b>	<b>147.2</b>
<b>Net assets</b>		<b>763.3</b>	<b>807.5</b>	<b>267.5</b>
<b>Equity</b>				
Issued share capital		1.1	1.1	58.3
Share premium account		279.1	279.1	-
Merger reserve		285.1	285.1	37.0
Capital redemption reserve		220.1	220.1	154.6
Hedging and translation reserves		71.6	100.4	2.2
Retained earnings		(95.4)	(80.6)	14.2
<b>Equity attributable to holders of the parent</b>		<b>761.6</b>	<b>805.2</b>	<b>266.3</b>
Minority interests		1.7	2.3	1.2
<b>Total equity</b>		<b>763.3</b>	<b>807.5</b>	<b>267.5</b>

<sup>(1)</sup> Restated to reflect the finalisation of the acquisition accounting of FKI plc.

<sup>(2)</sup> Liabilities directly associated with assets classified as held for sale.

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

.....  
Geoffrey Martin - Group Finance Director

.....  
Simon Peckham - Chief Operating Officer

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<b>Reserves</b>	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to holders of the parent £m	Minority interests £m	Total equity £m
At 1 January 2008	58.3	-	37.0	154.6	2.2	14.2	266.3	1.2	267.5
(Loss)/profit for the year	-	-	-	-	-	(48.3)	(48.3)	0.5	(47.8)
Other comprehensive income	-	-	-	-	98.2	(21.5)	76.7	(1.5)	75.2
Total comprehensive income	-	-	-	-	98.2	(69.8)	28.4	(1.0)	27.4
Issue of 'offer and placement' Ordinary Shares	0.5	279.1	-	-	-	-	279.6	-	279.6
Acquisition of FKI	0.3	-	248.1	-	-	-	248.4	2.6	251.0
Preference C Shares redeemed	(58.0)	-	-	65.5	-	(7.4)	0.1	-	0.1
Dividend paid	-	-	-	-	-	(19.4)	(19.4)	(0.5)	(19.9)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	1.8	1.8	-	1.8
At 31 December 2008	1.1	279.1	285.1	220.1	100.4	(80.6)	805.2	2.3	807.5
Profit/(loss) for the year	-	-	-	-	-	79.5	79.5	(0.2)	79.3
Other comprehensive income	-	-	-	-	(28.8)	(60.5)	(89.3)	(0.2)	(89.5)
Total comprehensive income	-	-	-	-	(28.8)	19.0	(9.8)	(0.4)	(10.2)
Dividend paid	-	-	-	-	-	(35.6)	(35.6)	(0.2)	(35.8)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	1.8	1.8	-	1.8
<b>At 31 December 2009</b>	<b>1.1</b>	<b>279.1</b>	<b>285.1</b>	<b>220.1</b>	<b>71.6</b>	<b>(95.4)</b>	<b>761.6</b>	<b>1.7</b>	<b>763.3</b>

## NOTES TO THE ACCOUNTS

### 1. Corporate information

The financial information included within the preliminary announcement does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 31 December 2008, but is derived from those accounts. As a result of adopting IAS 1 (2007) "Presentation of financial statements", a third Balance Sheet at 1 January 2008 has been presented as described below. This is derived from the financial statements for the year ended 31 December 2007 and does not constitute statutory accounts. Statutory accounts for the year ended 31 December 2008 and 31 December 2007 have been delivered to the Registrar of Companies and those for 2009 will be delivered to the Registrar of Companies during April 2010. The auditors have reported on those accounts; 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 or equivalent proceeding legislation.

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 2010.

The Income Statement for the year ended 31 December 2008 has been restated to include the results of Logistex Europe within discontinued operations and the Balance Sheet as at 31 December 2008 has been restated to reflect the finalisation of the acquisition accounting of FKI plc.

The accounting policies followed are the same as those detailed within the 2008 Report and Accounts which are available on the Group's website [www.melroseplc.net](http://www.melroseplc.net).

During the current period, the Group adopted the following new and revised Standards and Interpretations which affected the amounts reported in this preliminary announcement.

#### **Amendments to IFRS 7: Financial instruments: disclosures**

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for those expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

#### **Revised IFRS 3 (2008): Business combinations (early adopted)**

The Company has early adopted IFRS 3 (2008). During the year, a £7.4 million deferred tax asset on retirement benefit obligations has been recognised in the Statement of Comprehensive Income which would previously have resulted in an adjustment to goodwill.

#### **Revised IAS 1 (2007): Presentation of financial statements**

IAS 1 (2007) introduced terminology changes and a number of changes to the format and content of the financial statements. In addition, the revised Standard has required the presentation of a third Balance Sheet at 1 January 2008 because the Group has restated comparative 31 December 2008 figures to reflect the finalisation of the acquisition accounting of FKI plc as shown in note 7. No restatement was required to the Balance Sheet as at 1 January 2008.

#### **IFRS 8: Operating segments**

IFRS 8 is a disclosure Standard that 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. This has not resulted in a change to the Group's reportable segments although certain geographical information is no longer required to be presented.

The Board of Directors approved the preliminary announcement on 10 March 2010.

### 2. Segment information

The Group has adopted IFRS 8: "Operating segments" with effect from 1 January 2009. IFRS 8 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. Therefore, the Group's reportable segments under IFRS 8 are as follows:

Energy  
Lifting  
Dynacast  
Other Industrial

The Energy segment incorporates the Turbogenerators, Marelli, Transformers and Switchgear business units, all specialist suppliers of energy industrial products to the global market. The Lifting segment consists primarily of the businesses of Bridon and Crosby, serving oil and gas production, mining, petrochemical, alternative energy and general construction markets. The Dynacast segment only includes the Dynacast business, which is a supplier of die-cast parts and components to a range of industries. Other Industrial incorporates all other operating businesses. Details of the significant companies included within the Other Industrial segment are set out in the Chief Executive's review.

## 2. Segment information (continued)

There are two central cost centres which are also separately reported to the Board:

Central – corporate  
Central – LTIPs<sup>(1)</sup>

<sup>(1)</sup> Long term incentive plans.

The Central corporate cost centre contains the Melrose Group head office costs whilst the Central LTIP cost centre contains the costs associated with the 2009 Melrose incentive scheme and the divisional management LTIP schemes that are in operation across the Group.

As a result of the disposal of Logistex Europe to the Beumer Group on 28 August 2009, the results of this business have been reclassified to be shown within discontinued operations.

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

The Group's geographical segments are determined by the location of the Group's assets and operations. Inter-segment sales are not material and have not been included in the analysis below.

The following tables present revenue and profit information and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2009 and the comparative period. Note 3 gives details of exceptional costs and income.

