

11 March 2009

## MELROSE PLC

### AUDITED RESULTS FOR YEAR ENDED 31 DECEMBER 2008

Melrose PLC today announces its audited results, which are reported under IFRS, for the year ended 31 December 2008.

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

- Acquisition of FKI plc on 1 July 2008 for a total consideration of £970.4 million (including debt)
- Headline<sup>2</sup> Earnings Per Share of 16.8p (2007: 9.9p)
- Headline<sup>2</sup> Profit before Tax of £75.4 million (2007: £28.1 million)
- £60 million of cash generation (after dividends) exceeding expectations
- Annualised 2008 EBITDA<sup>3</sup> was £241.0 million at year end closing exchange rates
- Profit before Tax of £25.8 million (2007: £24.0 million)
- Basic Earnings Per Share after exceptional items and intangible asset amortisation of 4.8p (2007: 8.7p)
- 2.25x net debt to annualised EBITDA<sup>3</sup> at year end exchange rates
- Net debt of £543.1 million after £153.0 million adverse foreign exchange movement
- Proposed Final Dividend of 4.25p per share (2007: 4.25p). Together with the interim dividend of 2.75p, this gives a full year dividend of 7.0p (2007: 6.75p) up 3.7%

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

<sup>2</sup> before exceptional costs, exceptional income and intangible asset amortisation other than computer software

<sup>3</sup> headline operating profit before depreciation and amortisation assuming acquisitions were held for the full year

Christopher Miller, Chairman of Melrose PLC, today said:

“The 2008 outturn has been better than expected. It is far too early to be sure where 2009 will end up but despite a general downturn we are far from discouraged. We are ahead of our plans and expect to see over £50 million of further cash generation in 2009 out of the FKI acquisition. Combined with the improvement plans we have, the translation effect of currency and at least £25 million of cost reduction programmes already in place this will cushion us from an almost inevitable reduction in the topline.

We have a mix of geographically diverse businesses with good market positions and with loyal customers in sectors such as power generation, oil & gas, and healthcare. Where we are exposed to more vulnerable sectors such as automotive and construction we have excellent management teams who are taking decisive action on cost reduction programmes, product innovation and geographic diversification.

Counter-intuitively perhaps, the current global downturn should be a great opportunity for Melrose. I believe our business model is very competitive in the current environment. And with the current economic crisis including the de-leveraging of the private equity sector there will be plenty of opportunities for us and our shareholders to consider down the track.”

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 sixth set of annual results since flotation in October 2003.

### **RESULTS FOR THE GROUP**

These accounts report the results for the Group for the year to 31 December 2008 and the relevant comparatives for the previous year. FKI plc was acquired on 1 July 2008 and its results have been included from that date.

Revenue for the year was £938.3 million (2007: £288.6 million). Headline profit before tax (before exceptional costs, exceptional income and intangible asset amortisation other than computer software) was £75.4 million (2007: £28.1 million).

Headline Earnings Per Share, which the Board considers to best represent the true underlying performance of the Group, increased 15% to 16.8p compared with Proforma Earnings Per Share of 14.6p (as defined in the Finance Director's Review) in 2007.

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

Much hard work and dedication, from our employees, has gone into producing these highly satisfactory results and on behalf of shareholders I would like to thank and congratulate them.

### **FKI plc**

On 1 July 2008 we completed the acquisition of FKI plc for a total consideration, including debt, of just under £1 billion. As I said at the time of our interim results last August, a substantial opportunity exists for improving the performance of FKI's businesses over the next few years, principally through an increased focus on profitability and much has already been achieved. We are confident that FKI will prove to be an excellent acquisition and produce significant value for shareholders within our original time frame of three to five years. We are ahead of our plans to improve profitability and generate cash.

These results demonstrate that 2008 was a good trading year for the group as a whole. However, it will be no surprise to learn that some of our businesses began to feel the effect of the global downturn in the final quarter of the year and this, of course, has continued into 2009. However, our managers have been quick to respond to this changed environment, where appropriate, by reducing manpower and other costs to align their businesses with current and expected order books. It is important to emphasise that not all of our businesses have been equally affected by the downturn and in many of our businesses order books remain at a good level.

Cash generation, which was an excellent £60.0 million (after dividends) in 2008, will remain a key priority in 2009. We will however continue to invest in those businesses with demonstrable growth prospects. It is important to maintain a balance between short term cost reduction and the need to be positioned for resumed growth when the upturn comes.

2008 was a very active year for Melrose and many actions were taken, particularly as regards FKI, to further strengthen our underlying performance. More information on these actions together with a detailed review of our businesses and financial position are contained in the reviews of the Chief Executive and Finance Director on the following pages.

## **DIVIDENDS**

The Board intends to propose a final dividend of 4.25p per share, the same level as last year. Together with the interim dividend of 2.75p per share paid on 14 November 2008 this gives a total for the year of 7.00p per share (2007: 6.75p per share), an increase of 3.7%. If approved, the dividend will be payable on 15 May 2009 to shareholders on the Register at 17 April 2009.

This total dividend would be covered 2.4 times by Headline Earnings Per Share. Your Board recognises the importance of dividends particularly during difficult economic times and regards the maintenance of the dividend, at the very least, as an important objective.

## **STRATEGY**

Melrose's strategy is to acquire businesses it understands, improve them by a mixture of investment and changed management focus and, in a three to five year time frame, realise the value created and return it to shareholders in the most efficient way possible. Although current economic and stock market conditions suggest the latter end of the time frame is most likely to be appropriate for realisations, the strategy remains unchanged. Indeed we believe our competitive advantage in pursuing this strategy has never been better and we would expect there to be exciting opportunities to make further acquisitions when the time is right.

## **OUTLOOK**

Certain things are clear: we have within our Group, businesses which are able to withstand the worst of the downturn; we have substantial potential, particularly within the FKI businesses; we have excellent cash generation; and we have a strong management team. Although this year promises to be the most difficult for some time, we have full confidence in the long term prospects for your company.

Christopher Miller  
11 March 2009

## CHIEF EXECUTIVE'S REVIEW

I am particularly pleased with the results of the Group in 2008.

The highlight of the year was the acquisition of FKI which was completed on 1 July 2008. Although global financial and economic conditions have deteriorated since then, the rationale behind the acquisition remains valid. We are ahead of our plans for FKI. Our operational improvement plans have not yet had a material effect on these results in the short time since acquisition but we have been very successful in permanently generating cash through better management of working capital. We are hopeful that we can generate a further £50 million of cash in 2009 from continued improvements.

FKI was a major international diversified engineering group with four divisions, including some businesses with very good market positions. In general terms, at the head office level, FKI was unfocused with a weak balance sheet and borrowings due to be refinanced in the near term. The financing terms of Melrose's acquisition enabled the balance sheet issues to be resolved and the putting in place of a more appropriate group borrowing structure with lower overall debt leverage and a maturity date of 2013. Further details are set out in the Finance Director's review.

In the case of the Energy division, where end-market demand is forecast to remain firm, capital expenditure to improve capacity and efficiency remains a priority. However, in the Lifting division, where lower commodity prices have resulted in a softening in demand, capital for capacity expansion has been pared back until the markets stabilise. Nevertheless, opportunities to improve efficiency and cash generation in this division remain.

The following specific points relating to the acquisition of FKI should be noted:

- Following strategic reviews at each of the FKI business units, management implemented measures to achieve operational improvements through capital investment and efficiency gains.
- FKI's central costs have been reduced by £10 million per annum.
- Cash generated in the six month period from a reduction in working capital was £79.2 million. Net debt to EBITDA has been reduced from 2.7x on acquisition to 2.25x at the year end exchange rates, which is significantly better than our expectation at acquisition.
- Hickory's businesses (formerly part of FKI's Hardware division) have either been sold or closed. This has resulted in a net inflow of cash of approximately £10.2 million, significantly higher than our estimates at the time of acquisition.

- We remain hopeful that a sale of Logistex North America will be concluded soon. Protracted negotiations continue concerning the disposal, reflecting the economic climate and difficult financing conditions. In its field Logistex is a world class business with a strong position in its market. There are actions that are being taken, and will continue to be taken were it not to be sold, which will significantly improve profit. In any event, we would expect Logistex as a whole to remain profitable in 2009.

After a strong first nine months of trading in 2008, Dynacast saw a significant decline in sales in the final quarter of the year. Early action by the experienced management team to reduce costs and conserve cash mean that the company is well placed to meet these challenging conditions and will be in a strong position when markets improve.

In the Interim Statement it was stated that a fundamental review of MVC had been instigated as a result of the deteriorating conditions in the US automotive industry. We were pleased to report the sale of the company in November 2008. Whilst this business has produced an unsatisfactory result in a very tough trading environment it should not detract from the success of the acquisition of McKechnie.

## **OUTLOOK**

The breadth of the end markets that the Melrose Group companies sell into, both sectorally and geographically, means that although some companies will face more difficult trading conditions this year, others operate in markets with favourable prospects. The fall in the value of Sterling has also resulted in significant translation benefits and a competitive advantage for our UK based businesses. In addition to this, and most importantly, there are substantial opportunities to continue the operational and cash generational improvements to the acquired FKI companies.

In addition to the strong underlying cash generation within the Group and the operational improvement plans being put in place, we are fortunate to have operational management that have been proactive, where necessary, in taking action to cut costs and conserve cash. Recently implemented cost savings initiatives across the Group should yield annual savings of at least £25 million at a cost of around £2 million.

These factors, allied to the solid financial base of the Group and the operational improvement plans being put in place, give us confidence that Melrose will successfully trade through this difficult period and position us to be able to benefit from the exciting opportunities that undoubtedly lie ahead.

## ENERGY

<b>Year ended 31 December</b>	<b>2008*</b>
<b>£m</b>	
<b>Revenue</b>	<b>229.4</b>
<b>Headline Operating Profit</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 specialist UK based generator manufacturer servicing the rail, telecommunications, construction and military markets.

Brush Turbogenerators benefited during the six months ended 31 December 2008 from continuing strong demand in its principal market, global power generation. During this period many changes and new initiatives have taken place in order to enable the business to take fuller advantage of the opportunities available in this growing market sector.

First, changes were made to senior management to get away from a production-led culture and this has resulted in a transformation in the attitudes and morale of the workforce. Now in place is a cohesive, performance-driven management team working together towards an agreed set of demanding goals and objectives.

Approximately £10 million is being invested in new machinery, principally in the Czech Republic, to alleviate capacity bottlenecks and improve productivity. This is part of a continuous improvement in all aspects of the business, incorporating the best principles of "lean key performance indicators", which will yield further efficiency benefits going forward. It is intended that this will enable Brush Turbogenerators to better serve its customers and demonstrate its commitment to work alongside and support them for the future.

The improvement in the manufacturing efficiency of the three plants will achieve significant reductions in the production cycle. Not only will this yield cost savings; it will result in material reductions in stock and work in progress and will free up capacity to enable the business to engage more in profitable aftermarket and servicing activities. Aftermarket has been targeted as a priority by management on the basis of the opportunity created by the large installed base of Brush machines in operation.

Marelli reported good results in the six month period ended 31 December 2008, benefiting from strong end markets. Marelli took full advantage, recording its highest ever sales in 2008.

Following the acquisition by Melrose and the approval of a capital investment programme, management continued with its successful strategy of expanding Marelli's product range from motors to a complementary range of higher value added generators, which now represent 65% of sales.

Harrington traded satisfactorily in the six months to 31 December 2008. Its results were adversely affected by the conclusion of two large telecom and military projects. The business continued its transition from supplying the UK hire market with standard 3kVA – 100 kVA generators to focus on specialist applications where the company's unrivalled technical expertise and facilities can be more fully utilised.

## **OUTLOOK**

Brush Turbogenerators' end markets remain robust and together with signs of strong tendering activity, the company entered 2009 with an order book of £289 million, representing some 73% of budgeted sales. This, together with the actions undertaken to improve the business, supported by strong cost control measures, give us confidence that Brush Turbogenerators will have 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 continued its recovery in the period ended 31 December 2008 following the supply chain problems arising from the earlier factory consolidation in Blackwood, South Wales. Management were charged with resolving these problems, including the recruitment of a supply chain director, and this has resulted in a substantial increase in the profitability of the business.

HSS's market remained buoyant in the period with continuing demand from the DNOs together with increasing orders both in the UK and in export markets for its switchgear products used in mass transit systems. This should lead to further orders in 2009.

As a result of the improvements in supply chain management and the targeting of working capital control, dramatic improvements were achieved during the year in profit conversion to cash.

