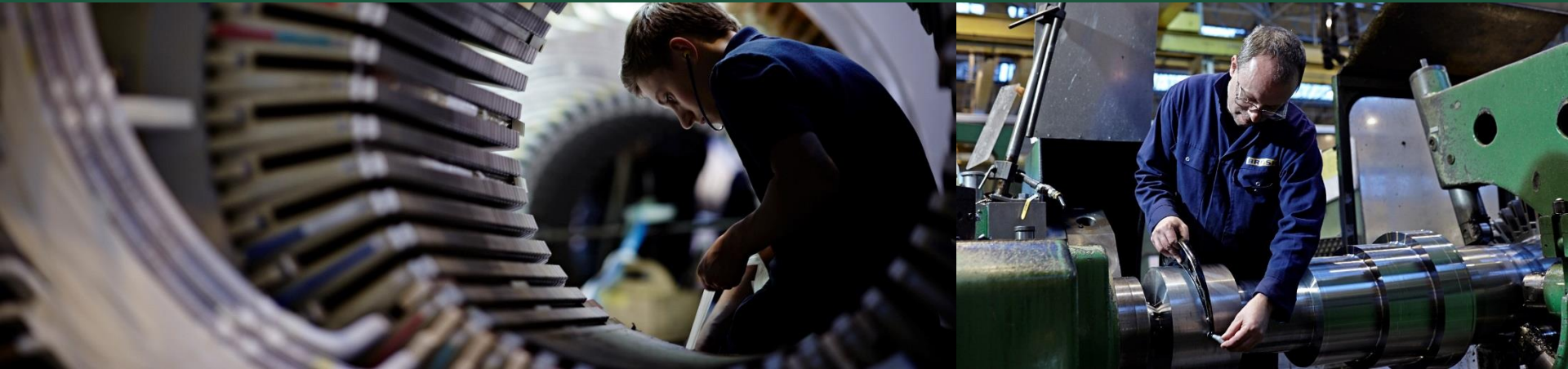




Buy
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Sell

Melrose

Strictly private and confidential



Melrose Industries PLC

Half Year Results

Six months to 30 June 2015

28 July 2015

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Highlights

Highlights in 2015

- Management action produced strong Elster profit improvement
- Brush is performing broadly in line with earlier indications in a tough market
- Melrose net debt at the half year was £742 million, representing a leverage of 2.7x
- The Board has declared an interim dividend of 2.8p (2014: 2.8p) to be paid on 3 September 2015
- Proposed sale of Elster to Honeywell for £3.3 billion, a multiple of 3.1x 2014 revenue and 14.3x 2014 headline¹ EBITDA²
- The current intention is to return over £2 billion to shareholders following the sale
- In addition £0.9 billion of pension liabilities, with an accounting deficit of £134 million, which include the Group's FKI UK and McKechnie UK defined benefit pension plans, will be transferred to Honeywell with the sale of Elster



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Melrose → the first 11 years

Melrose → the first 11 years¹

From the first acquisition (May 2005) to now...

- Shareholder gain → £2.5 bn
- Average annual return for a shareholder since the first acquisition → 22%
- Average return on equity across all three acquisitions → 2.9x