### Segment revenues and results

		Segment revenue from external customers	
		Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
	Note		
<b>Continuing operations</b>			
Energy		418.3	229.4
Lifting		419.0	232.3
Dynacast		208.7	246.3
Other Industrial		252.5	187.3
Total continuing operations		1,298.5	895.3
Discontinued operations	5	185.6	193.5
Total revenue		1,484.1	1,088.8

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

## 2. Segment information (continued)

	Notes	Segment result	
		Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
<b>Continuing operations</b>			
Energy		61.0	30.9
Lifting		62.5	35.7
Dynacast		21.3	33.4
Other Industrial		20.6	13.4
Central – corporate		(8.9)	(10.6)
Central – LTIPs <sup>(2)</sup>		(6.8)	(6.2)
Total headline <sup>(3)</sup> operating profit		149.7	96.6
Intangible asset amortisation		(26.7)	(13.6)
Exceptional costs	3	(23.9)	(12.9)
Exceptional income	3	14.0	-
Operating profit		113.1	70.1
Headline <sup>(3)</sup> finance costs		(36.2)	(28.2)
Exceptional finance costs	3	-	(23.1)
Finance income		5.1	4.7
Profit before tax		82.0	23.5
Tax	4	(27.3)	(10.1)
Profit/(loss) for the year from discontinued operations	5	24.6	(61.2)
Profit/(loss) for the year after tax and discontinued operations		79.3	(47.8)

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

<sup>(2)</sup> Long term incentive plans.

<sup>(3)</sup> As defined on the Income Statement.

	Total assets			Total liabilities		
	31 December 2009 £m	Restated <sup>(1)</sup> 31 December 2008 £m	1 January 2008 £m	31 December 2009 £m	Restated <sup>(1)</sup> 31 December 2008 £m	1 January 2008 £m
<b>Continuing operations</b>						
Energy	649.7	761.5	-	242.1	302.6	-
Lifting	730.2	838.0	-	175.5	206.7	-
Dynacast	329.1	349.1	322.9	87.3	83.4	80.7
Other Industrial	149.3	172.0	31.5	89.3	95.8	11.1
Central – corporate	186.4	255.8	27.9	679.5	889.0	42.2
Central – LTIPs <sup>(2)</sup>	-	-	-	7.7	4.7	1.5
Total continuing operations	2,044.7	2,376.4	382.3	1,281.4	1,582.2	135.5
Discontinued operations	-	158.2	32.4	-	144.9	11.7
Total	2,044.7	2,534.6	414.7	1,281.4	1,727.1	147.2

<sup>(1)</sup> Restated to reflect the finalisation of the acquisition accounting of FKI plc and to include the assets and liabilities of Logistex Europe within discontinued operations.

<sup>(2)</sup> Long term incentive plans.

	Capital expenditure		Depreciation and computer software amortisation	
	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
<b>Continuing operations</b>				
Energy	9.6	8.5	7.5	3.8
Lifting	6.3	5.0	9.2	4.5
Dynacast	3.7	8.0	8.8	7.7
Other Industrial	4.1	7.9	7.4	4.1
Central – corporate	0.1	0.9	0.7	0.4
Total continuing operations	23.8	30.3	33.6	20.5
Discontinued operations	1.3	4.0	2.4	4.2
Total	25.1	34.3	36.0	24.7

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

## 2. Segment information (continued)

### 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 revenue in the US is 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 and derivative financial assets) by geographical location are detailed below:

	Revenue from external customers <sup>(1)</sup>		Non-current assets	
	Year ended 31 December 2009 £m	Restated <sup>(2)</sup> year ended 31 December 2008 £m	Year ended 31 December 2009 £m	Restated <sup>(3)</sup> year ended 31 December 2008 £m
UK	473.8	274.4	377.8	389.2
US	343.3	235.0	531.9	622.0
Other	481.4	385.9	526.9	568.1
<b>Total</b>	<b>1,298.5</b>	<b>895.3</b>	<b>1,436.6</b>	<b>1,579.3</b>

<sup>(1)</sup> From continuing operations.

<sup>(2)</sup> Restated to include the results of Logistex Europe within discontinued operations.

<sup>(3)</sup> Restated to reflect the finalisation of the acquisition accounting of FKI plc.

### 3. Exceptional costs and income

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
<b>Exceptional costs</b>		
<b>Continuing operations</b>		
Labour related one-off costs	(15.4)	-
Restructuring costs	(8.5)	(4.9)
FKI head office closure	-	(8.0)
<b>Total exceptional costs</b>	<b>(23.9)</b>	<b>(12.9)</b>

During the year, the Group incurred £15.4 million of labour related one-off costs, relating primarily to headcount reductions, in response to the economic downturn. In addition, the Group incurred £8.5 million of costs relating to restructuring programmes which include plant closures and relocations.

During 2008, £4.9 million of restructuring costs relating to the acquisition and integration of the Fishercast businesses, the restructuring of investment assets held in the captive insurance company and the disposal of certain assets and liabilities held within the Lifting and Other Industrial segments were incurred.

Following the acquisition of FKI in 2008, the Company made the decision to close the FKI head office resulting in a cost of £8.0 million.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
<b>Exceptional income</b>		
<b>Continuing operations</b>		
US retiree benefit plan closures	9.0	-
Release of fair value provisions	5.0	-
<b>Total exceptional income</b>	<b>14.0</b>	<b>-</b>

During the year, certain US retiree benefit plans have been closed resulting in a release of the future retirement benefit obligations relating to continuing operations of £9.0 million.

### 3. Exceptional costs and income (continued)

A review of fair value provisions at the Balance Sheet date identified £5.0 million of liabilities in excess of the amount now deemed required.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
<b>Exceptional finance costs</b>		
<b>Continuing operations</b>		
Eurobond refinance	-	(9.0)
US private placements refinance	-	(8.9)
Exceptional unwind of discount on provisions	-	(5.2)
<b>Total exceptional finance costs</b>	-	(23.1)

On 1 July 2008, the Group assumed FKI plc's existing debt, which consisted of US Dollar denominated US Private Placements and bank debt plus a Euro denominated Eurobond. During 2008 both the US private placements and the Eurobond were redeemed and the existing bank debt was repaid and replaced.

Where material, provisions within the Group are discounted to net present value and the normal unwinding of the discount is shown within finance costs. During 2008, there was a significant reduction in international interest rates which was reflected by the Group in its discount rate and resulted in an additional exceptional discount charge of £5.2 million, reflecting the movement in interest rates.