In order to further improve the profitability of HSS a plan has been approved to open a circuit breaker assembly and test facility in China. This is to be located near Shanghai and is due to start production in the third quarter of 2009. This will initially be for the purpose of supplying product for use by its facility in Blackwood, followed soon after by targeting the Chinese market, where substantial opportunities exist.

## **OUTLOOK**

Reflecting the favourable market conditions for HSS, the company entered 2009 with an order book equivalent to approximately six months' sales. This, together with management's actions, gives us confidence that HSS will continue to make good progress in 2009.

## **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 creditable set of results for the six month period ended 31 December 2008. Sales increased both as selling prices were raised to meet significant material cost inflation (especially copper) and also as a result of operational efficiencies gained from lean manufacturing principles.

Demand from Brush Transformers' customers, principally UK based DNOs, remained firm throughout the year reflecting favourable market conditions in the UK electricity transmission industry. In addition, the new Brush Transformers' joint venture started production in Abu Dhabi in 2008 with the aim of servicing public utility customers in the Middle East, a market in which the 'Brush' name has a very strong reputation.

## **OUTLOOK**

Brush Transformers entered 2009 with an order book sufficient to meet the company's entire budgeted sales for the year. With management firmly focused on achieving the customers' requirements efficiently and on time, we look forward to a successful year for Brush Transformers.

## LIFTING PRODUCTS

<b>Year ended 31 December</b>	<b>2008*</b>
<b>£m</b>	
<b>Revenue</b>	<b>232.3</b>
<b>Headline Operating Profit</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 performed well in the six months ended 31 December 2008 on the back of strong demand in its principal markets of oil and gas, mining and high-performance cranes. Although the cost of Bridon's major raw material (steel) continued to rise rapidly during most of the period, management was successful in passing these costs on through a mixture of surcharges and contractual escalation provisions. Bridon also benefited from movements in foreign exchange rates as sales made in US dollars and Euros increased in Sterling terms. Cash generation was particularly good with 105% of profit being turned into cash in the period.

In addition to the strong demand in its offshore oil and gas and mining markets, Bridon continued to gain market share by making inroads into key accounts in all its primary market sectors, particularly the global crane and mining OEMs. Major progress has been achieved in Bridon's marine fibre business, based in Coatbridge (Scotland), where certain contracts have been renegotiated and lead times have been reduced, resulting in increased profitability. Other highlights of the year include record performances at Bridon's Singapore and Indonesian operations.

While continuing to focus on its core geographic markets of Europe and North America, during the year Bridon acquired an 80% interest in a specialist rope maker in Hangzhou, South Eastern China. This is in line with the company's policy of focusing on high performance products serving the local industrial, oil and gas and mining industries in faster growing regions including China, Russia and South East Asia. Following the acquisition by Melrose, Bridon management successfully negotiated an exit from its 50/50 Chinese joint venture engaged in the manufacture of commodity-type elevator rope.

During the year, an investment programme of approximately £3 million over three years was approved to upgrade the wire mill at Doncaster to improve manufacturing efficiencies and significantly reduce carbon emissions and other environmental waste. Bridon, which is known for its superior quality, technical support and innovation, further increased its product development efforts in order to meet its customers' increasingly demanding needs and applications. In addition to this, management continues to pursue with vigour its ongoing commitment to the application of 'lean' principles to support sustainable cost reduction efforts across all units.

## **OUTLOOK**

Notwithstanding the adverse economic climate, Bridon entered 2009 with a record order book of £79.0 million, representing approximately 30% of the year's budgeted sales. Although Bridon is seeing weakening in its construction and industrial markets, the offshore sector, where Bridon has a strong presence and which is dominated by bigger customers engaged in large projects with long lead times, is performing resiliently and is evidence that this sector will be less affected than other markets. There is also optimism in the specialty structures sectors as various bridge and stadia projects remain scheduled for development over the next several years.

Overall, this gives us confidence that Bridon will have a good year.

## **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.

Crosby achieved a good result in 2008 on the back of global economic growth and strong demand particularly from the oil and gas industry. Crosby experienced significant raw material cost increases and shortages during the year. However, as a result of its strong market position and close relationships with its customers it was able to pass on most of these price increases and by working closely with suppliers it was able to ensure availability of supply.

Growth was achieved in all of Crosby's geographical markets with the highest being in North America. Crosby invested significantly in product and process development during the year, whilst at the same time introducing new specialised lifting systems and fittings for both the offshore and onshore oil and gas markets. The development of the block and sheave centres in Europe and China was pushed ahead and resulted in increased sales in these markets.

During the period Crosby continued to focus on its programme to train the end users of its products. As safety standards in the industry around the world continue to rise, Crosby is at the forefront of a series of initiatives to enable rigging personnel to achieve certification status. This dedicated focus on customer needs and attention to detail in the provision of a highly technical product where safety and reliability are of paramount importance serve to differentiate Crosby in its market.

## **OUTLOOK**

Crosby is more exposed to the onshore oil and gas markets – in contrast to Bridon – where the projects tend to be smaller and the recent falls in oil and gas prices have resulted in a softening of demand. The Crosby management team are highly experienced and have already implemented plans to reduce working capital further and to take out costs across the business including reducing the headcount by approximately 10% in the United States which will result in an annualised saving of £5 million.

Although 2009 will be a more difficult year for Crosby, the strength of its business franchise and the quality of its management will ensure that the current adverse conditions are well handled and that the business is in good condition to resume its previous growth when more normal conditions return.

## **ACCO MATERIAL HANDLING SOLUTIONS (“ACCO”)**

Acco is a US manufacturer of custom engineered material handling products including: monorail cranes; wire rope and chain hoists; and industrial carts and trailers.

Acco achieved a good trading performance in the six months ended 31 December 2008 together with a decent profit to cash achievement. These results were attributable to an improved revenue mix as increased sales of monorail cranes were offset by lower sales of industrial carts and trailers.

Although Acco bore substantial steel cost increases during the year it was able to protect operating profit by passing these on. Sales and margins were also improved through ongoing efforts to outsource products and components and in addition, efficiency gains were achieved by the rationalisation of two similar product lines during the year.

## **OUTLOOK**

We have confidence that Acco will have another good year in 2009.

## DYNACAST

<b>Year ended 31 December £m</b>	<b>2008</b>	<b>2007</b>
<b>Revenue</b>	<b>246.3</b>	<b>235.9</b>
<b>Headline Operating Profit</b>	<b>33.4</b>	<b>28.9</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 has reported a satisfactory trading result in 2008 with revenue and headline operating profit up by 4.4% and 15.6% respectively. This profit includes a foreign exchange gain on translation of £ 3.9 million (primarily from the strengthening of the Euro and the US dollar against Sterling) and the benefit from recent acquisitions of just under £1 million. In August 2008 Dynacast acquired the Canadian and UK assets of Fishercast Global, a former competitor, from the bankruptcy court in Canada for approximately £7 million (including acquisition costs).

The price of zinc, Dynacast's major raw material, continued to fall during 2008, with the average LME cost falling by 42% over the year to around \$1,900 per tonne in 2008, which is firmly back within its historic price range and this bodes well for future business development. At the year end the price stood at \$1,120 per tonne. Although movements in the price of zinc have relatively little effect on profit, as a result of being able to pass on these changes to the customer, they do have a significant effect on revenue. This has resulted in a reduction of the reported revenue in 2008 by approximately £21 million.

As foreshadowed in the interim report, the weakening global economy has resulted in a slowing of Dynacast's profit growth in the second half of 2008 over the rapid growth experienced in the first half. As is widely known, this economic slowdown accelerated sharply towards the end of 2008. During such times it is encouraging that Dynacast management has an excellent record of cash control and in 2008 Dynacast converted 124% of its profit into cash.

Sales in Europe were marginally down in the year and profit was broadly flat year-on-year. The biggest reduction was in Spain, which suffered from weak automotive and construction sectors for much of the year. France and Austria performed well in the year but saw slowdowns in demand in the final quarter of the year, as automotive sales slowed. Strong actions on cost controls together with the benefits from reorganisations in prior years have helped to mitigate the impact of the sales reduction.

North America had a challenging year in 2008 with the US being the first of the major economies to head into recession. The construction industry was the first sector to show clear signs of a slowdown, which affected Dynacast's sales of its hardware products during the year. Sales in the US automotive industry started the year weakly and continued to deteriorate throughout the year, particularly in the final quarter. Management's decisive action has resulted in quick and positive returns from the acquisition of Fishercast Canada in the last quarter of the year.

Revenue and profit in Asia were both higher in 2008. This reflected a very strong year in Malaysia, a good year in Singapore and continued growth in China. Singapore is an important centre for Dynacast in terms of investment in design and engineering skills and machine upgrades, which supports its active programme of new product development. Business wins included supplying components for the exciting new Apple iPod.

## **OUTLOOK**

We continue to see growth opportunities in Asia, and Dynacast will be opening its plant in Dongguan, southern China, in the second quarter of 2009. This plant will target the consumer electronics market in China and has recently achieved a notable success in securing business with Dell to supply components for its servers which will be manufactured in China until 2012.

With the continuing uncertainty in economic and financial markets, Dynacast management remain highly focused on the cost structure of the business and on aggressive cash management. Dynacast has reduced its workforce on a full time equivalent basis by over 22% which will result in an annualised saving of approximately £10 million at a cost of approximately £250,000, and continues to carefully monitor customer demand against manufacturing capacity. Should demand continue to reduce, a deeper restructuring will be considered, particularly in Europe and North America where some further consolidation might be necessary. At the same time they will be alert to opportunities to make small in-fill acquisitions as less well financed competitors struggle with lower sales volumes.

Dynacast is a high quality, well managed engineering group supplying a wide range of products in different sectors to global markets in which it has strong shares. As such, although 2009 looks set to be a difficult year for Dynacast it will meet the challenges totally prepared and should emerge in a stronger position when market conditions improve.

## OTHER INDUSTRIAL

<b>Year ended 31 December</b>	<b>2008*</b>
<b>£m</b>	
<b>Revenue</b>	<b>230.3</b>
<b>Headline Operating Profit</b>	<b>16.4</b>

\* For FKI businesses since acquisition on 1 July 2008 and MPC for full calendar year

## 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.

Revenue and operating profit were significantly lower in 2008, reflecting decreases in US housing starts of 30% compared to 2007 and 60% from their peak in 2005. However, Truth was successful in achieving gains in market share as a result of growth initiatives to increase both its customer base and its product offering.

Notwithstanding the gains in market share achieved in 2008, customer delivery times were far from satisfactory. This was partly due to the hangover from the closure of Truth's plant in Pennsylvania and the absorption of its operations into the Minnesota plant at the end of 2007. These production issues have been the subject of close attention since acquisition; and by focusing on streamlining the manufacturing process, including significant capital investment in new machines and tooling, gains in cost, speed and quality have been achieved, resulting in more acceptable customer service.

## OUTLOOK

In view of the continuing weakness of the US housing market, management has embarked on a rigorous programme of cost reductions, including a headcount decrease of about 15%. These actions on costs, which should result in annualised savings of approximately \$9 million of payroll expense at a cost of approximately \$1.5 million, supported by Truth's strong presence in its market, give us confidence that Truth will continue to trade profitably through the current downturn and be well placed when the market improves.

## LOGISTEX (EUROPE)

Logistex is a provider of material handling solutions and products for airports, postal facilities, parcel distribution, manufacturing and warehouse and distribution facilities.

Although revenue for the six months ended 31 December 2008 was lower than in the comparable period in 2007, profit was higher with the improvement being driven by better project evaluation and execution, together with lower operating costs.

A highlight in the period was the exceptional cash generation as a result of substantial improvements in the cash management processes. In the six months to 31 December 2008 the cash generated exceeded operating profit by £16 million. These improvements represent permanent reductions in working capital and additional actions have been put in place to further lower the future working capital requirements of the business.

In the period under review the Airport and Post and Parcel businesses secured large project orders with Norwegian Post, Toll Post, Delhi Airport and TNT. These new orders, together with a stronger opening order book, enabled this part of the business to trade profitably. In contrast, the European Warehouse and Distribution business experienced more difficult trading conditions, with several large project orders being delayed or even cancelled. Sales into China during the period were on projects with existing customers expanding in the territory.

Further to the launch of the LS-4000, the company's new sorting system, the period under review saw the completion of the first project incorporating this new system for Joseph Witt GmbH's major new-build mail order and distribution centre in Weiden, Germany. The on-time delivery of this industry-leading, energy-efficient sorting system was completed in a timescale of just 22 weeks from the start of the installation to initial operations commencing.

