

21 January 2014



MELROSE INDUSTRIES PLC
("MELROSE" or the "COMPANY")

Proposed Return of Capital to Shareholders

Return of Capital highlights:

- Proposed return of capital of 47 pence per share
- Shareholders have the choice as to how to receive the proceeds
- 11 for 13 Share Capital Consolidation
- Melrose well positioned to create superior shareholder value going forward

Realising value for businesses at the appropriate time and returning all or part of this value to Shareholders has been a fundamental part of the "buy, improve, sell" strategy that Melrose has followed since its inception ten years ago. In the second half of 2013, we completed the disposals of five of our 'FKI' businesses¹ for a total consideration of approximately £945 million, together more than tripling shareholder value in respect of these businesses in less than five years of Melrose ownership.

As indicated in our Interim Management Statement on 19 November 2013 and in accordance with our strategy, the Board intends to use part of the net proceeds of these disposals to return approximately £600 million in cash to Shareholders. This is equivalent to 47 pence per Existing Ordinary Share. The balance of the net proceeds has been used to pay down existing borrowings of the Company.

Melrose will today post a circular (the "Circular") to Shareholders regarding a proposed Return of Capital by way of a redeemable share scheme, giving Shareholders a choice to receive their proceeds in a form of either income or capital and, if capital, the timing of such return. Associated with the Return of Capital, there will be a one-off ordinary Share Capital Consolidation in the ratio of 11 for 13. Cheques are expected to be despatched to Shareholders or CREST or bank accounts credited (as appropriate) on 28 February 2014 in respect of the Income Option and Immediate Capital Option and/or on 7 May 2014 in respect of the Deferred Capital Option.

The Return of Capital and associated Share Capital Consolidation require the approval of Shareholders, which will be sought at a General Meeting expected to be held at the offices of Investec at 2 Gresham Street, London EC2V 7QP, at 11.00 a.m. on 7 February 2014.

The Disposals represent a significant return on equity investment and add to the Company's already strong track record. In its first ten years, Melrose has²:

- Grown from an AIM-listed company with a £13 million market capitalisation to approximately £4.1 billion market capitalisation and membership of the FTSE 100 index;

- Created £3 billion of shareholder value;
- Achieved an average annual return on equity investment of 27 per cent. since making our first investment in 2005 and an increase in operating margins of 5 to 6 percentage points across the businesses we owned for the same period; and
- Provided a total shareholder return of 504 per cent. since making the Company's first investment in 2005, which compares to 93 per cent. for the FTSE 350 index for the same period.

Christopher Miller, Chairman of Melrose, stated:

"Today's announcement marks another milestone in Melrose's "buy, improve, sell" strategy.

2013 was a momentous year in which we crystallised more than three times the original shareholder value in five of the 'FKI' businesses acquired in 2008. We continue to own Bridon and Brush which constituted approximately half of the value of the original FKI acquisition.

Returning the value we realise to our shareholders has been a fundamental part of our strategy since Melrose was founded ten years ago and I am pleased to confirm the proposed approximately £600 million return of capital following the disposals which we completed in 2013.

We are very pleased with the track record which we have achieved over the first ten years of our history and remain confident that Melrose is well-positioned to create superior shareholder value going forward."

Terms used in this announcement but which are otherwise undefined shall have the same meanings as set out in the Circular. This announcement and the summary of the proposed Return of Capital and associated Share Capital Consolidation should be read in conjunction with the Circular.

Details of the Return of Capital and associated Share Capital Consolidation

Under the Return of Capital and associated Share Capital Consolidation, Shareholders will receive:

- One B Share or one C Share for every Existing Ordinary Share held on the B/C Share Record Date; and
- 11 New Ordinary Shares for every 13 Existing Ordinary Shares held on the Share Capital Consolidation Record Date.

Shareholders will have three alternatives in relation to their B/C Share Entitlement:

Alternative 1: Income Option

If Shareholders elect or are deemed to have elected for this option in respect of all or some of their B/C Share Entitlement, they will receive one C Share for each corresponding Existing Ordinary Share held by them at the B/C Share Record Date and a dividend of 47 pence per C Share (the "C Share Dividend") will be paid in respect of those C Share(s). It is expected that the C Share Dividend will generally

be treated as dividend income for United Kingdom tax purposes. It is expected that the C Share Dividend will be paid to relevant Shareholders on 28 February 2014.

Shareholders who do not make a valid election, and all US Shareholders and other Restricted Shareholders (see below for further details) will automatically be deemed to have elected for the Income Option in respect of all of their B/C Share Entitlement.

Alternative 2: Immediate Capital Option

If Shareholders elect for this option in respect of all or some of their B/C Share Entitlement, they will receive one B Share for each corresponding Existing Ordinary Share held by them at the B/C Share Record Date. Those B Shares will be redeemed by Melrose on 17 February 2014 (or such other date as the directors may determine) for 47 pence per B Share, free of all dealing expenses and commissions. It is expected that the proceeds from this redemption will generally be treated as capital for United Kingdom tax purposes. It is expected that the redemption proceeds in relation to the Immediate Capital Option will be paid to relevant Shareholders on 28 February 2014.

Alternative 3: Deferred Capital Option

If Shareholders elect for this option in respect of all or some of their B/C Share Entitlement, they will receive one B Share for each corresponding Existing Ordinary Share held by them at the B/C Share Record Date. Those B Shares will be redeemed by Melrose on 30 April 2014 (or such other date as the directors may determine) for 47 pence per B Share, free of all dealing expenses and commissions. It is expected that the proceeds from this redemption will generally be treated as capital for United Kingdom tax purposes. It is expected that the redemption proceeds in relation to the Deferred Capital Option will be paid to relevant Shareholders on 7 May 2014.