### 4. Tax

	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
<b>Analysis of charge/(credit) in year:</b>						
Current tax	26.2	21.1	1.6	(0.2)	27.8	20.9
Deferred tax	1.1	(11.0)	4.1	(7.2)	5.2	(18.2)
<b>Total income tax charge/(credit)</b>	<b>27.3</b>	<b>10.1</b>	<b>5.7</b>	<b>(7.4)</b>	<b>33.0</b>	<b>2.7</b>
Tax charge on headline <sup>(2)</sup> operating profit after finance costs and income	36.1	21.8	2.2	0.2	38.3	22.0
Tax on net exceptional operating costs	(1.3)	(1.9)	3.5	(7.6)	2.2	(9.5)
Tax on exceptional finance costs	-	(5.9)	-	-	-	(5.9)
Tax in respect of intangible asset amortisation	(7.5)	(3.9)	-	-	(7.5)	(3.9)
<b>Total income tax charge/(credit)</b>	<b>27.3</b>	<b>10.1</b>	<b>5.7</b>	<b>(7.4)</b>	<b>33.0</b>	<b>2.7</b>

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

<sup>(2)</sup> As defined on the Income Statement.

Of the total tax charge for the year, £5.7 million (2008: credit of £7.4 million) related to trading in the discontinued divisions, which were disposed of during the year. No tax charge or credit arose on the profit (including the cumulative exchange movement recycled from equity) of £9.7 million on the disposal of the relevant subsidiaries.

#### 4. Tax (continued)

The tax for the current and prior year is higher than the average standard rate of corporation tax in the UK for the year of 28.0% (2008: 28.5%). The differences are explained in the following table:

	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
Profit/(loss) on ordinary activities before tax:		
Continuing operations	82.0	23.5
Discontinued operations (note 5)	20.6	(28.7)
	<b>102.6</b>	<b>(5.2)</b>
Tax on profit/(loss) on ordinary activities at UK corporate tax rate 28.0% (2008: 28.5%)	28.7	(1.5)
Tax effect of:		
Net permanent differences	2.0	(0.1)
Non deductible exceptional items	1.2	3.6
Adjustment in respect of foreign tax rates	1.4	(1.0)
Timing differences not previously recognised in deferred tax	(5.8)	2.6
Prior year tax adjustments	5.5	(0.9)
<b>Total tax charge for the year</b>	<b>33.0</b>	<b>2.7</b>

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

In addition to the amount charged to the Income Statement, a credit of £13.0 million (2008: £3.6 million) has been recognised directly in the Statement of Comprehensive Income. This represents a tax credit of £15.3 million (2008: £0.8 million) in respect of retirement benefit obligations and a tax charge of £2.3 million (2008: credit of £2.8 million) in respect of movements on cash flow hedges.

#### 5. Discontinued operations

During the year, the Group disposed of four trading operations acquired as part of the FKI acquisition. Three of these businesses were previously classified as held for sale and shown within discontinued businesses – Logistex US, Rhombus and Welland Forge. These businesses were disposed of in the first half of 2009 for a net gain, after the recycle of cumulative exchange differences, of £5.9 million. On 28 August 2009, the Group disposed of its interest in Logistex Europe for consideration, net of costs, of £23.6 million. Logistex Europe was previously presented within the 'Other Industrial' segment and is now reported within discontinued operations.

Details of net assets disposed of and disposal proceeds are as follows:

	Discontinued operations £m	Assets held for sale in previous year £m	Year ended 31 December 2009 £m
Intangible assets	0.1	0.1	0.2
Property, plant and equipment	10.9	26.9	37.8
Inventories	6.6	18.5	25.1
Trade and other receivables	55.4	31.9	87.3
Derivative financial assets	2.9	-	2.9
Cash and cash equivalents	7.9	4.6	12.5
Gross assets disposed of	83.8	82.0	165.8
Trade and other payables	(48.5)	(43.3)	(91.8)
Retirement benefit obligations	-	(1.8)	(1.8)
Tax	(0.3)	(0.2)	(0.5)
Interest-bearing loans and borrowings	(11.6)	(0.3)	(11.9)
Provisions	-	(8.9)	(8.9)
Gross liabilities disposed of	(60.4)	(54.5)	(114.9)
Net assets disposed of	23.4	27.5	50.9
Cumulative exchange translation difference recycled on disposals	3.6	7.8	11.4
Profit/(loss) on disposal	0.2	(1.9)	(1.7)
Consideration net of costs	23.6	25.6	49.2
Net borrowings/(cash) disposed of	3.7	(4.3)	(0.6)
<b>Cash inflow from current year disposals</b>	<b>27.3</b>	<b>21.3</b>	<b>48.6</b>

## 5. Discontinued operations (continued)

Financial performance of discontinued operations:

		Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
	Note		
Revenue		185.6	193.5
Operating costs before exceptional items		(170.4)	(197.8)
Headline <sup>(2)</sup> operating profit/(loss)		15.2	(4.3)
Intangible asset amortisation		-	(0.2)
Reported as exceptional items:			
Labour related one-off costs		(1.9)	-
US retiree benefit plan closures		7.7	-
Logistex US costs of sale		-	(1.5)
Hickory closure		-	(20.8)
Rhombus restructuring		-	(0.8)
Net finance costs		(0.4)	(1.1)
Profit/(loss) before tax		20.6	(28.7)
Tax (charge)/credit	4	(5.7)	7.4
Profit/(loss) after tax		14.9	(21.3)
Cumulative exchange difference recycled on disposals		11.4	8.9
Loss on disposal of net assets		(1.7)	(48.8)
<b>Profit/(loss) for the year from discontinued operations</b>		<b>24.6</b>	<b>(61.2)</b>

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

<sup>(2)</sup> As defined on the Income Statement.

The prior year comparative includes the Logistex US, Logistex Europe, Rhombus and Welland Forge businesses disposed of during 2009 and the MVC business disposed of during 2008.

## 6. Earnings per share

	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
<b>Earnings</b>		
Profit/(loss) for the purposes of basic earnings per share	79.5	(48.3)
Less (profit)/loss for the year from discontinued operations (note 5)	(24.6)	61.2
Earnings for basis of earnings per share from continuing operations	54.9	12.9
Exceptional costs – operating (note 3)	23.9	12.9
Exceptional income – operating (note 3)	(14.0)	-
Exceptional costs – finance (note 3)	-	23.1
Intangible asset amortisation	26.7	13.6
Tax on both exceptional items and intangible asset amortisation	(8.8)	(11.7)
<b>Earnings for basis of headline<sup>(2)</sup> earnings per share from continuing operations</b>	<b>82.7</b>	<b>50.8</b>

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

<sup>(2)</sup> As defined on the Income Statement.

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	497.6	315.6
Further shares for the purposes of fully diluted earnings per share (million)	10.4	-

	Year ended 31 December 2009 Pence	Restated <sup>(1)</sup> year ended 31 December 2008 Pence
<b>Earnings per share</b>		
<b>Basic earnings per share</b>		
From continuing and discontinued operations	16.0	(15.3)
From continuing operations	11.0	4.1
From discontinued operations	5.0	(19.4)
<b>Fully diluted earnings per share</b>		
From continuing and discontinued operations	15.6	(15.3)
From continuing operations	10.8	4.1
From discontinued operations	4.8	(19.4)
<b>Headline<sup>(2)</sup> basic earnings per share</b>		
From continuing operations	16.6	16.1
<b>Headline<sup>(2)</sup> fully diluted earnings per share</b>		
From continuing operations	16.3	16.1

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

<sup>(2)</sup> As defined on the Income Statement.