Due to the advanced talks in relation to its sale, Logistex US is included in discontinued items.

## **OUTLOOK**

As a result of market conditions, restructuring plans were actioned in January 2009 to reduce the headcount of the business and cut costs. In addition to this, the strategy for the business will be to focus on project selection and execution, product excellence, working capital control and operational efficiency. This sharpened focus, supported by a strong Airport business backlog, point to a satisfactory year for Logistex (Europe).

## **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 the six months ended 31 December 2008 on the back of exceptionally strong scrap metal prices during most of this period. Scrap pricing is a key determinant in the activity levels in this industry.

Design and engineering capability is at the heart of Harris' business culture with its emphasis on highly engineered solutions for customised applications. As part of this focus, a new product development team was formed in 2008 to introduce new products and enhance the options and performance of existing products. The most significant were two new products which complement Harris' shredder and baler lines. These products have begun to contribute to both sales and the order books.

Management has continued with its push into the parts and service business, which in 2008 accounted for about 20% of Harris' revenue. This provides a more stable revenue base and will result in increased profitability.

## **OUTLOOK**

Although the price of steel fell dramatically towards the end of 2008, given the reasonably long lead times in this business, Harris entered 2009 with a fairly strong order book. However, the order intake has fallen and sales in 2009 are projected to be lower than in 2008.

The management team has been strengthened and actions have been taken to reduce the cost base to a level consistent with lower sales. To this end headcount has been reduced by 17% this year and overheads have been reduced by 12%. This will achieve annualised savings of approximately £2 million.

Although profit will be lower in 2009 than in 2008, Harris will be well placed to recover strongly when market conditions improve and in the longer term will benefit from the increasing emphasis on recycling with its attendant environmental benefits.

## **WEBER KNAPP**

Weber Knapp manufactures hardware for the appliance and furniture industries, specialising in ergonomically designed office products.

Revenue and operating profit were adversely affected in 2008 by the weakness of the US economy. In addition, although management was able to pass on the substantial raw material price increases experienced during the year (primarily steel) in respect of the high specification, value-added products, this was more difficult for the more commodity-type volume ergonomic products.

Significant investments in process improvements and tooling components were made in 2008, notably the addition of multiple colour capability to the auto powder coat line and the hard tooling of the new Whirlpool counterbalance hinging system.

Management took decisive action during the year as the economy continued to weaken. Close attention was paid to cash management resulting in a cash-to-profit conversion ratio of 158%. In addition, there was a 19% reduction in the administrative employees and a 7% reduction in factory employees.

## **OUTLOOK**

The quality of Weber Knapp's products and the strong position it has in its market, supported by the actions of management to meet the challenges, position the company well to benefit when the economy improves.

### **BRUSH TRACTION ("TRACTION")**

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

Traction's results in the six months ended 31 December 2008 were particularly strong due to increased vehicle numbers and additional work on the High Speed Train ("HST") contract. Cash generation was also significantly ahead of plan.

The major HST contract, which has provided the backbone of Traction's production over the last two years is coming to an end in 2009 and as a result Traction is stepping up its marketing efforts at Loughborough to build on its sales of bogies, vehicle upgrade kits and locomotive upgrades.

Kilmarnock started work during the year on its first major vehicle refurbishment contract since the purchase of Hunslet Barclay at the end of 2007. This project has to date been successful and is expected to be completed towards the end of 2009.

Management continues to improve its processes and reduce operating costs through the rigorous application of "lean management" principles, together with tight control of overheads and focused investment in plant and equipment.

## **OUTLOOK**

The outlook for 2009 looks somewhat mixed. So far there has been little sign of reduced orders although the lower usage of freight vehicles is beginning to impact wheel replacement and overhaul. Although some future projects are likely to be delayed for financial reasons, given the priority attaching to the upgrading of the railway network, the longer term outlook is promising.

### **MPC**

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

MPC reported a good trading result in 2008. Although revenue for the year ended 31 December 2008 was only marginally higher than in 2007, headline operating profit was up by 10%, reflecting the company's continuing emphasis on higher quality business. Underlying cash generation before capital expenditure was particularly strong and was 119% of operating profit before depreciation.

Highly engineered value-added automated processes were again at the forefront of MPC's business development strategy, with the business successfully installing and commissioning new production cells for Diageo, Scottish and Newcastle and Jaguar Land Rover.

A contraction in the European competitor base brought significant opportunities for MPC, not only to win new business but also to expand into new, leading-edge materials and technologies utilising MPC's recognised technical skills, particularly regarding tool making.

MPC's success in 2008 was linked to its significant capital expenditure programme in the year amounting to £3.5 million. This improved the plant profile, increased flexibility and reduced energy costs. Machines dedicated to production for Marks and Spencer and Toyota were installed during the year in addition to a new state-of-the-art robotic fully abated paint plant.

## **OUTLOOK**

Given the poor market conditions, management is paying very close attention to conserving cash and to examining ways of cutting costs in the business. We are confident that the highly experienced management team will be successful in mitigating the effects of the downturn, whilst at the same time continuing to take advantage of opportunities that arise to improve and expand the business.

David Roper  
11 March 2009

## FINANCE DIRECTOR'S REVIEW

The year to 31 December 2008 has been a significant year for Melrose PLC. On 1 July 2008, the acquisition of FKI plc ("FKI") was completed for £970.4 million. This transaction increased the size of the Melrose Group by approximately six times. Consequently the results shown for the year ended 31 December 2008 cannot be compared to the results for the year to 31 December 2007 in a meaningful way.

### **New segmental split of divisions**

#### Continuing operations

The continuing operations at 31 December 2008 consist of four divisions, namely Energy, Lifting, Dynacast and Other Industrial. This represents a new divisional split for Melrose necessitated by the acquisition of FKI. The new divisions comprise the following businesses:

<b>Energy</b>	<b>Lifting</b>	<b>Dynacast</b>	<b>Other Industrial</b>
Brush Transformers	Acco	Dynacast	Harris, Logistex Europe
Brush Turbo Generators	Bridon		MPC, Brush Traction,
Hawker Siddeley Switchgear	Crosby		Truth
			Weber Knapp

#### Discontinued operations

In addition to the continuing operations, some businesses are categorised as discontinued in the income statement. These businesses are either closed, sold or expected to be sold during 2009. In accordance with IFRS 5 they have consequently been excluded from the continuing operations.

MVC was sold on 26 November 2008. All of Hickory has either been sold or closed during 2008. Logistex US, Welland Forge and Rhombus are held for sale as at 31 December 2008.

### **Group trading results – continuing operations**

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

The Group achieved revenue from continuing operations for the year ended 31 December 2008 of £938.3 million (2007: £288.6 million). Headline operating profit in 2008 was £99.6 million (2007: £25.0 million) and operating profit was £73.1 million (2007: £20.9 million). Headline profit before tax was £75.4 million (2007: £28.1 million) and profit before tax £25.8 million (2007: £24.0 million). The headline earnings per share in 2008 were 16.8p (2007: 9.9p), representing a 15% increase on the proforma 2007 earnings per share of 14.6p (as defined later in this section). After exceptional costs, exceptional income and intangible asset amortisation other than computer software, the earnings per share were 4.8p (2007: 8.7p).

## Trading results by division – continuing operations

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

	Revenue £'m	Headline operating profit/(loss) £'m	Return on revenue	Headline operating profit/(loss) before depreciation and amortisation £'m	Return on revenue
Energy	229.4	30.9	13.5%	34.7	15.1%
Lifting	232.3	35.7	15.4%	40.2	17.3%
Dynacast	246.3	33.4	13.6%	41.1	16.7%
Other Industrial	230.3	16.4	7.1%	21.2	9.2%
Central costs	-	(10.6)	N/A	(10.2)	N/A
Central LTIPS	-	(6.2)	N/A	(6.2)	N/A
<b>Group</b>	<b>938.3</b>	<b>99.6</b>	<b>10.6%</b>	<b>120.8</b>	<b>12.9%</b>

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

Central costs comprise £10.6 million (2007: £5.8 million) of Melrose PLC corporate costs and a Long Term Incentive Plan ("LTIP") charge of £6.2 million (2007: £2.0 million). The LTIP cost consisted of a charge for the Melrose PLC LTIP of £2.0 million (2007: £0.9 million) and a cost for the crystallisation of an LTIP scheme for divisional management of £4.2 million (2007: £1.1 million). This latter charge represented a percentage of the increase in business value driven by the divisional management from 2005 to 2008.

The previous corporate overhead incurred by FKI prior to the acquisition by Melrose has been cut by £10 million.

## Trading results – discontinued operations

On 26 November 2008, Melrose sold 100% of the equity of McKechnie Vehicle Components USA Inc, the holding company of the MVC business, for \$1. In addition, Melrose left \$2.5 million of cash within MVC to be repaid within one year.

This was considered the most suitable course of action due to the significantly worse outlook in the US automotive industry. However, due to the higher book value of MVC, a loss on sale of £39.9 million was incurred which consisted of £25.8 million of net assets, £21.8 million of goodwill and £1.2 million of disposal costs less £8.9 million of translation exchange gain (recycled through the income statement on disposal).

The closure and sale of the Hickory businesses resulted in exceptional reorganisation costs of £20.8 million of which £1.9 million were cash. During the six month period post acquisition, cash generation from trading and asset disposals was £12.1 million, meaning that the sale and closure of Hickory generated a net positive cash inflow of £10.2 million from 1 July 2008 to 31 December 2008.

A charge of £63.5 million has been included in the income statement for discontinued operations consisting of the following items:

£m	Cash costs	Non-cash costs	Total
<b>Discontinued</b>			
Results of discontinued businesses	7.7	-	7.7
Loss on disposal of MVC	1.2	38.7	39.9
Hickory closure	1.9	18.9	20.8
Other (including intangible asset amortisation)	1.9	0.6	2.5
Tax on discontinued businesses	-	(7.4)	(7.4)
<b>Total</b>	<b>12.7</b>	<b>50.8</b>	<b>63.5</b>

## Cash generation and management

Melrose has a strong track record of generating cash from its businesses. The continuation of this success was an important objective for the FKI acquisition. A key performance measure for Melrose is the percentage of profit conversion to cash. This represents the amount of headline operating cash (post working capital movement and capital expenditure) that is generated from headline operating profit. In the year to 31 December 2008 166% of headline operating profit has been converted to cash (indeed in the six months post the FKI acquisition, the percentage was 191%). This means the long term Melrose profit conversion to cash from 2003 to 2008 now averages 119%.

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

£m	Energy	Lifting	Dynacast	Other industrial	HO	Total continuing	Discontinued	Total
Headline operating profit/(loss)	30.9	35.7	33.4	16.4	(16.8)	99.6	(7.3)	92.3
Headline operating cash generation (post capex)	38.4	35.5	41.6	28.3	(10.5)	133.3	20.4	153.7
Profit conversion to cash (%)	124%	99%	124%	173%	-	134%	-	166%

A highlight of this performance is the exceptional cash generation from discontinued operations. This has been achieved by the cash positive closure of Hickory and by Logistex US which during Melrose ownership has generated £15.1 million of cash. Indeed Logistex as a whole (US and Europe (shown in Other Industrial)) has generated £33.5 million of cash.

This excellent cash generation has enabled Melrose to generate £60.0 million of cash after all costs including interest, tax, exceptionals and dividends in the year to 31 December 2008 and importantly, £69.4 million since the acquisition of FKI on 1 July 2008. This has meant that despite a £152.9 million adverse exchange movement on net debt, due to the weakening of sterling, the net debt at the year end was kept to £543.1 million as shown below.