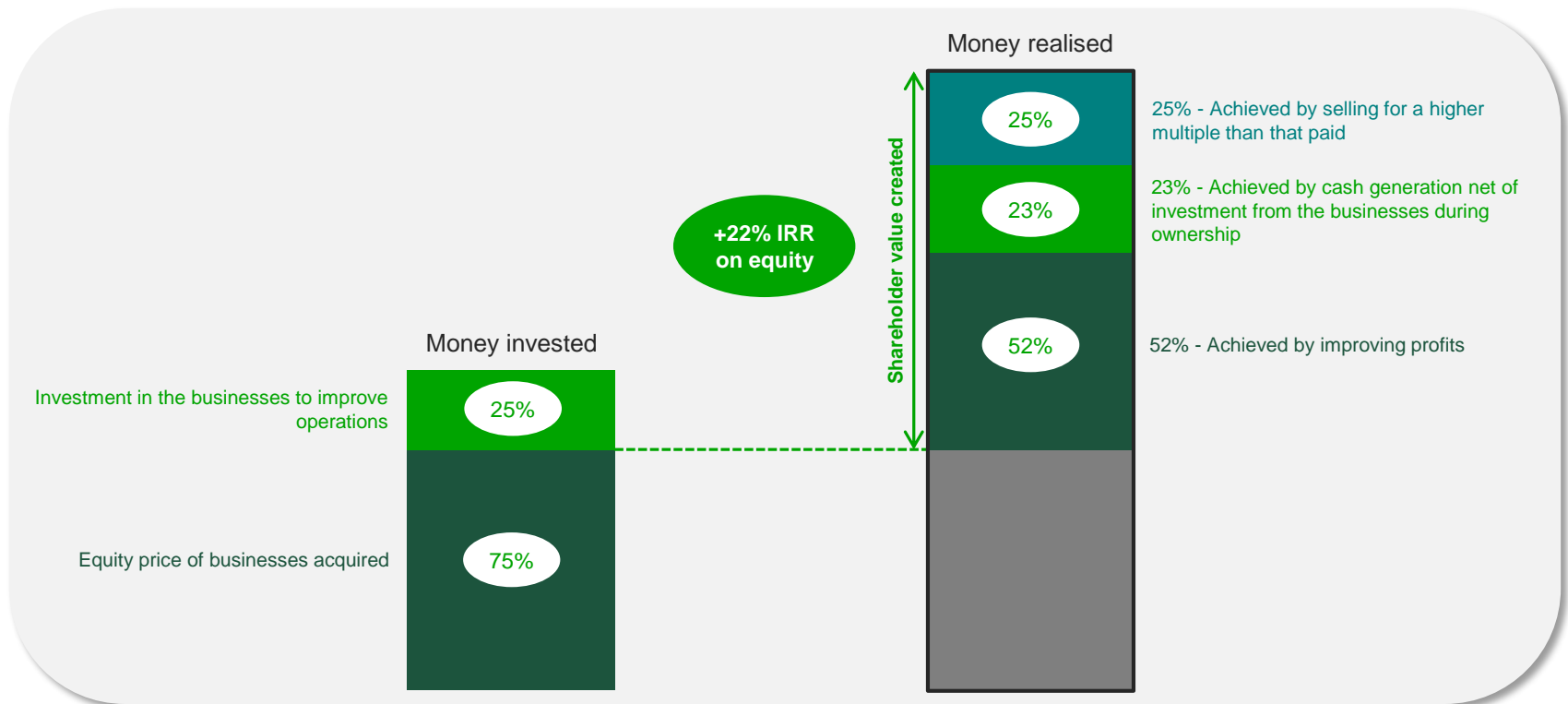
The future...

- Over the 11 years Melrose has raised £2.0 billion from shareholders. Post the completion of the Elster sale Melrose will have returned more than £3.8 billion
- Shareholders continue to own a valuable turbogenerator business and a 'Buy, Improve, Sell' business model where management believes it can create significant further value from similar deals in the future

Melrose → the first 11 years

How has value been created?

- 22% IRR on equity
- Achieved through changing management focus and investing in the businesses
- The investment by Melrose in the businesses in capital expenditure and restructuring projects has been as large as one third of the equity price paid
- The shareholder value has been created by improving the profits of the businesses (equating to 52% of the value creation), generating cash net of investment from the businesses during ownership (23%) and selling the businesses for a higher multiple than that paid (25%)





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The Elster deal

The Elster deal

- Melrose has entered into an agreement with Honeywell for the sale of Elster for £3.3 billion in cash on completion
- Following completion Melrose intends to make a capital return to shareholders of over £2 billion
- Subject to customary anti trust clearances and Melrose shareholder approval
- Expected completion in the first quarter of 2016
- In addition the majority of pension schemes in the Melrose Group will transfer with Elster