## 7. Acquisition of subsidiaries

On 1 July 2008, the Group acquired 100% of the issued share capital of FKI plc. During 2009, the Group finalised the acquisition accounting for items calculated on a provisional basis at 31 December 2008 and has recorded adjustments to the opening Balance Sheet of the FKI Group net assets acquired. These adjustments are primarily in relation to the reduction of fixed assets and inventory values and additional liabilities which increases goodwill by £7.9 million.

The following assets and liabilities were acquired:

	Acquiree's carrying amount £m	Original fair value adjustments £m	Original fair value £m	Subsequent adjustments £m	Revised fair value £m
<b>FKI</b>					
Property, plant and equipment	219.1	(21.9)	197.2	(5.0)	192.2
Intangible assets and computer software	74.3	302.7	377.0	-	377.0
Derivative financial assets	38.6	-	38.6	-	38.6
Associate investments	0.9	(0.5)	0.4	-	0.4
Inventories	181.1	56.8	237.9	(1.4)	236.5
Trade and other receivables	340.5	(57.5)	283.0	-	283.0
Cash and cash equivalents	85.3	-	85.3	-	85.3
Trade and other payables	(310.6)	(32.1)	(342.7)	4.4	(338.3)
Provisions	(25.8)	(104.6)	(130.4)	(5.9)	(136.3)
Deferred tax	(22.4)	(86.4)	(108.8)	-	(108.8)
Retirement benefit obligations	(20.6)	(75.1)	(95.7)	-	(95.7)
Current tax liabilities	(33.0)	19.1	(13.9)	-	(13.9)
Interest-bearing loans and borrowings	(597.2)	8.4	(588.8)	-	(588.8)
Assets held for sale	92.6	(44.5)	48.1	-	48.1
	22.8	(35.6)	(12.8)	(7.9)	(20.7)
Goodwill			511.5	7.9	519.4
Total consideration (including directly attributable acquisition costs of £13.6 million)					498.7
Satisfied by:					
Shares issued					248.4
Cash consideration (including directly attributable acquisition costs of £13.6 million)					250.3
<b>Total</b>					498.7

On 22 August 2008, the Group acquired the trade and assets of Fishercast Global operating in Canada and the UK. There have been no adjustments to the opening Balance Sheet in the current year.

## 8. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. Details of the Group's exposure to credit, interest rate, foreign currency and liquidity risk are included in note 10.

	Current			Non-current			Total		
	31 December 2009 £m	31 December 2008 £m	1 January 2008 £m	31 December 2009 £m	31 December 2008 £m	1 January 2008 £m	31 December 2009 £m	31 December 2008 £m	1 January 2008 £m
<b>Fixed rate obligations</b>									
Euro loan (Austria) <sup>(1)</sup>	0.3	0.6	0.5	0.5	0.9	1.3	0.8	1.5	1.8
Redeemable Preference C shares <sup>(2)</sup>	-	-	7.2	-	-	-	-	-	7.2
	<b>0.3</b>	<b>0.6</b>	<b>7.7</b>	<b>0.5</b>	<b>0.9</b>	<b>1.3</b>	<b>0.8</b>	<b>1.5</b>	<b>9.0</b>
<b>Floating rate obligations</b>									
Bank borrowings - US Dollar loan <sup>(3)</sup>	-	-	-	374.1	469.8	-	374.1	469.8	-
Bank borrowings - Euro loan <sup>(4)</sup>	-	-	-	51.6	198.4	-	51.6	198.4	-
Bank borrowings - Sterling loan <sup>(5)</sup>	-	-	-	50.0	50.0	-	50.0	50.0	-
Bank borrowings - Sterling loan <sup>(6)</sup>	-	-	-	-	-	11.0	-	-	11.0
Finance leases	1.0	0.1	0.4	-	1.1	0.8	1.0	1.2	1.2
	<b>1.0</b>	<b>0.1</b>	<b>0.4</b>	<b>475.7</b>	<b>719.3</b>	<b>11.8</b>	<b>476.7</b>	<b>719.4</b>	<b>12.2</b>
Unamortised finance costs	-	-	-	(8.3)	(10.4)	-	(8.3)	(10.4)	-
Total interest bearing loans and borrowings	<b>1.3</b>	<b>0.7</b>	<b>8.1</b>	<b>467.9</b>	<b>709.8</b>	<b>13.1</b>	<b>469.2</b>	<b>710.5</b>	<b>21.2</b>

<sup>(1)</sup> Interest rate 1.5%, final maturity July 2011.

<sup>(2)</sup> Matured June 2008.

<sup>(3)</sup> Interest rate LIBOR +1.75%, final maturity April 2013.

<sup>(4)</sup> Interest rate EURIBOR +1.75%, final maturity April 2013.

<sup>(5)</sup> Interest rate LIBOR +1.75%, final maturity April 2013.

<sup>(6)</sup> Repaid July 2008.

The Group arranged a £750 million multi-currency committed bank facility on the acquisition of FKI plc. This provides term loan and revolving facilities through to 22 April 2013. A number of Group companies act as guarantors to this facility. Drawdowns bear interest at interbank rates of interest plus a margin determined by reference to the Group's performance under its debt cover covenant ratio and ranges between 1.25% and 2.35%. The margin as at 31 December 2009 was 1.75%.

Throughout the year, the Group remained compliant with all covenants under these facilities. The term loan facility is fully drawn down having originally been set at £500 million. During the year the Group repaid and cancelled \$80.0 million of the term loan facility following the sale of the Logistex businesses. During 2009, all drawings under the £250 million revolving facility were repaid following strong operational cash generation in the Group, leaving only £25.1 million of this facility utilised for documentary credits. At 31 December 2009, the undrawn amount of the revolving facility was £224.9 million (31 December 2008: £108.6 million, 1 January 2008: £25.0 million).

The interest rate re-pricing profile of financial liabilities, after taking into account hedging interest rate derivatives, is described in note 10.

### Maturity of financial liabilities

The maturity profile of anticipated future cash flows including interest in relation to the Group's financial liabilities, on an undiscounted basis and which, therefore, differs from both the carrying value and fair value is shown in the table below. Interest on floating rate debt is based on a 1 month LIBOR curve for each currency, interest on hedging interest rate swaps is based on the relevant forward LIBOR curve.

Finance lease liabilities are secured by the assets leased, are Euro denominated and are a mix of floating and fixed interest rate debt with remaining repayment periods not exceeding 1 year.