	Full year (since 1 January 2008)	Six months post FKI (since 1 July 2008)
	£'m	£'m
<b>Movement in net debt</b>		
Opening net cash	32.4	22.3
Acquired net debt	(471.7)	(471.7)
Net cash flow of acquisitions	(13.1)	(11.2)
Cash flow from trading	60.0	69.4
Foreign exchange movement	(152.9)	(154.1)
Other non-cash movement	2.2	2.2
Closing net debt	(543.1)	(543.1)

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

	Full year (since 1 January 2008)	Six months post FKI (since 1 July 2008)
	£'m	£'m
<b>Cash flow from trading</b>		
Headline operating profit	92.3	78.8
Depreciation and computer software amortisation	24.7	19.0
Working capital movement	70.9	79.2
Net capital expenditure	(34.2)	(26.5)
Operating cash flow (post capex)	153.7	150.5
<b>Profit conversion to cash %</b>	<b>166%</b>	<b>191%</b>
Net interest and net tax paid	(44.8)	(41.1)
Pension contributions	(20.0)	(16.0)
Capital distribution	(7.4)	(7.4)
Dividend paid	(19.4)	(13.7)
Other (including all cash flows on discontinued operations)	(2.1)	(2.9)
<b>Cash inflow from trading</b>	<b>60.0</b>	<b>69.4</b>

	Full year (since 1 January 2008)	Six months post FKI (since 1 July 2008)
	£'m	£'m
<b>Net cash flow of acquisitions</b>		
Net proceeds on issue of shares	279.5	279.5
Cash payment on acquisitions	(257.0)	(255.1)
Dividend to previous FKI shareholders	(17.7)	(17.7)
Eurobond and private placements refinance	(17.9)	(17.9)
<b>Cash flow of acquisitions</b>	<b>(13.1)</b>	<b>(11.2)</b>

Melrose had leverage of 2.65x net debt to headline operating profit before depreciation and amortisation at 31 December 2008. Indeed if both debt and headline operating profit before depreciation and amortisation are both converted at the closing exchange rate (rather than the former at closing exchange rates and the latter at average exchange rates) then the leverage at 31 December 2008 was only 2.25x.

It is noteworthy that this performance has been achieved even after Melrose has continued to spend, significantly, in the divisions on capital projects. In the year to 31 December 2008, the net capital expenditure continued to be in excess of depreciation, with a ratio of 1.4x. Consequently the cash generation has only been possible due to a significant targeted reduction in working capital in the year of £70.9 million (£79.2 million since the FKI acquisition).

## Capital expenditure

Melrose has a track record of spending on capital projects to drive value. In the year ended 31 December 2008, the Group continued to allow capital expenditure to be in excess of depreciation. By division, the capital expenditure in the year was as follows:

	Energy	Lifting	Dynacast	Other Industrial	Central	Total
Net capital expenditure £'m	8.5	5.0	8.0	8.1	0.9	30.5
Depreciation £'m	3.8	4.5	7.7	4.8	0.4	21.2
Capital expenditure to depreciation ratio	2.2x	1.1x	1.0x	1.7x	2.3x	1.4x

The newly acquired FKI divisions have afforded opportunities to spend money on projects with good pay backs. Melrose has continued to invest in Dynacast projects where the expected return has been acceptable.

The determinants of what is considered an acceptable return on capital expenditure have been reviewed by the Board and tightened for 2009 given the current economic climate.

## 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 the acquisition process it was recognised that FKI had too much working capital for its requirements and in our ownership the businesses were targeted to produce a permanent reduction in working capital. As a result since the FKI acquisition the cash generated from working capital has been £79.2 million. A further measure of improvement is that the percentage of net working capital to sales for the Melrose Group is 17.5% at 31 December 2008 compared to over 20% for the FKI group prior to its acquisition by Melrose. Importantly, these improvements to working capital have been achieved without any artificial squeeze to working capital at the financial period end.

## Tax

As expected, the headline tax rate increased in 2008 following the acquisition of FKI to 29% (2007: 25%).

Following the acquisition of FKI, a greater proportion of the enlarged Group's profits are contributed by operations in countries with higher tax rates, including North America. The overall effect on the Group of higher rates in North America and certain European countries is partially offset by the benefit that continues to arise from lower tax rates in the Far East.

The rate after exceptional items is 39%, 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 21% (2007: 15%) remains below the headline tax rate due to the utilisation of tax losses and other deferred tax assets but in the longer term is expected to trend toward the headline tax rate as available losses and other deferred tax assets are used up.

The total amount of tax losses in the Group increased as a result of the FKI acquisition. Deferred tax has been recognised on losses and other tax assets only to the extent that it is probable that future taxable profit will be available against which the assets can be utilised. As in the previous year, tax losses carried forward in companies not forecast to make profits are not recognised. This split 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	-	306.0	306.0
North America	44.8	-	44.8
Rest of world	8.7	33.0	41.7
Total	53.5	339.0	392.5

The Group's net deferred tax liability is £106.4 million. A £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.

### **Earnings per share and 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 was 4.8p in 2008 (2007: 8.7p) and one which also includes discontinued operations, which was a loss of 15.3p in 2008 (2007: earnings of 102.0p).

In addition, a headline basic earnings per share 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 2008 is 16.8p (2007: 9.9p) which represents a 15% rise on the 14.6p proforma EPS in 2007 which was calculated as follows:

	<b>£m</b>
2007 Headline <sup>1</sup> operating profit <sup>2</sup>	25.0
Proforma interest received <sup>3</sup>	1.4
	26.4
Tax <sup>4</sup>	(6.9)
	19.5
Shares in issue <sup>5</sup>	133.7m
2007 Proforma EPS	14.6p

<sup>1</sup> before exceptional costs, exceptional income and intangible asset amortisation other than computer software.

<sup>2</sup> 2007 Headline operating profit has been restated to include MVC within discontinued operations

<sup>3</sup> interest income assumed at 5.7% (2007 average rate since moving to a net cash position in the year) on £25 million net cash ( as at 31 December 2007 less remaining return of capital of £7.4 million)

<sup>4</sup> tax at 2007 headline rate (26%)

<sup>5</sup> issued share capital after share consolidation in August 2007

As a consequence of the equity issue for the FKI acquisition, the weighted average number of shares in 2008 was 315.6 million (2007: 210.5 million). Assuming no further changes in the number of shares, the weighted average number of shares in 2009 will be 497.6 million, as follows:

	<b>Number of shares million</b>
As at 1 January 2008	133.7
Issue of shares for the FKI acquisition, 1 July 2008	363.9
As at 1 July 2008 and 31 December 2008	497.6
Weighted average number of shares in the year	315.6

### **Acquisition during the year**

On 1 July 2008, the Company acquired FKI for a total consideration of £970.4 million comprising debt acquired of £471.7 million and equity consideration totalling £498.7 million.

The equity consideration comprised a cash element of 40p per share, totalling £236.0 million, and the issue of 0.277 Melrose PLC shares for each FKI share with a total value of £248.4 million. In addition, acquisition costs of £13.6 million were incurred and with an initial investment of £0.7 million in FKI, gave a total consideration of £498.7 million.

To fund the cash element of the consideration, 200.5 million ordinary shares were issued generating cash receipts of £290.7 million with placement costs of £11.2 million.

In order to finance the repayment of £471.7 million of acquired debt, Melrose refinanced its existing bank facility which consisted of an £11.0 million term loan and a £30 million revolver loan facility. On 22 April 2008, a new £750 million five year committed bank facility was signed (equivalent to £825 million at 2008 year end exchange rates). More details on this facility are included in the liquidity risk management section of this report.

In accordance with IFRS 3, the impact on the Group results if this acquisition had been made at the start of the year has been calculated. This shows that Melrose continuing revenue would have been £1,533.5 million and headline operating profit £165.0 million in the year to 31 December 2008.

### **Fair value exercise, accounting policies and exceptional costs and income**

Following the acquisition of FKI, Melrose has undergone an extensive review of the FKI assets, liabilities and accounting policies. This has resulted in a significant amount of fair value adjustments and the adoption of Melrose accounting policies, including revenue recognition, to the FKI businesses. The revenue recognition policy has been altered, where necessary, to bring FKI into line with the Melrose Group policy. This has resulted in revenue generally being recognised later, more aligned to when the risks and reward are transferred to the customer. Consequently a smaller proportion of revenue is now recognised on a long term contracting (percentage of completion) basis and more on the final despatch of the end product to the customer. This potentially recognises profit more slowly and is less judgemental in nature. The only material revenue now recognised using a percentage of completion methodology is in Logistex.

In addition to a fair value review of all the FKI assets and liabilities at acquisition and a review of accounting policies, Melrose has undertaken significant action to improve the operational and financial nature of the FKI group. To achieve this, a number of exceptional costs have been incurred. Total exceptional costs and intangible asset amortisation have been highlighted on the face of the income statement in two sections showing exceptional operating costs and intangible asset amortisation of £26.5 million and exceptional finance costs of £23.1 million. These consist of the following items:

	<b>Cash costs</b>	<b>Non-cash costs</b>	<b>Total</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
<b>Exceptional operating costs</b>			
FKI head office closure	5.6	2.4	8.0
Other reorganisation costs	1.1	3.8	4.9
Intangible asset amortisation	-	13.6	13.6
<b>Total</b>	<b>6.7</b>	<b>19.8</b>	<b>26.5</b>
<b>Exceptional finance costs</b>			
Eurobond refinance	9.0	-	9.0
US private placements refinance	8.9	-	8.9
Exceptional discount on provisions	-	5.2	5.2
<b>Total</b>	<b>17.9</b>	<b>5.2</b>	<b>23.1</b>

The FKI head office closure and other reorganisation costs deliver significant cost savings. The exceptional finance costs relate to refinancing the previous FKI debt facilities to replace them with the cheaper Melrose bank facility. The £9 million charge consisted of a premium to bond holders and associated costs. The £8.9 million charge to refinance the US private placements was the make whole payment required.

## Assets and liabilities

After the fair value review of all assets and liabilities, the Melrose Group position is shown below:

	31 December 2007 £'m	31 December 2008 £'m
Fixed assets (including computer software)	61.2	298.9
Intangibles	23.4	456.0
Goodwill	183.5	821.5
Net working capital	18.8	213.9
Pension and retirement benefits	(25.2)	(143.3)
Provisions	(7.0)	(153.0)
Deferred tax and corporate tax	(12.8)	(140.0)
Net assets held for resale	-	20.4
Other	0.4	(22.1)
<b>Total</b>	<b>242.3</b>	<b>1,352.3</b>

These assets and liabilities are funded by:

	31 December 2007 £'m	31 December 2008 £'m
Net cash/(debt)	25.2 <sup>1</sup>	(544.8)
Equity	(267.5)	(807.5)
<b>Total</b>	<b>(242.3)</b>	<b>(1,352.3)</b>

<sup>1</sup> net of £7.2 million of redeemable preference shares paid in June 2008

## Goodwill, intangible assets and impairment review

The total value of goodwill as at 31 December 2008 is £821.5 million and intangible assets £456.0 million. These items are split by division as follows:

	Energy £'m	Lifting £'m	Dynacast £'m	Other Industrial £'m	Total £'m
Net other assets	56.7	68.2	15.7	6.9	147.5
Intangible assets	155.0	251.0	27.4	22.6	456.0
Goodwill	247.2	312.1	222.6	39.6	821.5
Total carrying value	458.9	631.3	265.7	69.1	1,425.0

The above values have been tested for impairment as at 31 December 2008. The Melrose PLC board is comfortable no impairment is required.

## Pensions

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

The current market value of the assets of the two main UK pension schemes which are the FKI and the McKechnie UK defined benefit schemes (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 two schemes was £69.3 million at 31 December 2008. These two schemes had assets at 31 December 2008 of £610.7 million, of which £14.1 million were unrecognised in accordance with IAS 19 to restrict the deficit to the committed payments amount, and liabilities of £665.9 million.

In addition, a US defined benefit scheme for FKI exists. At 31 December 2008, this has assets of £182.9 million, liabilities of £210.9 million and consequently a deficit of £28.0 million. Employees have been consulted about the scheme closing in 2009.

The assumptions used to calculate the IAS 19 deficit of the pension schemes within the Melrose Group are considered carefully by the Board of Directors. For the UK Plans a male aged 65 in 2008 is expected to live for a further 20.8 years. This life expectancy is assumed to increase by 1.1 years (5%) over the next 20 years. This assumption allows for longer life expectancy for the FKI UK defined benefit pension scheme than used prior to the acquisition by Melrose PLC. A summary of the key assumptions of the UK Plans are shown below:

	2007 Assumption %	2008 Assumption %
Discount rate	5.7	6.3
Inflation	3.3	2.75
Pension increases	3.3	2.9

  

	2007 Assumption Age	2008 Assumption Age
Life expectancy for a male aged 65 in 2007/2008	85.6	85.8
Life expectancy for a male aged 65 in 2020/2021	86.8	86.9

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 scheme by £9 million and a similar increase of 0.1 percentage points to inflation would increase the liability on this scheme by £5 million.

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. Viewed on this basis the investment strategy has many years for the assets to grow to help fund the liabilities.