The Share Capital Consolidation

The Existing Ordinary Shares will be consolidated so that Shareholders will receive 11 New Ordinary Shares for every 13 Existing Ordinary Shares held on the Share Capital Consolidation Record Date. The effect of the Share Capital Consolidation will be to reduce the number of issued Ordinary Shares to reflect the return of 47 pence per Existing Ordinary Share to Shareholders. The aim of this is to ensure, so far as possible, the market price of an Ordinary Share remains approximately the same before and after the Return of Capital and to maintain comparability of historical and future per share data. The ratio used for the Share Capital Consolidation has been set by reference to the closing middle-market price of 311.70 pence per Existing Ordinary Share on 20 January 2014. Shareholders will continue to own approximately the same proportion of Melrose immediately after the Share Capital Consolidation as they did immediately before it.

It is expected that the New Ordinary Shares will be admitted to listing on the Official List and to trading on the main market for listed securities of the London Stock Exchange in the same way as the Existing Ordinary Shares on 10 February 2014 and will be equivalent in all material respects to the Existing Ordinary Shares, including their dividend, voting and other rights. None of the B Shares, the C Shares or the C Deferred Shares will be admitted to the Official List or to trading.

US Shareholders and other Restricted Shareholders

Neither the Immediate Capital Option (Alternative 2) nor the Deferred Capital Option (Alternative 3) are being made available to US Shareholders and/or other Restricted Shareholders, and such US Shareholders and/or other Restricted Shareholders may not elect for either the Immediate Capital Option (Alternative 2) or the Deferred Capital Option (Alternative 3) and will be deemed to have elected for the Income Option (Alternative 1) in respect of ALL of their B/C Share Entitlement, and accordingly they will receive C Shares in respect of ALL of their B/C Share Entitlement and be entitled to be paid the C Share Dividend in respect of such C Shares.

You are a “US Shareholder” if you have a registered address in the United States or you are resident or located in the United States.

You are a “Restricted Shareholder” if you have a registered address in, or you are resident or located in, Australia, Canada, Japan, New Zealand, the Republic of South Africa, the United States, or any other territory where the invitation to participate in the proposed Return of Capital and any election for either the Immediate Capital Option (Alternative 2) and/or the Deferred Capital Option (Alternative 3) in respect of all or some of your B/C Share Entitlement would violate the laws of that jurisdiction or would require the registration of the B Shares and/or C Shares.

Expected timetable of principal events:

	<i>2014</i>
Latest time and date for receipt of Form of Proxy for General Meeting	11.00 a.m. on 5 February
General Meeting	11.00 a.m. on 7 February
Latest time and date for dealings in Existing Ordinary Shares	4.30 p.m. on 7 February
B/C Share Record Date for entitlement to B Shares and/or C Shares	5.00 p.m. on 7 February
Share Capital Consolidation Record Date	6.00 p.m. on 7 February
New Ordinary Shares admitted to the Official List and admitted to trading on the main market for listed securities of the London Stock Exchange	8.00 a.m. on 10 February
Latest time for receipt of Election Forms and TTE Instructions from CREST holders in relation to the Share Alternatives	4.30 p.m. on 14 February
B Shares and/or C Shares allotted and issued, and B Shares, in respect of elections made under the Deferred Capital Option (Alternative 3), enabled in CREST	17 February
Despatch of cheques or bank accounts credited (as appropriate) in respect of the Income Option (Alternative 1)	28 February

Despatch of cheques or CREST accounts credited (as appropriate) in respect of the Immediate Capital Option (Alternative 2)

28 February

Despatch of cheques or CREST accounts credited, as appropriate, in respect of the Deferred Capital Option (Alternative 3)

7 May

Copies of the Circular may be physically inspected at the offices of Simpson Thacher & Bartlett LLP, CityPoint, One Ropemaker Street London EC2Y 9HU during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this announcement up to and including the date of the General Meeting and at the registered office of the Company from the date of this announcement up to and including the date of the General Meeting and will also be available for inspection for at least 15 minutes before and during the General Meeting. A copy of the Circular will also be available on the Company's website, www.melroseplc.net, and will be submitted to the National Storage Mechanism, where it will be available for inspection at www.Morningstar.co.uk/uk/nsm.

None of the New Ordinary Shares, the B Shares, the C Shares or the C Deferred Shares have been or will be registered under the US Securities Act of 1933 as amended (the Securities Act) or the securities laws of any other US jurisdiction, and none of them may be offered or sold in the United States unless pursuant to an exemption from, or in a transaction not subject to the registration requirements of, the Securities Act.

The release, publication or distribution of this announcement in certain jurisdictions may be restricted by law and therefore persons in such jurisdictions into which this announcement is released, published or distributed should inform themselves about and observe such restrictions.

This announcement does not constitute, or form part of, an offer to sell or the solicitation of an offer to subscribe for any securities, nor the solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issue or transfer of the securities referred to in this announcement in any jurisdiction in contravention of applicable law.

¹ The disposals comprise³:

(a) On 22 November 2013, the disposal of Crosby and Acco to an affiliate of Kohlberg Kravis Roberts & Co L.P., for a total consideration of US\$1,010 million (£623 million);

(b) On 1 August 2013, the disposal of Marelli Motori to an affiliate of The Carlyle Group, for a total consideration of €212 million (£185 million);

(c) On 3 July 2013, the disposal of Truth Hardware to Tyman plc, for a total consideration of US\$200 million (£131 million); and

(d) On 31 December 2013, the disposal of Harris to Avis Industrial Corporation for an undisclosed consideration.

² Since Melrose inception until 31 October 2013

³ At the exchange rates on the respective days of completion of each Disposal.

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