## 8. Interest-bearing loans and borrowings (continued)

	Bank loans £m	Finance lease obligations £m	Redeemable Preference C Shares £m	Total interest- bearing loans and borrowings £m	Other financial liabilities <sup>(1)</sup> £m	Derivative financial liabilities £m	Total financial liabilities £m
Within one year	14.9	1.0	-	15.9	319.5	2.8	338.2
In one to two years	20.1	-	-	20.1	1.8	0.1	22.0
In two to three years	53.3	-	-	53.3	-	-	53.3
After three years	456.4	-	-	456.4	-	0.1	456.5
Effect of financing rates	(76.5)	-	-	(76.5)	-	-	(76.5)
<b>31 December 2009</b>	<b>468.2</b>	<b>1.0</b>	<b>-</b>	<b>469.2</b>	<b>321.3</b>	<b>3.0</b>	<b>793.5</b>
Within one year	19.1	0.1	-	19.2	443.7	25.3	488.2
In one to two years	33.5	1.1	-	34.6	3.1	-	37.7
In two to three years	33.4	-	-	33.4	-	-	33.4
After three years	776.2	-	-	776.2	-	-	776.2
Effect of financing rates	(152.9)	-	-	(152.9)	-	-	(152.9)
31 December 2008	709.3	1.2	-	710.5	446.8	25.3	1,182.6
Within one year	1.1	0.4	7.4	8.9	77.9	-	86.8
In one to two years	1.0	0.4	-	1.4	-	-	1.4
In two to three years	11.7	0.4	-	12.1	-	-	12.1
After three years	0.4	0.1	-	0.5	-	-	0.5
Effect of financing rates	(1.4)	(0.1)	(0.2)	(1.7)	-	-	(1.7)
1 January 2008	12.8	1.2	7.2	21.2	77.9	-	99.1

<sup>(1)</sup> Restated to reflect the finalisation of the acquisition accounting of FKI plc.

## 9. Retirement benefit obligations

Melrose holds several pension plans covering many of its employees and operating in several jurisdictions.

The most significant defined benefit plans for continuing operations are:

- The FKI UK Pension Plans which include the FKI UK Pension Plan, the Cleco Plan and the Bridon Group Senior Executive Plan. These are defined benefit in type and are funded plans where the future liabilities for members benefits are provided for by the accumulation of assets held externally to the Group in separate trustee administered funds.
- The McKechnie UK Pension Plan. This is defined benefit in type and is a funded plan (other than £3.3 million of unfunded liabilities) where the future liabilities for members benefits are provided for by the accumulation of assets held externally to the Group in separate trustee administered funds.
- The FKI US Pension Plan. This is defined benefit in type and is a funded plan where the future liabilities for members benefits are provided for by the accumulation of assets held externally to the Group in separate trustee administered funds.

Other plans include the Dynacast US defined plan and a number of funded and unfunded defined benefit arrangements across Europe.

The cost of these plans is determined in accordance with IAS 19 with the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the United Kingdom and annually in the United States.

The valuations are based on the preliminary UK full actuarial valuations as of 31 December 2008 updated at 31 December 2009 by independent actuaries and United States full actuarial valuations as of 1 January 2009 updated at 31 December 2009 by independent actuaries.

The Group also operates unfunded retiree medical and welfare benefit plans, principally in the United States. However, during the year, a number of these plans have been terminated.

In addition to this, there are a number of defined contribution plans across the Group. Contributions during the year were £15.1 million (2008: £11.7 million).

## 9. Retirement benefit obligations (continued)

The major weighted average assumptions used by the actuaries in calculating the Group's pension plan assets and liabilities are as set out below:

31 December 2009					
	FKI UK Plans % p.a.	McKechnie UK Plan % p.a.	FKI US Pension Plan % p.a.	US Retiree Benefit Plans % p.a.	Other plans % p.a.
Rate of increase in salaries	3.95	3.95	3.25	N/A	2.60
Rate of increase in pensions in payment	3.30	3.45	N/A	N/A	N/A
Discount rate	5.75	5.75	5.80	5.80	5.50
Inflation assumption	3.45	3.45	2.75	N/A	2.60

31 December 2008					
	FKI UK Plans % p.a.	McKechnie UK Plan % p.a.	FKI US Pension Plan % p.a.	US Retiree Benefit Plans % p.a.	Other plans % p.a.
Rate of increase in salaries	3.25	3.25	3.25	N/A	3.00
Rate of increase in pensions in payment	2.90	2.90	N/A	N/A	N/A
Discount rate	6.30	6.30	6.25	6.25	5.60
Inflation assumption	2.75	2.75	2.75	N/A	2.00

31 December 2007				
			McKechnie UK Plan % p.a.	Other plans % p.a.
Rate of increase in salaries			3.80	3.00
Rate of increase in pensions in payment			3.30	1.90
Discount rate			5.70	5.90
Inflation assumption			3.30	2.30

### Mortality

#### FKI UK Plan

Mortality assumptions for the most significant plan in the Group, the FKI UK plan, as at 31 December 2009 are based on 90% of the 'heavy' Self Administered Pension Plan (SAP's) tables, reflecting the plan membership being largely employed in the industrial sector. Future improvements are in line with 80% (60% for women) of the Long Cohort, subject to a minimum underpin of 1% p.a.

The assumptions are that a member currently aged 65 will live on average for a further 20.1 years if they are male and for a further 23.5 years if they are female. For a member who retires in 2024 at age 65, the assumptions are that they will live for a further 21.7 years after retirement if they are male and for a further 24.9 years after retirement if they are female.

The mortality assumptions are in line with those adopted for the draft triennial valuation results as at 31 December 2008.

#### Sensitivities

Sensitivities around movements in the principal assumptions of the discount rate, inflation rate and mortality are discussed in the Finance Director's review.

## 9. Retirement benefit obligations (continued)

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

	<b>31 December 2009</b>	31 December 2008	31 December 2007	31 December 2006	31 December 2005
	<b>£m</b>	£m	£m	£m	£m
Plan liabilities	<b>(1,033.5)</b>	(939.7)	(148.4)	(147.9)	(145.5)
Plan assets	<b>864.4</b>	810.5	123.2	92.5	85.0
Limit on pension plan surplus	-	(14.1)	-	-	-
<b>Net liabilities</b>	<b>(169.1)</b>	(143.3)	(25.2)	(55.4)	(60.5)

In the prior year, in accordance with IAS 19, the value of the assets held within the McKechnie UK Plan were limited by £14.1 million to show a deficit on the Plan equal to the remaining committed contributions. This limit is no longer required at 31 December 2009 because the net deficit on the Plan now exceeds the remaining committed contributions.