The Elster metrics

Increase in equity value
within 3 years

2.3x

Average annual equity
return

33%

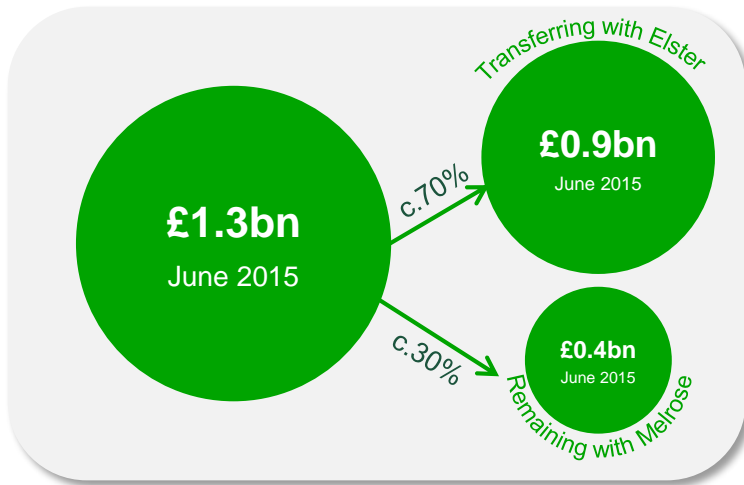
Net cash increase within
3 years

£1.5bn

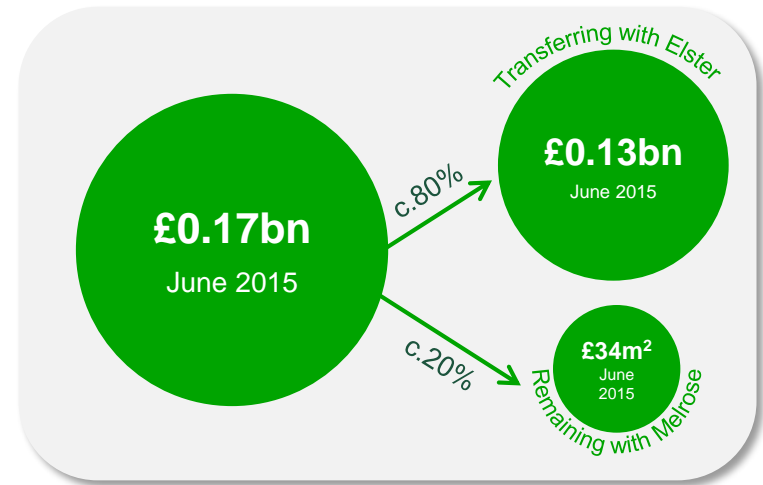
The Elster deal → pension schemes

- £0.9 billion, c.70% of the total Melrose pension liabilities transferring with Elster
- £0.13 billion, c.80% of the total Melrose pension deficit transferring with Elster

Gross pension liabilities



Accounting deficit



As per 30 June 2015 accounts £m	Ongoing annual P&L charge					
	Assets	Liabilities	(Deficit)/ surplus	Headline ¹ operating profit	Finance costs	Annual contributions
FKI UK	496	(532)	(36)			15.0
McKechnie UK	209	(202)	7			5.2
Elster Europe	10	(102)	(92)			5.1
Elster US	31	(43)	(12)			0.5
Elster Other	2	(3)	(1)			0.1
Disposed total	748	(882)	(134)			25.9
UK	198	(217)	(19)	-	(1)	5.0
US	168	(183)	(15)	(1)	(1)	0.3
Continuing total	366	(400)	(34)	(1)	(2)	5.3

→ Transferring with Elster

→ Remaining with Melrose



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Summary financial results

Income Statement

H1 2015 statutory format

Continuing operations £m	Headline ¹	Other	Total
Revenue	117.7	-	117.7
Operating profit/(loss)	6.1	(9.3)	(3.2)
Operating margin %	5.2%	n/a	(2.7%)
Loss before tax	(4.1)	(9.3)	(13.4)
Tax credit	0.5	0.8	1.3
Loss after tax	(3.6)	(8.5)	(12.1)
Profit from discontinued operations	-	69.8	69.8
(Loss)/profit for the period	(3.6)	61.3	57.7

Highlights

- Elster is shown in discontinued operations
- Income statement not reflective of headline¹ profit before tax because it only includes Brush yet has the full six months interest charge (which includes the funding of the Elster business)
- It is more instructive to look at the individual divisional performances

H1 2015 other non-headline¹ items

Continuing operations £m	Operating	Tax	Total
Intangible asset amortisation	(4.1)	0.8	(3.3)
Restructuring costs	(5.0)	-	(5.0)
Acquisition and disposal costs	(0.2)	-	(0.2)
Total other non-headline¹ items	(9.3)	0.8	(8.5)