The Melrose Group contributes £18.0 million to the FKI UK defined benefit scheme and £6.1 million cash to the McKechnie UK defined benefit scheme per annum. Both schemes are due to be 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.

## **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 risk. These are discussed in turn.

### Liquidity risk management

The Group moved from a net cash position of £32.4 million at 31 December 2007 to a net debt position of £543.1 million at 31 December 2008. The increase in debt resulted from the FKI acquisition when £471.7 million of net debt was acquired. Subsequent to 1 July 2008, Melrose has refinanced all of the significant FKI debt facilities which consisted of a Euro 600 million Eurobond, US Dollar 80 million Private Placements and US Dollar 140 million revolving bank debt, together with a number of cross currency and interest rate swaps that were used to manage the underlying currency and interest rate exposures of the debt. Ahead of the acquisition, the Group entered into a £750 million five-year committed term and revolving credit facility which has been syndicated amongst 12 international banks. As planned, the £500 million term portion of this facility has been converted into currency facilities comprising US Dollars 686 million, Euro 58 million and Sterling 50 million. Consequently at the 2008 year end exchange rates the facility is now equivalent to £825 million. The facility, which matures in April 2013, has been substantially drawn down in US Dollars, Euro and Sterling to repay the FKI debt, with undrawn facility headroom of £108.6 million remaining at 31 December 2008. 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 former covenant is 3.5x at December 2008, 3.25x for June and December 2009 and then reducing by 0.25x each year until 2013, tested at June and December. The interest cover covenant remains at 3.5x through the facility period until 2013. In addition, there are a number of uncommitted overdraft and borrowing facilities made available to the Group. These uncommitted facilities are lightly used.

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

In accordance with the new reporting requirements on going concern issued by the Financial Reporting Council the Directors acknowledge that the economic environment causes uncertainty as to a trading outcome for 2009. 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 sectorally and geographically, means that although some companies will face more difficult trading conditions this year, others operate in markets with more favourable prospects. In addition there are opportunities to improve the operations and cash flow of the acquired FKI companies. The Group's forecasts, taking into account the reasonable possible changes to trading performances, should operate within the Group's facilities. 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 cash position during the first half of the year to 31 December 2008 and consequently prior to the FKI acquisition interest rate protection was not considered necessary. The FKI debt assumed on 1 July 2008 was substantially held at floating rates of interest and included swaps used to synthetically alter the debt's denomination. This debt was repaid prior to 31 December 2008, being funded through floating rate debt drawn under the new £750 million committed facility. The new Melrose facility carries a cost of LIBOR plus a current 200 basis point margin.

Subsequent to 31 December 2008, the Group entered into a number of interest rate swaps to fix £374 million (\$546 million) of US Dollar debt for a four-year term. Under the terms of these swaps, the Group has fixed the interest rate at 2.1% for four years plus the bank margin. These terms run through to the maturity of the swaps on 31 January 2013 and will provide the Group with interest rate protection on over half of its gross debt. Currently this results in Melrose having a total cost of debt of under 4%.

#### 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, 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. This does not eliminate the cash risk but does bring some certainty to it.

Exchange rates used in the period

	<b>Twelve month average rate</b>	<b>Six month average rate</b>	<b>Closing Rate</b>
<b>US Dollar</b>			
2008	1.86	1.74	1.46
2007	2.00	N/A	2.00
<b>Euro</b>			
2008	1.26	1.23	1.05
2007	1.46	N/A	1.36

The effect on the key headline numbers in 2008 for the continuing Group due to the translation movement of exchange rates from 2007 to 2008 is summarised as follows:

	<b>2008 exchange rate versus 2007 exchange rate £'m</b>
<b>2008 Effect</b>	
Revenue increase	86.8
Headline operating profit increase	11.4

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:

	<b>Increase in profit £'m</b>
For every 10 cent strengthening of the US Dollar against Sterling	7.6
For every 10 cent strengthening of the Euro against Sterling	5.5

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 in 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.

Geoff Martin  
11 March 2009

## CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2008 £m	Restated <sup>(2)</sup> Year ended 31 December 2007 £m
<b>Continuing operations</b>			
Revenue	2	938.3	288.6
Cost of sales		(710.1)	(229.0)
Gross profit		228.2	59.6
Headline <sup>(1)</sup> operating expenses		(128.5)	(34.6)
Share of results of joint ventures		(0.1)	-
Intangible asset amortisation		(13.6)	(1.8)
Exceptional costs	3	(12.9)	(3.4)
Exceptional income	3	-	1.1
Total net operating expenses		(155.1)	(38.7)
Operating profit	2	73.1	20.9
Headline <sup>(1)</sup> operating profit	2	99.6	25.0
Headline <sup>(1)</sup> finance costs		(29.1)	(3.7)
Exceptional finance costs	3	(23.1)	-
Total finance costs		(52.2)	(3.7)
Finance income		4.9	6.8
Profit before tax		25.8	24.0
Headline <sup>(1)</sup> profit before tax		75.4	28.1
Headline <sup>(1)</sup> tax		(21.8)	(7.1)
Tax on exceptional items		11.7	1.6
Total tax	4	(10.1)	(5.5)
Profit for the year from continuing operations		15.7	18.5
Headline <sup>(1)</sup> profit for the year from continuing operations		53.6	21.0
<b>Discontinued operations</b>			
(Loss)/profit for the year from discontinued operations		(63.5)	196.5
<b>(Loss)/profit for the year</b>		<b>(47.8)</b>	<b>215.0</b>
<b>Attributable to:</b>			
Equity holders of the parent		(48.3)	214.8
Minority interests		0.5	0.2
		(47.8)	215.0
<b>Earnings per share</b>			
From continuing operations			
- Basic	5	4.8p	8.7p
- Fully diluted	5	4.8p	8.4p
- Headline <sup>(1)</sup>	5	16.8p	9.9p
From continuing and discontinued operations			
- Basic	5	(15.3p)	102.0p
- Fully diluted	5	(15.3p)	99.1p

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

<sup>(2)</sup> Prior periods have been restated to include the results of the MVC segment within discontinued operations.

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Notes	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Currency translation on net investments		123.0	3.7
(Losses)/gains on cash flow hedges		(17.0)	1.1
Actuarial (losses)/gains on net pension liabilities		(8.2)	3.5
Limit on pension scheme surplus	8	(14.1)	-
Net income recognised directly in equity		83.7	8.3
Transfer to income statement on cash flow hedges		1.1	(2.1)
Transfer to income statement from equity of cumulative translation differences on discontinued operations		(8.9)	22.0
(Loss)/profit for the year		(47.8)	215.0
<b>Total recognised income and expense for the year</b>		<b>28.1</b>	<b>243.2</b>
<b>Attributable to:</b>			
Equity holders of the parent		27.6	243.0
Minority interests		0.5	0.2
		<b>28.1</b>	<b>243.2</b>

## CONSOLIDATED BALANCE SHEET

	Notes	31 December 2008 £m	31 December 2007 £m
<b>Non-current assets</b>			
Goodwill and other intangible assets		1,279.5	207.4
Property, plant and equipment		296.9	60.7
Interests in joint ventures		0.1	-
Derivative financial assets		-	0.4
Deferred tax assets		29.8	3.1
		<b>1,606.3</b>	<b>271.6</b>
<b>Current assets</b>			
Inventories		329.3	29.7
Trade and other receivables		335.8	67.0
Derivative financial assets	9	3.1	-
Cash and cash equivalents		165.7	46.4
Assets held for sale		92.9	-
		<b>926.8</b>	<b>143.1</b>
<b>Total assets</b>	2	<b>2,533.1</b>	<b>414.7</b>
<b>Current liabilities</b>			
Trade and other payables		448.1	77.9
Interest-bearing loans and borrowings		0.7	8.1
Derivative financial liabilities	9	25.3	-
Current tax liabilities		33.6	7.8
Provisions		56.5	3.5
Liabilities held for sale <sup>(1)</sup>		72.5	-
		<b>636.7</b>	<b>97.3</b>
<b>Net current assets</b>		<b>290.1</b>	<b>45.8</b>
<b>Non-current liabilities</b>			
Trade and other payables		3.1	-
Interest-bearing loans and borrowings		709.8	13.1
Deferred tax liabilities		136.2	8.1
Retirement benefit obligations	8	143.3	25.2
Provisions		96.5	3.5
		<b>1,088.9</b>	<b>49.9</b>
<b>Total liabilities</b>	2	<b>1,725.6</b>	<b>147.2</b>
<b>Net assets</b>		<b>807.5</b>	<b>267.5</b>
<b>Equity</b>			
Issued share capital		1.1	58.3
Share premium account		279.1	-
Merger reserve		285.1	37.0
Capital redemption reserve		220.1	154.6
Hedging and translation reserves		100.4	2.2
Retained earnings		(80.6)	14.2
<b>Equity attributable to holders of the parent</b>		<b>805.2</b>	<b>266.3</b>
Minority interest		2.3	1.2
<b>Total equity</b>		<b>807.5</b>	<b>267.5</b>

<sup>(1)</sup> Liabilities directly associated with assets classified as held for sale.

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

.....  
Geoffrey Martin - Group Finance Director

.....  
Simon Peckham - Chief Operating Officer

## CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2008 £m	Restated <sup>(1)</sup> Year ended 31 December 2007 £m
Net cash from operating activities from continuing operations	10	97.1	18.2
Net cash from/(used in) operating activities from discontinued operations	10	21.5	(2.8)
<b>Net cash from operating activities</b>		<b>118.6</b>	<b>15.4</b>
<b>Investing activities</b>			
Disposal of businesses		(1.5)	446.7
Net cash disposed		-	(5.8)
Lump sum contribution to pension plan		-	(20.0)
Purchases of property, plant and equipment		(30.5)	(7.7)
Proceeds on disposal of property, plant and equipment		0.6	0.4
Purchase of computer software		(0.5)	(0.5)
Dividends received from joint ventures		0.2	-
Dividends paid to minority interests		(0.5)	-
Interest received		4.4	7.1
Acquisition of subsidiaries in previous year		-	(8.7)
Acquisition of subsidiaries – FKI	6	(250.3)	-
Acquisition of subsidiaries – Fishercast		(6.7)	-
Cash acquired on acquisition of FKI	6	85.3	-
Net cash (used in)/from investing activities from continuing operations		(199.5)	411.5
Net cash used in investing activities from discontinued operations	10	(3.8)	(10.4)
<b>Net cash (used in)/from investing activities</b>		<b>(203.3)</b>	<b>401.1</b>
<b>Financing activities</b>			
Net proceeds on issue of shares		279.5	-
Disposal of financial instruments		17.1	-
Net movement on borrowings		(19.4)	(179.0)
Costs of raising finance		(11.8)	-
Exceptional finance costs paid		(17.9)	-
Repayment of obligations under finance leases		(2.6)	(0.3)
Dividends paid		(19.4)	(13.0)
FKI dividend paid	6	(17.7)	-
Capital distribution		(7.4)	(212.6)
Issue of 2007 Incentive Shares		-	0.1
Net cash from/(used in) financing activities from continuing operations		200.4	(404.8)
Net cash (used in)/from financing activities from discontinued operations	10	(0.6)	0.3
<b>Net cash from/(used in) financing activities</b>		<b>199.8</b>	<b>(404.5)</b>
<b>Net increase in cash and cash equivalents</b>	10	<b>115.1</b>	<b>12.0</b>
Cash and cash equivalents at beginning of year	10	46.4	33.3
Effect of foreign exchange rate changes	10	6.2	1.1
<b>Cash and cash equivalents at end of year</b>	10	<b>167.7</b>	<b>46.4</b>
Cash classified as held for resale		(2.0)	-
<b>Cash and cash equivalents in continuing Group at end of year</b>		<b>165.7</b>	<b>46.4</b>

<sup>(1)</sup> Prior periods have been restated to include the results of the MVC segment within discontinued operations.

## NOTES TO THE ACCOUNTS

### 1. Status of accounts

The information included within the preliminary announcement has been prepared in accordance with the historical cost convention, except for the revaluation of certain financial instruments, and also in accordance with the accounting policies adopted under International Financial Reporting Standards, including International Accounting Standards and Interpretations (IFRSs) as adopted for use in the European Union. The accounting policies followed are the same as those detailed within the 2007 Report and Accounts which are available on the Group's website [www.melroseplc.net](http://www.melroseplc.net). In addition the Group has adopted IFRIC 14 "IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The Group has considered IFRIC 14 when determining the value of pension assets and liabilities.