The five year history of experience adjustments is as follows:

	<b>31 December 2009</b>	31 December 2008	31 December 2007	31 December 2006	31 December 2005
	<b>£m</b>	£m	£m	£m	£m
Experience adjustments on plan liabilities	<b>(130.9)</b>	70.7	1.2	(0.5)	(5.5)
Experience adjustments on plan assets	<b>41.0</b>	(78.9)	2.3	1.7	7.7

The plan liabilities and assets at 31 December 2009 were split by plan as follows:

	FKI UK Plans £m	McKechnie UK Plan £m	FKI US Pension Plan £m	US Retiree Benefit Plans £m	Other plans £m	<b>Total £m</b>
Plan liabilities	(660.6)	(140.2)	(191.4)	(4.7)	(36.6)	<b>(1,033.5)</b>
Plan assets	543.5	128.1	174.4	-	18.4	<b>864.4</b>
<b>Net liabilities</b>	<b>(117.1)</b>	(12.1)	(17.0)	(4.7)	(18.2)	<b>(169.1)</b>

This amount is presented in the Balance Sheet:

	<b>31 December 2009</b>	31 December 2008	31 December 2007	31 December 2006	31 December 2005
	<b>£m</b>	£m	£m	£m	£m
Net liabilities					
- unfunded plans	<b>24.2</b>	45.2	4.1	10.9	8.7
- funded plans	<b>144.9</b>	84.0	21.1	44.5	51.8
Limit on pension plan surplus	-	14.1	-	-	-
<b>Net liabilities</b>	<b>169.1</b>	143.3	25.2	55.4	60.5

Expected returns and fair value of assets:

	Expected return		Fair value of assets	
	<b>31 December 2009</b>	31 December 2008	<b>31 December 2009</b>	31 December 2008
	%	%	<b>£m</b>	£m
Equity instruments	<b>8.5</b>	8.3	<b>312.1</b>	230.1
Debt instruments	<b>4.8</b>	5.3	<b>440.7</b>	473.5
Other assets	<b>6.1</b>	6.4	<b>111.6</b>	106.9
<b>Weighted average / total</b>	<b>6.3</b>	6.3	<b>864.4</b>	810.5

The expected return on plan assets at 31 December 2009 is based on market expectations at 1 January 2010 for returns on assets over the entire life of the obligation.

There is no self investment (other than in tracker funds) either in the Group's own financial instruments or property or other assets used by the Group.

## 9. Retirement benefit obligations (continued)

Amounts recognised in income in respect of these defined benefit plans are as follows:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
In arriving at operating profit (included within cost of sales, selling and distribution costs and administrative expenses):		
- current service cost	7.3	5.2
- effects of curtailments and settlements	(3.4)	-
Included within net finance costs:		
- interest cost	55.2	33.4
- expected return on assets	(48.6)	(31.6)
Included within exceptional income:		
- effects of curtailment and settlements	(9.0)	-
Included within profit from discontinued operations:		
- effects of curtailments and settlements	(11.1)	-

The actual return on plan assets was a gain of £89.6 million (2008: loss of £47.3 million).

The amount recognised in the Statement of Comprehensive Income is as follows:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Actuarial (losses)/gains on plan liabilities	(130.9)	70.7
Actuarial gains/(losses) on plan assets	41.0	(78.9)
	(89.9)	(8.2)
Limit on pension plan surplus	14.1	(14.1)
	(75.8)	(22.3)

The cumulative amount of actuarial gains and losses now recognised in the Statement of Comprehensive Income is a total loss of £91.2 million (2008: £15.4 million).

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

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
At beginning of year	939.7	148.4
Acquisition	-	781.7
Disposals	(1.8)	(2.4)
Current service cost	7.3	5.2
Interest cost	55.2	33.4
Actuarial loss/(gain)	130.9	(70.7)
Benefits paid	(48.3)	(25.7)
Plan curtailments	(23.5)	-
Currency (gain)/loss	(26.0)	69.8
At end of year	1,033.5	939.7

## 9. Retirement benefit obligations (continued)

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

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
At beginning of year	810.5	123.2
Acquisition	-	686.0
Disposals	-	(1.5)
Expected return on assets	48.6	31.6
Actuarial gains/(losses)	41.0	(78.9)
Contributions	32.1	20.0
Benefits paid	(48.3)	(25.7)
Currency (loss)/gain	(19.5)	55.8
At end of year	864.4	810.5

The Company has guaranteed a schedule of contributions of £6.1 million per annum with the Trustee of the McKechnie Pension Plan up until May 2010. In addition, the Company contributes £18.0 million per annum to the FKI UK Pension Plan.

## 10. Financial instruments and risk management

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their fair values at 31 December 2009, 31 December 2008 and 1 January 2008:

	Energy £m	Lifting £m	Dynacast £m	Other Industrial £m	Central £m	MVC £m	Total continuing £m	Assets held for sale £m	Total £m
<b>31 December 2009</b>									
<b>Financial assets</b>									
Cash and cash equivalents	-	-	-	-	147.5	-	147.5	-	147.5
Trade receivables	72.0	60.0	34.1	23.0	0.4	-	189.5	-	189.5
Derivative financial assets	0.6	0.4	0.5	-	1.1	-	2.6	-	2.6
<b>Financial liabilities</b>									
Bank loans	-	-	(0.8)	-	(467.4)	-	(468.2)	-	(468.2)
Finance lease obligations	-	(1.0)	-	-	-	-	(1.0)	-	(1.0)
Derivative financial liabilities	(1.4)	(1.1)	(0.2)	-	(0.3)	-	(3.0)	-	(3.0)
Other financial liabilities	(102.1)	(68.8)	(60.4)	(48.2)	(41.8)	-	(321.3)	-	(321.3)
<b>31 December 2008</b>									
<b>Financial assets</b>									
Cash and cash equivalents	-	-	-	-	165.7	-	165.7	2.0	167.7
Trade receivables	117.3	70.2	39.7	57.2	0.3	-	284.7	27.3	312.0
Derivative financial assets	0.5	0.4	0.1	2.1	-	-	3.1	-	3.1
<b>Financial liabilities</b>									
Bank loans	-	-	(1.8)	-	(707.5)	-	(709.3)	(0.3)	(709.6)
Finance lease obligations	-	(1.2)	-	-	-	-	(1.2)	-	(1.2)
Derivative financial liabilities	(11.3)	(8.0)	(1.8)	(4.2)	-	-	(25.3)	-	(25.3)
Other financial liabilities <sup>(1)</sup>	(150.3)	(83.9)	(57.6)	(124.8)	(30.2)	-	(446.8)	(48.9)	(495.7)
<b>1 January 2008</b>									
<b>Financial assets</b>									
Cash and cash equivalents	-	-	28.8	4.8	26.6	(13.8)	46.4	-	46.4
Trade receivables	-	-	42.8	8.3	0.1	9.7	60.9	-	60.9
Derivative financial assets	-	-	0.7	(0.4)	0.1	-	0.4	-	0.4
<b>Financial liabilities</b>									
Bank loans	-	-	(1.8)	-	(11.0)	-	(12.8)	-	(12.8)
Finance lease obligations	-	-	-	(0.1)	-	(1.1)	(1.2)	-	(1.2)
Redeemable Preference C Shares	-	-	-	-	(7.2)	-	(7.2)	-	(7.2)
Other financial liabilities	-	-	(56.2)	(10.7)	(2.4)	(8.6)	(77.9)	-	(77.9)

<sup>(1)</sup> Restated to reflect the finalisation of the acquisition accounting of FKI plc.