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Summary financial results

Cash performance

Profit conversion to cash and investment

Cash generated from trading (after all costs including tax)

£m	Group ⁴ H1 2015
Headline ¹ operating profit	112
Depreciation ²	16
Working capital movement	(19)
Headline¹ operating cash flow (pre capex)	109
Headline¹ EBITDA³ conversion to cash (pre capex) %	86%
Net capital expenditure	(30)
Headline¹ operating cash flow (post capex)	79
Net interest and net tax paid	(14)
Defined benefit pension contributions	(18)
Other (including restructuring)	(43)
Cash generated from trading (after all costs including tax)	4

Highlights

- A reasonable cash performance in the year with an inventory build in Brush to support a heavier second half weighting to results
- Pre completion so no cashflow from the sale of Elster



Brush



“World number one independent supplier of turbogenerators”

www.brush.eu

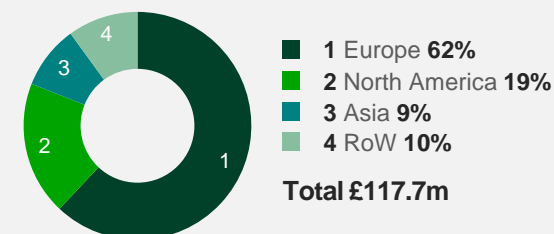
Brush – headline¹ results

		Brush	
£m	H1 2015	Growth ³	
Revenue	117.7	-26%	
Headline ¹ EBITDA ²	18.1	-44%	
Headline ¹ EBITDA ² margin %	15.4%	-5.1ppts	
Headline ¹ operating profit	14.5	-55%	
Headline ¹ operating margin %	12.3%	-8.2ppts	
<i>Order intake</i>	131.1	<i>flat</i>	
<i>Book to bill %</i>	111%		

Highlights

- Revenue and margins impacted by tough market conditions
- Trading weighted towards second half of the year
- Order intake flat year on year and a book to bill of 111% in the period

Revenue by geographical destination





Elster



Gas

“Best-in-class products and solutions for measurement, regulation and the safe control and application of gases”

69% of Elster¹

www.elster.com/en/gas



Electricity

“Meeting the expanding needs of utilities by providing advanced metering products and services worldwide”

18% of Elster¹

www.elster.com/en/electricity



Water

“Metering and communication systems for water utilities and industries”

13% of Elster¹

www.elster.com/en/water

1. Based on H1 2015 revenue

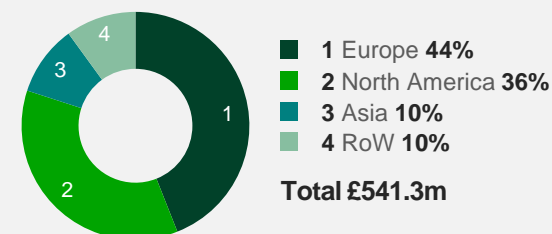
Elster – headline¹ results

£m	Elster ⁴		Gas		Electricity		Water	
	H1 2015	Growth ³	H1 2015	Growth ³	H1 2015	Growth ³	H1 2015	Growth ³
Revenue	541.3	+14% ⁵	370.6	+18% ⁵	98.9	+18%	71.8	-5%
Headline ¹ EBITDA ²	120.9	+20%	100.8	+24%	7.3	+11%	13.7	-4%
Headline ¹ EBITDA ² margin %	22.3%	+1.0ppts	27.2%	+1.3ppts	7.4%	-0.4ppts	19.1%	+0.3ppts
Headline ¹ operating profit	109.0	+22%	93.3	+25%	4.7	+30%	11.9	-3%
Headline ¹ operating margin %	20.1%	+1.3ppts	25.2%	+1.5ppt	4.8%	+0.5ppts	16.6%	+0.4ppts
Order intake	563.5	+18% ⁵	393.4	+20% ⁵	103.5	+24%	66.6	-3%
Book to bill %	104%		106%		105%		93%	

Highlights

- Revenue growth of 14% driven by strong performance in Gas and Electricity
- Operating profit up 22% and operating margin up 1.3 percentage points to 20.1%
- Order intake growth of 18%

Revenue by geographical destination





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Questions