The financial information included in the preliminary announcement does not constitute the company's statutory accounts for the purpose of section 240 of the Companies Act 1985 for the years ended 31 December 2008 or 2007. Statutory accounts for the year ended 31 December 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered to the Registrar of Companies following the Company's Annual General Meeting in May 2009. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s237(2) or (3) Companies Act 1985.

While the financial information included in this preliminary announcement has been prepared in accordance with IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs.

The comparative information has been restated to show more appropriate allocation of results following the disposal of MVC and classification of this division as discontinued operations.

The Board of Directors approved the preliminary announcement on 11 March 2009.

### 2. Segment information

The Group's primary reporting format is business segments and its secondary reporting format is geographical segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

During the period, the Group acquired the FKI group of companies and as a result recognised three new continuing business segments, Energy, Lifting and Other Industrial. As part of the acquisition, several FKI business units were acquired with a view to immediate resale and as such have been classified in the discontinued segment. The Group also discontinued its operation in the McKechnie Vehicle Components ("MVC") segment. Prior periods have been restated to include the results of the MVC segment within discontinued operations in the following segmental tables.

The Dynacast segment includes only the Dynacast business which is a supplier of die-cast parts and components to a range of industries. The Energy segment incorporates Turbogenerators, 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. Other Industrial incorporates all other operating businesses not held for resale from the acquisition of FKI, as well as the McKechnie Plastic Components ("MPC") business unit, previously reported as a primary business segment. Details of the companies included within the Other Industrial segment are set out in the Finance Director's review.

Transfer prices between business segments 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 table presents revenue, headline operating profit (which the Directors believe is the best indicator of performance), operating profit, total asset and total liability information regarding the Group's business segments for the year ended 31 December 2008. Note 3 gives details of exceptional costs and income.

## 2. Segment information (continued)

### Business segments

	Revenue		Headline <sup>(2)</sup> operating profit/(loss)		Operating profit/(loss)	
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December	31 December	31 December
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m
<b>Continuing operations</b>						
Energy	229.4	-	30.9	-	26.3	-
Lifting	232.3	-	35.7	-	29.1	-
Dynacast	246.3	235.9	33.4	28.9	28.7	25.6
Other industrial	230.3	52.7	16.4	3.9	15.5	3.9
Central – corporate	-	-	(10.6)	(5.8)	(20.3)	(4.7)
Central – LTIPs <sup>(1)</sup>	-	-	(6.2)	(2.0)	(6.2)	(3.9)
Continuing operations total	938.3	288.6	99.6	25.0	73.1	20.9
Discontinued operations	150.5	122.7	(7.3)	12.5	(70.5)	9.8
<b>Total</b>	<b>1,088.8</b>	<b>411.3</b>	<b>92.3</b>	<b>37.5</b>	<b>2.6</b>	<b>30.7</b>

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

<sup>(2)</sup> As defined on the income statement.

	Total assets		Total liabilities	
	31 December	31 December	31 December	31 December
	2008	2007	2008	2007
	£m	£m	£m	£m
<b>Continuing operations</b>				
Energy	760.9	-	302.0	-
Lifting	837.1	-	205.8	-
Dynacast	349.1	322.9	83.4	80.7
Other industrial	237.3	31.5	168.2	11.1
Central – corporate	255.8	27.9	889.0	42.2
Central – LTIPs <sup>(1)</sup>	-	-	4.7	1.5
Continuing operations total	2,440.2	382.3	1,653.1	135.5
Discontinued operations	92.9	32.4	72.5	11.7
<b>Total</b>	<b>2,533.1</b>	<b>414.7</b>	<b>1,725.6</b>	<b>147.2</b>

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

	Capital expenditure		Depreciation and computer software amortisation	
	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December
	2008	2007	2008	2007
	£m	£m	£m	£m
<b>Continuing operations</b>				
Energy	8.5	-	3.8	-
Lifting	5.0	-	4.5	-
Dynacast	8.0	5.4	7.7	6.8
Other industrial	8.1	2.8	4.8	1.6
Central – corporate	0.9	-	0.4	0.1
Continuing operations total	30.5	8.2	21.2	8.5
Discontinued operations	3.8	10.5	3.5	3.3
<b>Total</b>	<b>34.3</b>	<b>18.7</b>	<b>24.7</b>	<b>11.8</b>

## 2. Segment information (continued)

### Geographical area

	Revenue		Headline <sup>(2)</sup> operating profit/(loss)		Operating profit/(loss)	
	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
<b>Continuing operations</b>						
North America	289.4	76.9	34.9	7.8	27.3	5.4
Europe <sup>(3)</sup>	269.7	107.9	38.3	15.0	35.2	14.1
UK	274.4	47.3	31.5	3.5	25.8	3.5
Asia	90.4	56.5	10.6	6.5	10.6	6.5
Rest of world	14.4	-	1.1	-	0.7	-
Central – corporate	-	-	(10.6)	(5.8)	(20.3)	(4.7)
Central - LTIPs <sup>(1)</sup>	-	-	(6.2)	(2.0)	(6.2)	(3.9)
Continuing operations total	938.3	288.6	99.6	25.0	73.1	20.9
Discontinued operations	150.5	122.7	(7.3)	12.5	(70.5)	9.8
<b>Total</b>	<b>1,088.8</b>	<b>411.3</b>	<b>92.3</b>	<b>37.5</b>	<b>2.6</b>	<b>30.7</b>

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

<sup>(2)</sup> As defined on the income statement.

<sup>(3)</sup> Revenue in Europe includes non Euro denominated currencies of £42.5 million (2007: £nil). Headline <sup>(2)</sup> operating profit in Europe includes non Euro denominated currencies of £8.0 million (2007: £nil).

	Total assets		Total liabilities	
	31 December 2008 £m	31 December 2007 £m	31 December 2008 £m	31 December 2007 £m
<b>Continuing operations</b>				
North America	809.7	156.1	180.9	27.4
Europe <sup>(2)</sup>	757.1	122.8	247.6	36.1
UK	518.3	34.4	296.0	13.2
Asia	73.9	41.1	25.6	15.1
Rest of world	25.4	-	9.3	-
Central – corporate	255.8	27.9	889.0	42.2
Central - LTIPs <sup>(1)</sup>	-	-	4.7	1.5
Continuing operations total	2,440.2	382.3	1,653.1	135.5
Discontinued operations total	92.9	32.4	72.5	11.7
<b>Total</b>	<b>2,533.1</b>	<b>414.7</b>	<b>1,725.6</b>	<b>147.2</b>

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

<sup>(2)</sup> Total assets in Europe includes non Euro denominated currencies of £135.3 million (2007: £nil). Total liabilities in Europe includes non Euro denominated currencies of £89.7 million (2007: £nil).

## 2. Segment information (continued)

	Capital expenditure		Depreciation and computer software amortisation	
	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
<b>Continuing operations</b>				
North America	8.3	1.0	6.3	2.4
Europe <sup>(1)</sup>	11.4	2.9	8.2	3.2
UK	6.3	2.2	4.1	1.4
Asia	3.5	2.1	2.1	1.4
Rest of world	0.1	-	0.1	-
Central – corporate	0.9	-	0.4	0.1
Continuing operations total	30.5	8.2	21.2	8.5
Discontinued operations total	3.8	10.5	3.5	3.3
<b>Total</b>	<b>34.3</b>	<b>18.7</b>	<b>24.7</b>	<b>11.8</b>

<sup>(1)</sup> Capital expenditure in Europe includes non Euro denominated currencies of £5.9 million (2007: £nil). Depreciation and computer software amortisation includes non Euro denominated currencies of £1.8 million (2007: £nil).

## 3. Exceptional costs and income

	Year ended 31 December 2008 £m	Restated <sup>(1)</sup> Year ended 31 December 2007 £m
<b>Exceptional costs</b>		
<b>Continuing operations</b>		
FKI head office closure	(8.0)	-
Fishercast reorganisation	(2.4)	-
Realisation of losses on captive insurance investments	(1.7)	-
Loss on disposal of subsidiaries and joint ventures	(0.8)	-
Dynacast restructure	-	(1.5)
Crystallisation of Melrose Original Incentive Scheme	-	(1.9)
<b>Total exceptional costs</b>	<b>(12.9)</b>	<b>(3.4)</b>

<sup>(1)</sup> Prior periods have been restated to include the results of the MVC segment within discontinued operations.

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

Since acquisition of the Fishercast businesses in August 2008, reorganisation costs have been incurred during the integration with the Dynacast segment totalling £2.4 million.

During 2008, Group management made the decision to realise the losses on underperforming assets held within the captive insurance company which will result in a loss of £1.7 million.

During 2008, certain assets and liabilities have been disposed of within the Bridon and MPC businesses resulting in a loss of £0.8 million.

The Dynacast restructuring costs in 2007 related mainly to the acquisitions of Techmire and QZD in Canada.

On 14 August 2007, the Shareholders approved the early crystallisation of the Melrose Original Incentive Scheme resulting in an accelerated IFRS 2 charge and associated National Insurance charge.

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

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £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>	<b>(23.1)</b>	-

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 the year both the US private placements and the Eurobond have been redeemed at a premium and the existing bank debt has been 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 the year, there has been a significant reduction in international interest rates which has been 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.

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
<b>Exceptional income</b>		
<b>Continuing operations</b>		
Pension curtailment gain	-	1.1
<b>Total exceptional income</b>	-	1.1

In 2007, following the disposal of the OEM division, all employees in this segment belonging to the McKechnie UK defined benefit pension plan became deferred members. The curtailment gain associated with this was £1.1 million.

### 4. Tax

Analysis of charge/(credit) in year:	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2008 £m	Year <sup>(1)</sup> ended 31 December 2007 £m	Year ended 31 December 2008 £m	Year <sup>(1)</sup> ended 31 December 2007 £m	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Current tax	21.1	6.6	(0.2)	(1.7)	20.9	4.9
Deferred tax	(11.0)	(1.1)	(7.2)	4.3	(18.2)	3.2
<b>Total income tax charge/(credit)</b>	<b>10.1</b>	<b>5.5</b>	<b>(7.4)</b>	<b>2.6</b>	<b>2.7</b>	<b>8.1</b>
Tax charge on headline <sup>(2)</sup> operating profit after finance costs and income	21.8	7.1	0.2	2.9	22.0	10.0
Tax on exceptional operating costs	(1.9)	(1.0)	(7.6)	-	(9.5)	(1.0)
Tax on exceptional finance costs	(5.9)	-	-	-	(5.9)	-
Tax in respect of intangible asset amortisation excluding computer software	(3.9)	(0.6)	-	(0.3)	(3.9)	(0.9)
<b>Total income tax charge/(credit)</b>	<b>10.1</b>	<b>5.5</b>	<b>(7.4)</b>	<b>2.6</b>	<b>2.7</b>	<b>8.1</b>

<sup>(1)</sup> Prior periods have been restated to include the results of the MVC segment within discontinued operations.

<sup>(2)</sup> As defined on the income statement.

Of the charge to current tax, approximately £nil (2007: £2.6 million) related to trading in the discontinued divisions, which were disposed of during the year. No tax charge or credit arose on the net loss of £39.9 million on the disposal of the relevant subsidiaries. A credit of £7.4 million (2007: £nil) related to losses arising in businesses held for sale.

#### 4. Tax (continued)

The average standard rate of corporation tax in the UK for the year was 28.5% (2007: 30%). A tax charge arises on the loss in the year, as explained below:

	Year ended 31 December 2008 £m	Restated <sup>(1)</sup> Year ended 31 December 2007 £m
Profit/(loss) on ordinary activities before tax:		
Continuing operations	25.8	24.0
Discontinued operations	(31.0)	7.5
	(5.2)	31.5
Tax on (loss)/profit on ordinary activities at UK corporate tax rate 28.5% (2007: 30%)	(1.5)	9.5
Tax effect of:		
Net permanent differences	(0.1)	0.6
Non deductible exceptional items	3.6	-
Adjustment in respect of foreign tax rates	(1.0)	0.1
Timing differences not recognised in deferred tax	2.6	(1.7)
Deductible items not in the income statement	-	(0.9)
Prior year tax adjustments	(0.9)	0.5
<b>Total tax charge for the year</b>	<b>2.7</b>	<b>8.1</b>

<sup>(1)</sup> Prior periods have been restated to include the results of the MVC segment within discontinued operations.