## 10. Financial instruments and risk management (continued)

### Credit risk

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

	Energy £m	Lifting £m	Dynacast £m	Other Industrial £m	Central £m	MVC £m	Total continuing £m	Assets held for sale £m	Total £m
<b>31 December 2009</b>									
<b>Financial assets</b>									
Cash and cash equivalents	-	-	-	-	147.5	-	147.5	-	147.5
Trade receivables	72.0	60.0	34.1	23.0	0.4	-	189.5	-	189.5
Derivative financial assets	0.6	0.4	0.5	-	1.1	-	2.6	-	2.6
<b>31 December 2008</b>									
<b>Financial assets</b>									
Cash and cash equivalents	-	-	-	-	165.7	-	165.7	2.0	167.7
Trade receivables	117.3	70.2	39.7	57.2	0.3	-	284.7	27.3	312.0
Derivative financial asset	0.5	0.4	0.1	2.1	-	-	3.1	-	3.1
<b>1 January 2008</b>									
<b>Financial assets</b>									
Cash and cash equivalents	-	-	28.8	4.8	26.6	(13.8)	46.4	-	46.4
Trade receivables	-	-	42.8	8.3	0.1	9.7	60.9	-	60.9
Derivative financial assets	-	-	0.7	(0.4)	0.1	-	0.4	-	0.4

The Group's principal financial assets are cash and short-term deposits, trade receivables and derivative financial assets which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

### Liquidity risk

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

## 10. Financial instruments and risk management (continued)

### Fair values

The Directors consider that the financial assets and liabilities have fair values not materially different to the carrying values.

### Foreign exchange contracts

As at 31 December 2009, the Group held foreign exchange forward contracts to mitigate expected exchange fluctuations on cash flows on sales to customers and purchases from suppliers. These instruments operate as cash flow hedges unless the amounts involved are small. The terms of the material currency pairs with total principals in excess of Sterling £1 million equivalent are as follows:

	31 December 2009 Selling currency Millions	31 December 2009 Average hedged rate	31 December 2008 Selling currency Millions	31 December 2008 Average hedged rate
Sell Australian Dollar/Buy Sterling	AUD 4.6	GBP/AUD 1.90	-	-
Sell Canadian Dollar/Buy US Dollar	CAD 5.7	USD/CAD 1.09	-	-
Sell Czech Koruna/Buy Euro	CZK 84.1	EUR/CZK 27.90	-	-
Sell Euro/Buy Czech Koruna	EUR 52.5	EUR/CZK 26.37	-	-
Sell Euro/Buy Sterling	EUR 34.0	GBP/EUR 1.13	EUR 14.5	GBP/EUR 1.36
Sell Norwegian Krone/Buy Sterling	NOK 15.9	GBP/NOK 9.57	NOK 22.2	GBP/NOK 10.45
Sell Polish Zloty/Buy Sterling	PLN 19.4	GBP/PLN 4.68	-	-
Sell Sterling/Buy Czech Koruna	GBP 19.6	GBP/CZK 29.71	GBP 20.2	GBP/CZK 28.45
Sell Sterling/Buy Euro	GBP 25.3	GBP/EUR 1.11	-	-
Sell Sterling /Buy US Dollar	GBP 24.1	GBP/USD 1.64	-	-
Sell US Dollar/Buy Euro	USD 6.2	USD/EUR 0.68	USD 5.7	USD/EUR 0.69
Sell US Dollar/Buy Sterling	USD 64.6	GBP/USD 1.64	USD 105.9	GBP/USD 1.84
Sell US Dollar/Buy Singapore Dollar	USD 11.4	USD/SGD 1.43	USD 35.8	USD/SGD 1.40
Sell US Dollar/Buy Canadian Dollar	USD 15.7	USD/CAD 1.08	USD 37.2	USD/CAD 1.14
Sell US Dollar/Buy Chinese Renminb	USD 6.1	USD/RMB 6.77	USD 4.3	USD/RMB 6.75
Sell US Dollar/Buy Korean Won	USD 2.0	USD/KRW 1,184.30	-	-
Sell Danish Krone/Buy Sterling	-	-	DKK 27.9	GBP/DKK 9.23
Sell Euro/Buy Danish Krone	-	-	EUR 54.2	EUR/DKK 7.48
Sell Hong Kong Dollar/Buy Danish Krone	-	-	HKD 42.2	EUR/HKD 1.53
Sell Norwegian Krone/Buy Danish Krone	-	-	NOK 49.7	DKK/NOK 1.10
Sell Sterling/ Buy Danish Krone	-	-	GBP 1.6	GBP/DKK 9.77
Sell UAE Dirham/Buy Sterling	-	-	AED 7.5	GBP/AED 6.65
Sell US Dollar/Buy Danish Krone	-	-	USD 35.1	USD/DKK 5.25
Sell US Dollar/Buy Malaysian Ringgit	-	-	USD 4.7	USD/MYR 3.32

The foreign exchange contracts all mature between January 2010 and November 2011.

The fair value of the contracts at 31 December 2009 was a net liability of £1.2 million (2008: £20.2 million).

As at 31 December 2009, the Group held a single copper swap contract that was designated as a cash flow hedge. This swap contract locks the Group into fixed copper prices to protect against fluctuations in the market price of copper. The terms of the contract are:

Commodity swaps	Commodity	Total quantity	Maturity	Pricing
Group pays	Copper	25 tonnes	28 February 2010	Fixed price of US Dollar 4,613 per tonne
Group receives	Copper	25 tonnes	28 February 2010	Average LME price for the month

The fair value of the contract at 31 December 2009 was £nil (2008: liability of £2.0 million).

### Hedge of net investments in foreign entities

Included in interest-bearing loans at 31 December 2009 were the following amounts which were designated as hedges of net investments in the Group's subsidiaries in Europe and the USA and were being used to reduce the exposure to foreign exchange risks.