#### 5. Earnings per share

	Year ended 31 December 2008 £m	Restated <sup>(1)</sup> Year ended 31 December 2007 £m
<b>Earnings</b>		
(Loss)/profit for the purposes of basic earnings per share	(48.3)	214.8
Less loss/(profit) for the year from discontinued operations	63.5	(196.5)
Earnings for basis of earnings per share from continuing operations	15.2	18.3
Exceptional costs – operating	12.9	3.4
Exceptional costs – finance	23.1	-
Exceptional income	-	(1.1)
Intangible asset amortisation	13.6	1.8
Tax on both exceptional items and intangible asset amortisation <sup>(3)</sup>	(11.7)	(1.6)
<b>Earnings for basis of headline<sup>(2)</sup> earnings per share from continuing operations</b>	<b>53.1</b>	<b>20.8</b>

<sup>(1)</sup> Prior periods have been restated to include the results of the MVC segment within discontinued operations.

<sup>(2)</sup> As defined on the income statement.

<sup>(3)</sup> Other than computer software.

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	315.6	210.5
Further shares for the purposes of fully diluted earnings per share (million)	-	6.3

## 5. Earnings per share (continued)

	Year ended 31 December 2008 Pence	Restated <sup>(1)</sup> Year ended 31 December 2007 Pence
<b>Earnings per share</b>		
<b>Basic earnings per share</b>		
From continuing and discontinued operations	(15.3)	102.0
From continuing operations	4.8	8.7
From discontinued operations	(20.1)	93.3
<b>Fully diluted earnings per share</b>		
From continuing and discontinued operations	(15.3)	99.1
From continuing operations	4.8	8.4
From discontinued operations	(20.1)	90.7
<b>Headline <sup>(2)</sup> earnings per share</b>		
From continuing operations	16.8	9.9
<b>Fully diluted headline <sup>(2)</sup> earnings per share</b>		
From continuing operations	16.8	9.6

<sup>(1)</sup> Prior periods have been restated to include the results of the MVC segment within discontinued operations.

<sup>(2)</sup> As defined on the income statement.

## 6. Acquisition of subsidiaries

On 1 July 2008, the Group acquired 100% of the issued share capital of FKI plc. FKI plc is the parent company of a group of companies operating in segments described in note 2. The FKI plc dividend of £17.7 million was paid by Melrose PLC on 15 July 2008.

The following assets and liabilities were acquired. Fair values are provisional as at 31 December 2008, based on the information held to date.

	Acquiree's carrying amount £m	Fair value adjustments £m	Fair value £m	Total £m
<b>FKI</b>				
Property, plant and equipment	219.1	(21.9)	197.2	
Intangible assets and computer software	74.3	302.7	377.0	
Derivative financial assets	38.6	-	38.6	
Associate investments	0.9	(0.5)	0.4	
Inventories	181.1	56.8	237.9	
Trade and other receivables	340.5	(57.5)	283.0	
Bank and cash balances	85.3	-	85.3	
Trade and other payables	(310.6)	(32.1)	(342.7)	
Provisions	(25.8)	(104.6)	(130.4)	
Deferred tax	(22.4)	(86.4)	(108.8)	
Post-retirement benefit obligation	(20.6)	(75.1)	(95.7)	
Current tax	(33.0)	19.1	(13.9)	
Interest bearing loans and borrowings	(597.2)	8.4	(588.8)	
Assets held for resale	92.6	(44.5)	48.1	
	22.8	(35.6)		(12.8)
Goodwill				511.5
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

## 6. Acquisition of subsidiaries (continued)

The fair value adjustments to property, plant and equipment primarily relate to property valuations at the date of acquisition.

The fair value adjustments to intangible assets relate to the valuation of brand names and customer relationships held within the FKI group deemed separately identifiable and measureable at the date of acquisition. The fair value adjustment to deferred tax primarily relates to the valuation of the intangibles noted above.

The fair value adjustments to inventories arise primarily on changes to accounting policies as well as additional provisions recognised against net realisable value.

The fair value adjustments to trade and other receivables predominately relate to the write off or provision against doubtful debts as well as a change to accounting policies.

The fair value adjustments to trade and other payables arise on the recognition of identifiable and measurable liabilities at the date of acquisition.

The fair value adjustments to provisions relate primarily to environmental and legal claims acquired.

The fair value adjustment to post retirement benefit obligations arises from aligning the assumptions used in valuing the FKI schemes with Melrose PLC's assumptions.

The goodwill arising on acquisition of the FKI group is attributable to the anticipated profitability and cash flows arising from the businesses acquired.

The FKI group contributed £635.8 million revenue and £78.7 million of continuing headline operating profit during the period since acquisition.

If the acquisition had taken place at the beginning of 2008, the continuing revenue for the Group would have been £1,533.5 million and headline operating profit from continuing operations would have been £165.0 million.

## 7. 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 interest rate, foreign currency and liquidity risk are included in note 9.

	Interest rate %	Final Maturity	Current		Non Current		Total	
			31 December 2008 £m	31 December 2007 £m	31 December 2008 £'000	31 December 2007 £m	31 December 2008 £'000	31 December 2007 £m
<b>Fixed rate obligations</b>								
Euro loan (Austria)	1.5	July 2011	0.6	0.5	0.9	1.3	1.5	1.8
Redeemable Preference C shares	-	June 2008	-	7.2	-	-	-	7.2
			<b>0.6</b>	<b>7.7</b>	<b>0.9</b>	<b>1.3</b>	<b>1.5</b>	<b>9.0</b>
<b>Floating rate obligations</b>								
Bank borrowings - US Dollar loan	LIBOR + 2%	April 2013	-	-	469.8	-	469.8	-
Bank borrowings - Euro loan	EURIBOR + 2%	April 2013	-	-	198.4	-	198.4	-
Bank borrowings - Sterling loan	LIBOR + 2%	April 2013	-	-	50.0	-	50.0	-
Bank borrowings - Sterling loan	LIBOR + 0.35%	April 2010	-	-	-	11.0	-	11.0
Finance leases			0.1	0.4	1.1	0.8	1.2	1.2
			<b>0.1</b>	<b>0.4</b>	<b>719.3</b>	<b>11.8</b>	<b>719.4</b>	<b>12.2</b>
Unamortised finance costs			-	-	(10.4)	-	(10.4)	-
			<b>0.7</b>	<b>8.1</b>	<b>709.8</b>	<b>13.1</b>	<b>710.5</b>	<b>21.2</b>

At 31 December 2008, the bank borrowings were drawn under the Group's £750 million five year committed term and revolving credit facility. A number of Group companies act as guarantors to this facility. Drawdowns bear interest at interbank rates of interest plus an initial margin of 2.0%. This margin is determined by reference to the Group's performance under its debt cover covenant ratio and ranges between 1.25% and 2.35%.

The interest rate re-pricing profile of financial liabilities, after taking into account hedging interest rate derivatives, is described in note 9.

The 9,053,594 Redeemable Preference C Shares were redeemed on 30 June 2008 at a value of £7.4 million.

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

### Maturity of financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative 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 year LIBOR curve, calculations for USD debt take into account interest rate swaps taken out in January 2009 on \$546.0 million of debt as described in note 9.

	Bank loans £m	Finance lease obligations £m	Redeemable Preference C Shares £m	Other financial liabilities £m	Total £m
Within one year	19.1	0.1	-	448.1	467.3
In one to two years	33.5	1.1	-	3.1	37.7
In two to three years	33.4	-	-	-	33.4
After three years	776.2	-	-	-	776.2
Effect of financing rates	(152.9)	-	-	-	(152.9)
<b>31 December 2008</b>	<b>709.3</b>	<b>1.2</b>	<b>-</b>	<b>451.2</b>	<b>1,161.7</b>
Within one year	1.1	0.4	7.4	77.9	86.8
In one to two years	1.0	0.4	-	-	1.4
In two to three years	11.7	0.4	-	-	12.1
After three years	0.4	0.1	-	-	0.5
Effect of financing rates	(1.4)	(0.1)	(0.2)	-	(1.7)
31 December 2007	12.8	1.2	7.2	77.9	99.1

During the year, the Group arranged a new committed bank facility that provides a term loan and revolver facility. This facility expires in April 2013 and throughout the year the Group complied with the covenants. The revolver facility is for £250 million and is available for general corporate purposes. At 31 December 2008, the undrawn amount of the revolver facility was £108.6 million (2007: £25 million). The revolver facility incurs commitment fees and provides funding at floating rates.

## 8. Retirement benefit schemes

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

The most significant schemes for continuing operations are:

- The FKI UK Pension Scheme and Cleco Scheme. These are defined benefit in type and are funded schemes 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 ("the Plan") which provides defined benefit pensions for its members. The assets of the Plan are held in a fund administered by McKechnie Pension Trust Limited, an independent trustee company. An actuarial valuation of the Plan was carried out at 31 December 2005 by a qualified independent actuary. Plan assets are stated at their bid value at 31 December 2008.
- The FKI Group North America Plan. This is defined benefit in type and is a funded scheme 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 Dynacast schemes in the US are funded schemes of a defined benefit type with assets held in separate trustee administered funds.
- In Germany and Austria, unfunded defined benefit arrangements are operated by Dynacast.
- There are also obligations to provide termination indemnities in Italy and France to current Dynacast employees.

The cost of these schemes 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 UK full actuarial valuation as of 31 December 2005 updated at 31 December 2008 by independent actuaries and United States full actuarial valuations as of 31 December 2007 updated at 31 December 2008 by independent actuaries.

## 8. Retirement benefit schemes (continued)

The Group also operates a number of unfunded post-retirement medical and welfare benefit schemes, principally in the United States.

The major weighted average assumptions used at 31 December 2008 by the actuaries in calculating the Group's pension scheme assets and liabilities together with details of the net pension assets or liabilities are as set out below:

	FKI UK Plans % p.a.	McKechnie UK Plan % p.a.	FKI North America Plans % p.a.	US Medical % p.a.	Other plans % p.a.
Rate of increase in salaries	3.25	3.25	3.25	N/A	3.0
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	2.0

The weighted average assumptions used at 31 December 2007 are set out below:

	McKechnie UK Plan % p.a.	Other plans % p.a.
Rate of increase in salaries	3.8	3.0
Rate of increase in pensions in payment	3.3	1.9
Discount rate	5.7	5.9
Inflation assumption	3.3	2.3

### Mortality

The mortality assumptions for the Plans are consistent with the previous year. The mortality assumptions at 31 December 2008 relate to the PA92 medium cohort tables with an age adjustment of two years and an improvement floor of 1%. This is considered appropriate given the Plan's geographical and industrial sector.

The average life expectancy underlying the value of defined benefit schemes, which have been determined by reference to applicable mortality statistics, are set out below:

Life expectancy	31 December 2008 years	31 December 2007 years
Male member currently aged 65	85.8	85.6
Male member aged 65 in 2020/2021	86.9	86.8

The amount recognised in the balance sheet arising from liabilities in respect of defined benefit schemes is as follows:

	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m	31 December 2005 £m	31 December 2004 £m
Plan liabilities	(939.7)	(148.4)	(147.9)	(145.5)	-
Plan assets	810.5	123.2	92.5	85.0	-
Limit on pension scheme surplus	(14.1)	-	-	-	-
Net liabilities	(143.3)	(25.2)	(55.4)	(60.5)	-

## 8. Retirement benefit schemes (continued)

The plan liabilities and assets at 31 December 2008 were split by scheme as follows:

	FKI UK Plans £m	McKechnie UK Plan £m	FKI North America Plans £m	US Medical £m	Other plans £m	<b>Total £m</b>
Plan liabilities	(555.2)	(110.7)	(210.9)	(27.0)	(35.9)	<b>(939.7)</b>
Plan assets	494.5	116.2	182.9	-	16.9	<b>810.5</b>
Limit on pension scheme surplus	-	(14.1)	-	-	-	<b>(14.1)</b>
Net liabilities	(60.7)	(8.6)	(28.0)	(27.0)	(19.0)	<b>(143.3)</b>

This amount is presented in the balance sheet:

	<b>31 December 2008 £m</b>	31 December 2007 £m	31 December 2006 £m	31 December 2005 £m	31 December 2004 £m
Non-current liabilities					
- unfunded plans	<b>45.2</b>	4.1	10.9	8.7	-
- funded plans	<b>84.0</b>	21.1	44.5	51.8	-
Limit on pension scheme surplus	<b>14.1</b>	-	-	-	-
	<b>143.3</b>	25.2	55.4	60.5	-

In accordance with IAS 19, the value of the assets held within the McKechnie UK Plan have been limited by £14.1 million to show a deficit on the scheme equal to the remaining committed contributions.

Expected returns and fair value of assets

	Expected return		Fair value of assets	
	<b>Year ended 31 December 2008 %</b>	Year ended 31 December 2007 %	<b>Year ended 31 December 2008 £m</b>	Year ended 31 December 2007 £m
Equity instruments	<b>8.3</b>	7.4	<b>230.1</b>	33.7
Debt instruments	<b>5.3</b>	4.6	<b>473.5</b>	3.9
Other assets	<b>6.4</b>	6.8	<b>106.9</b>	85.6
Weighted average / total	<b>6.3</b>	6.9	<b>810.5</b>	123.2

The expected return on plan assets for 2008 is based on market expectations at 1 January 2008 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.

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

	<b>Year ended 31 December 2008 £m</b>	Year ended 31 December 2007 £m
In arriving at operating profit (included within cost of sales, selling and distribution costs and administrative expenses)		
- current service cost	<b>5.2</b>	0.4
- effects of curtailments and settlements	-	(1.1)
Included in finance costs		
- interest cost	<b>33.4</b>	7.4
- expected return on assets	<b>(31.6)</b>	(7.0)

The actual return on scheme assets was a loss of £47.3 million (2007: gain of £9.3 million).

The amount recognised in the Consolidated Statement of Recognised Income and Expense is as follows:

## 8. Retirement benefit schemes (continued)

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Actuarial gains on scheme liabilities	70.7	1.2
Actuarial (losses)/gains on scheme assets	(78.9)	2.3
Limit on pension scheme surplus	(14.1)	-
	<b>(22.3)</b>	<b>3.5</b>

The cumulative amount of actuarial gains and losses recognised in the Consolidated Statement of Recognised Income and Expenses is a total loss of £15.4 million (2007: gain of £6.9 million).

Movements in the benefit liabilities during the year:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
At beginning of year	148.4	147.9
Acquisition	781.7	-
Disposals	(2.4)	(0.6)
Current service cost	5.2	0.4
Interest cost	33.4	7.4
Actuarial gains	(70.7)	(1.2)
Benefits paid	(25.7)	(3.9)
Plan settlements	-	(0.8)
Plan curtailments	-	(1.1)
Currency loss	69.8	0.3
At end of year	<b>939.7</b>	<b>148.4</b>

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

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
At beginning of year	123.2	92.5
Acquisition	686.0	-
Disposals	(1.5)	(0.4)
Expected return on assets	31.6	7.0
Actuarial (losses)/gains	(78.9)	2.3
Employer contributions	20.0	26.7
Benefits paid	(25.7)	(3.9)
Plan settlements	-	(0.8)
Currency gain/(loss)	55.8	(0.2)
At end of year	<b>810.5</b>	<b>123.2</b>

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 Scheme.

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

## 9. 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 2008 and 31 December 2007:

	Lifting £m	Energy £m	Dynacast £m	Other Industrial £m	Central £m	MVC £m	Total continuing £m	Assets held for resale £m	Total £m
<b>31 December 2008</b>									
<b>Financial assets</b>									
Bank deposits	-	-	-	-	165.7	-	165.7	2.0	167.7
Trade receivables	70.2	117.3	39.7	57.2	0.3	-	284.7	27.3	312.0
Derivative financial assets	0.4	0.5	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	(8.0)	(11.3)	(1.8)	(4.2)	-	-	(25.3)	-	(25.3)
Other financial liabilities	(88.4)	(150.2)	(57.6)	(124.8)	(30.2)	-	(451.2)	(48.9)	(500.1)
<b>31 December 2007</b>									
<b>Financial assets</b>									
Bank deposits	-	-	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 shares	-	-	-	-	(7.2)	-	(7.2)	-	(7.2)
Other financial liabilities	-	-	(56.2)	(10.7)	(2.4)	(8.6)	(77.9)	-	(77.9)

### Credit risk

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

	Lifting £m	Energy £m	Dynacast £m	Other industrial £m	Central £m	MVC £m	Total continuing £m	Assets held for sale £m	Total £m
<b>31 December 2008</b>									
Bank deposits	-	-	-	-	165.7	-	165.7	2.0	167.7
Trade receivables	70.2	117.3	39.7	57.2	0.3	-	284.7	27.3	312.0
Derivative financial assets	-	-	-	-	-	-	-	-	-
- foreign exchange	0.4	0.5	0.1	2.1	-	-	3.1	-	3.1
<b>31 December 2007</b>									
Bank deposits	-	-	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	-	-	-	-	-	-	-	-	-
- foreign exchange	-	-	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.

### Fair values

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

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

### Foreign exchange contracts

As at 31 December 2008, 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 contracts with principals in excess of Sterling £1 million equivalent are as follows:

	31 December 2008 Millions	31 December 2008 Average rate	31 December 2007 Millions	31 December 2007 Average rate
Sell Danish Krone / Buy Sterling	DKK 27.9	DKK 9.23	-	-
Sell Euro / Buy Sterling	EUR 14.5	EUR 1.36	EUR 9.6	EUR 1.45
Sell Euro / Buy Danish Krone	EUR 54.2	DKK 7.48	-	-
Sell Hong Kong Dollar / Buy Danish Krone	HKD 42.2	HKD 1.53	-	-
Sell Norwegian Krone / Buy Danish Krone	NOK 49.7	NOK 1.10	-	-
Sell Norwegian Krone / Buy Sterling	NOK 22.2	NOK 10.45	-	-
Sell Sterling / Buy Czech Koruna	GBP 20.2	CZK 28.45	-	-
Sell Sterling / Buy Danish Krone	GBP 1.6	DKK 9.77	-	-
Sell UAE Dirham / Buy Sterling	AED 7.5	AED 6.65	-	-
Sell US Dollar / Buy Canadian Dollar	USD 37.2	CAD 1.14	USD 13.7	CAD 1.03
Sell US Dollar / Buy Chinese Yuan Renminbi	USD 4.3	CNY 6.75	USD 19.7	CNY 7.30
Sell US Dollar / Buy Danish Krone	USD 35.1	DKK 5.25	-	-
Sell US Dollar / Buy Euro	USD 5.7	EUR 0.69	-	-
Sell US Dollar / Buy Singapore Dollar	USD 35.8	SGD 1.40	USD 14.3	SGD 1.46
Sell US Dollar / Buy Sterling	USD 105.9	USD 1.84	-	-
Sell US Dollar / Buy Malaysian Ringgit	USD 4.7	MYR 3.32	USD 8.5	MYR 3.35

The foreign exchange contracts all mature between January 2009 and December 2010.

The fair value of the contracts at 31 December 2008 was a liability of £20.2m (2007: £0.4 million asset).

As at 31 December 2008, the Group held a number of copper swap contracts that were designated as cash flow hedges. These swap contracts lock the Group into fixed copper prices to protect against fluctuations in the market price of copper. The terms of these contracts are:

Commodity swaps	Commodity	Total quantity	Maturity	Pricing
Group pays	Copper	800 tonnes	January 2009 to March 2009	Month-end settlements at fixed price of US Dollar 6,680 per tonne
Group receives	Copper	800 tonnes	January 2009 to March 2009	Month-end settlements at the average LME price for each month

The fair value of the contracts at 31 December 2008 was a liability of £2.0 million (2007: £nil).

### Hedge of net investments in foreign entities

Included in interest bearing loans at 31 December 2008 were the following amounts which were designated as hedges of net investments in the Group's subsidiaries in Europe and USA and were being used to reduce the exposure to foreign exchange risks.

Borrowings in local currency:

	31 December 2008 £m	31 December 2007 £m
US Dollar	469.8	-
Euro	198.4	-

On 1 July 2008, the Group assumed FKI plc's existing debt, which consisted of US Dollar denominated US Private Placements, a Euro denominated Eurobond and a revolving credit facility. This debt was wholly repaid by 31 December 2008, having previously been partially overlaid with a number of cross-currency swaps and been designated as a hedge of net investments in Europe and North America.

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

### Interest rate sensitivity analysis

A one percentage point rise in market interest rates for all currencies would (decrease)/increase profit before tax by the following amounts:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Sterling	(0.5)	0.1
US Dollar	(4.3)	0.1
Euro	(1.9)	0.1
	(6.7)	0.3

### Interest rate risk management

The Group maintained a net cash position during the first half of the year to 31 December 2008 and interest rate protection was not considered necessary. The FKI debt assumed on 1 July 2008 was substantially held at floating rates of interest. This debt, including swaps used to synthetically alter the debt's denomination, was repaid prior to 31 December 2008, being funded through floating rate debt drawn under the new £750 million committed facility. This debt carries a cost of LIBOR plus an initial 2.0% margin.

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 interest rate hedges have been designated as cash flow hedges.

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

### 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 as defined by IFRS 7 is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

	31 December 2008 £m	31 December 2007 £m
US Dollar	0.4	0.2
Euro	2.4	1.1
Canadian Dollar	1.7	-
Czech Koruna	(0.6)	-

The following table details the increase/(decrease) in Group equity caused by a 10 cent strengthening of the US dollar and Euro against Sterling and a 10% strengthening of the Czech Koruna and Canadian Dollar against Sterling.

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

	31 December 2008 £m	31 December 2007 £m
US Dollar	(0.6)	-
Euro	1.4	-
Canadian Dollar	0.4	-
Czech Koruna	-	-

### Fair value of derivatives

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.

	31 December 2008 £m	31 December 2007 £m
Foreign exchange contracts	(20.2)	0.4
Commodity swaps	(2.0)	-
	(22.2)	0.4

## 10. Cash flow statement

	Year ended 31 December 2008 £m	Restated <sup>(1)</sup> Year ended 31 December 2007 £m
<b>Reconciliation of operating profit to cash generated by continuing operations</b>		
Headline <sup>(2)</sup> operating profit from continuing operations	99.6	25.0
Adjustments for:		
Depreciation of property, plant and equipment	20.7	8.4
Amortisation of computer software	0.5	0.1
Restructuring costs paid and decrease in other provisions	4.1	(1.6)
Operating cash flows before movements in working capital	124.9	31.9
(Increase)/decrease in inventories	(23.2)	2.6
Decrease in receivables	53.8	3.9
Increase/(decrease) in payables	12.4	(4.8)
Cash generated by operations	167.9	33.6
Tax paid	(16.1)	(4.2)
Interest paid	(32.6)	(5.1)
Pension contributions paid	(19.8)	(6.1)
Incentive scheme payments	(2.3)	-
<b>Net cash flow from operating activities from continuing operations</b>	<b>97.1</b>	<b>18.2</b>

<sup>(1)</sup> Prior periods have been restated to include the results of the MVC segment within discontinued operations.

<sup>(2)</sup> As defined on the income statement.

## 10. Cash flow statement (continued)

	Year ended 31 December 2008 £m	Restated <sup>(1)</sup> Year ended 31 December 2007 £m
<b>Cash flow from discontinued operations</b>		
Cash generated from discontinued operations	22.2	3.4
Tax paid	(0.1)	(0.6)
Interest paid	(0.4)	(4.8)
Pension contributions paid	(0.2)	(0.6)
Profit of joint ventures	-	(0.2)
Net cash from/(used in) operating activities from discontinued operations	21.5	(2.8)
Interest received	-	0.1
Purchase of property, plant and equipment	(3.8)	(10.4)
Purchase of computer software	-	(0.1)
Net cash used in investing activities from discontinued operations	(3.8)	(10.4)
Repayments of obligations under finance leases	(0.6)	-
New finance leases	-	0.3
Net cash (used in)/from financing activities from discontinued operations	(0.6)	0.3

<sup>(1)</sup> Prior periods have been restated to include the results of the MVC segment within discontinued operations.

### Net debt reconciliation

	At 31 December 2007 £m	Cash flow <sup>(1)</sup> £m	Foreign exchange difference £m	Acquisitions £m	Disposals £m	Other non- cash movements £m	At 31 December 2008 £m
Cash	46.4	115.1	6.2	-	-	-	167.7
Debt due within one year	(0.5)	0.5	-	-	-	(0.5)	(0.5)
Debt due after one year	(12.3)	30.7	(139.8)	(586.8)	-	(0.9)	(709.1)
Financial derivatives	-	(17.1)	(19.0)	33.1	-	3.0	-
Leases	(1.2)	3.0	(0.3)	(3.3)	0.6	-	(1.2)
Net cash/(debt)	32.4	132.2	(152.9)	(557.0)	0.6	1.6	(543.1)

<sup>(1)</sup> Includes £85.3 million of cash acquired on acquisition of FKI plc.