## 10. Financial instruments and risk management (continued)

Borrowings in local currency:

	31 December 2009 £m	31 December 2008 £m
US Dollar	374.1	469.8
Euro	51.6	198.4

### Interest rate sensitivity analysis

A one percentage point rise in market interest rates for all currencies would decrease profit before tax by the following amounts assuming the net debt as at the Balance Sheet date was outstanding for the whole year:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Sterling	(0.1)	(0.5)
US Dollar	(0.3)	(4.3)
Euro	(0.2)	(1.9)
	(0.6)	(6.7)

### Interest rate risk management

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

In January 2009, the Group entered into a number of interest rate swaps to hedge \$546.0 million of US Dollar denominated bank debt into fixed rates of interest. Under the terms of these swaps the Group will pay an average rate of 2.1% p.a. plus a 2.0% margin annually in arrears and receive 3 month US Dollar LIBOR plus 2.0% quarterly in arrears. These swaps all mature in January 2013. These interest rate swaps were overlaid with a number of basis swaps in April 2009. Under the terms of these basis swaps the Group pays 3 month US Dollar LIBOR quarterly in arrears and receives 1 month US Dollar LIBOR plus 0.3% monthly in arrears.

In April 2009, the Group also took out an interest rate swap to hedge €33.3 million of Euro denominated debt into fixed rates of interest. The swap is structured in a similar way to the US Dollar interest rate swaps with the Group paying 2.6% plus a 2.0% margin annually in arrears and receiving 3 month EURIBOR plus 2.0% quarterly in arrears. This swap matures in April 2013.

A corresponding amount of debt drawn under the £750 million loan facility is matched with these swaps.

These interest rate swaps have been designated as cash flow hedges and were highly effective throughout 2009.

The fair value of the contracts at 31 December 2009 was a net asset of £0.8 million (2008: £nil).

### Foreign currency risk

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

### Foreign currency sensitivity analysis

Currency risks are defined by IFRS 7 as the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates.

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the increase/(decrease) in Group operating profit caused by a 10 cent strengthening of the US Dollar and Euro against Sterling and a 10% strengthening of the Czech Koruna against Sterling compared to the year end spot rate. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with a material impact are noted here:

	31 December 2009 £m	31 December 2008 £m
US Dollar	1.6	0.4
Euro	1.2	2.4
Czech Koruna	0.4	(0.6)

## 10. Financial instruments and risk management (continued)

The following table details the (decrease)/increase in Group equity caused by a 10 cent strengthening of the US dollar and Euro against Sterling and a 10% strengthening of the Czech Koruna against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with a material impact are noted here:

	<b>31 December 2009 £m</b>	31 December 2008 £m
US Dollar	<b>(0.4)</b>	(0.6)
Euro	<b>(0.5)</b>	(1.4)
Czech Koruna	<b>0.1</b>	0.4

### Fair value measurements recognised in the Balance Sheet

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

Commodity swaps are measured using quoted forward commodity prices.

Interest rate swap contracts are measured using yield curves derived from quoted interest rates. The fair value is shown below. Interest rate swaps are shown as non-current due to maturity dates in 2013. Basis swaps are shown as current due to having maturity dates in 2010.

	<b>31 December 2009 Current £m</b>	<b>31 December 2009 Non-current £m</b>	<b>31 December 2009 Total £m</b>	31 December 2008 Current £m	31 December 2008 Non-current £m	31 December 2008 Total £m
<b>Derivative financial assets</b>						
Foreign currency forward contracts	1.7	-	1.7	3.1	-	3.1
Interest rate swaps	0.3	0.6	0.9	-	-	-
	<b>2.0</b>	<b>0.6</b>	<b>2.6</b>	3.1	-	3.1
<b>Derivative financial liabilities</b>						
Foreign currency forward contracts	(2.8)	(0.1)	(2.9)	(23.3)	-	(23.3)
Commodity swaps	-	-	-	(2.0)	-	(2.0)
Interest rate swaps	-	(0.1)	(0.1)	-	-	-
	<b>(2.8)</b>	<b>(0.2)</b>	<b>(3.0)</b>	(25.3)	-	(25.3)

In accordance with IFRS 7 all of the above are Level 2 instruments defined by the degree to which the fair value is observable. These are the only financial assets and liabilities measured at fair value within the Group.

Level 2 fair value measurements are those derived from quoted prices (adjusted) in active markets for identical assets or liabilities.

## 11. Cash flow statement

	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
<b>Reconciliation of operating profit to cash generated by continuing operations</b>		
Headline <sup>(2)</sup> operating profit from continuing operations	149.7	96.6
Adjustments for:		
Depreciation of property, plant and equipment	32.7	20.0
Amortisation of computer software	0.9	0.5
Restructuring costs paid and decrease in other provisions	(33.4)	4.2
Operating cash flows before movements in working capital	149.9	121.3
Decrease/(increase) in inventories	79.8	(22.1)
Decrease in receivables	66.1	26.5
(Decrease)/increase in payables	(65.8)	24.9
Cash generated by operations	230.0	150.6
Tax paid	(3.4)	(16.1)
Interest paid	(13.4)	(32.6)
Defined benefit pension contributions paid	(32.0)	(19.8)
Incentive scheme payments	(4.4)	(2.3)
<b>Net cash from operating activities from continuing operations</b>	<b>176.8</b>	<b>79.8</b>

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

<sup>(2)</sup> As defined on the Income Statement.

	Year ended 31 December 2009 £m	Restated <sup>(1)</sup> year ended 31 December 2008 £m
<b>Cash flow from discontinued operations</b>		
Cash generated from discontinued operations	(2.0)	39.5
Tax received/(paid)	0.1	(0.1)
Interest paid	-	(0.4)
Defined benefit pension contributions paid	(0.1)	(0.2)
Net cash (used in)/from operating activities from discontinued operations	(2.0)	38.8
Investments in joint ventures	(0.2)	-
Interest received	-	0.2
Purchase of property, plant and equipment	(1.3)	(4.0)
Proceeds on disposal of property, plant and equipment	0.2	-
Net cash used in investing activities from discontinued operations	(1.3)	(3.8)
Repayments of obligations under finance leases	-	(0.6)
Net cash used in financing activities from discontinued operations	-	(0.6)

<sup>(1)</sup> Restated to include the results of Logistex Europe within discontinued operations.

### Net debt reconciliation

	At 31 December 2008 £m	Cash flow <sup>(1)</sup> £m	Foreign exchange difference £m	Disposals £m	Other non- cash movements £m	At 31 December 2009 £m
Cash	167.7	(67.6)	(1.8)	49.2	-	147.5
Debt due within one year	(0.5)	0.5	-	-	(0.3)	(0.3)
Debt due after one year	(709.1)	185.3	57.7	-	(1.8)	(467.9)
Leases	(1.2)	0.1	0.1	-	-	(1.0)
Net debt	(543.1)	118.3	56.0	49.2	(2.1)	(321.7)

<sup>(1)</sup> Includes £0.6 million of net cash disposed of.