



28 July 2015

For immediate release

MELROSE INDUSTRIES PLC

Proposed Disposal of Elster to Honeywell

Melrose today announces that it has entered into an agreement for the disposal of its Elster business (comprising Elster Gas, Elster Electricity and Elster Water), to Honeywell International Inc. ("Honeywell") for a cash consideration of £3.3 billion.

Key highlights of the sale:

- The consideration is payable in cash on completion, subject to customary adjustments, and implies a multiple of 3.1 times 2014 revenue and 14.3 times 2014 headline¹ EBITDA²;
- Melrose has generated 2.3 times equity investment and 33 per cent. equity IRR within the three years since acquiring Elster for £1.8 billion in August 2012;
- In addition to the cash consideration, Honeywell is assuming the Melrose group's FKI UK defined benefit scheme and McKechnie defined benefit pension plan as well as its Elster related pension obligations, which together comprise the majority of the Melrose group's pension schemes;
- Melrose intends to use the proceeds to finance a return of capital of over £2 billion to shareholders in due course and for general corporate purposes, including paying down existing borrowings;
- On the basis that the return of capital is implemented, Melrose will have raised approximately £2.0 billion from shareholders who, in addition to their remaining shareholding, will have received over £3.8 billion since flotation on AIM in 2003.

Christopher Miller, Chairman of Melrose, said:

"The disposal of Elster represents an excellent outcome for Melrose shareholders and another milestone in our track record. Through investing heavily and improving operational performance we have created substantial value for shareholders, more than doubling their money in three years. I am pleased that we are able to deliver this return to shareholders earlier than we had originally anticipated and have every confidence that Elster will continue its success story under the ownership of Honeywell. In the ten years since our first investment we have created well over £2 billion of shareholder value. We look forward to beating that performance over the next decade."

Elster acquisition

Melrose's strategy is to buy good manufacturing businesses with strong fundamentals whose performance can be improved through a mixture of investment and changed management focus, before selling them and returning the proceeds to shareholders.

¹ Before exceptional costs, exceptional income and intangible asset amortisation

² Operating profit before depreciation and amortisation

Shortly after acquiring Elster in August 2012, Melrose reorganised the group into three separately managed business units: Elster Gas, Elster Electricity and Elster Water, and invested heavily to improve each of them. Melrose has achieved the following milestones in respect of its Elster business during its three years of ownership:

- Increased operating profit by two thirds and improved operating margins by seven percentage points;
- Acquired Eclipse, a manufacturer of gas combustion components and systems for industrial heating and drying applications, in October 2014 that enabled Elster Gas to offer a complete range of combustion solutions;
- Generated average headline operating profit conversion to cash (pre capex) of 93 per cent; and
- Implemented a number of operational and margin improvement programmes, invested substantial amounts in automated production and outsourced non-core production where appropriate.

Return of capital and use of proceeds

The disposal is expected to generate net proceeds of £3.3 billion. Melrose intends to return over £2 billion from the sale of Elster to shareholders with the balance of the net proceeds used for general corporate purposes including repayment of existing borrowings.

The proposed return of capital will be conditional on completion of the disposal, which is anticipated to occur in the first quarter of 2016, and will also require the prior approval of shareholders.

It is envisaged that shortly after completion of the disposal a circular will be sent to shareholders containing full details of the proposed return of capital and other connected matters as well as convening a separate general meeting in order to seek shareholder approval.

Principal terms and conditions of the disposal

As part of the terms of the disposal the Elster related pension arrangements will remain with Elster and, in addition, Honeywell will assume the McKechnie defined benefit pension plan and FKI UK defined benefit pension scheme. In total £0.9 billion of Elster, FKI UK and McKechnie pension liabilities with an accounting deficit of £134 million will be transferred to Honeywell with the sale of Elster.

The disposal is expected to complete in the first quarter of 2016. Completion is conditional upon, amongst other things, obtaining the relevant approvals from regulatory authorities in the relevant jurisdictions including Brazil, China, the European Union, Russia, Turkey and the United States, and the approval of the shareholders at the General Meeting of Melrose.

Melrose strategy

Melrose's focus since its inception has always been to make good businesses better and to generate superior returns for its shareholders. Over the years Melrose has acquired and improved businesses in which it saw significant potential and later sold them at the appropriate time. As a result the market capitalisation of Melrose has increased as it raised capital and decreased as capital was returned to shareholders. Following the sale of the Elster business and the associated return of capital, Melrose will become substantially smaller in size. There is no change to the Melrose "buy, improve, sell" business model nor will this sale influence the size of the acquisition opportunities that Melrose is able to pursue. The search for the next acquisition continues and Melrose will, if anything, benefit from a greater level of flexibility for the next acquisition. The Melrose Board are excited to begin another successful chapter in Melrose's history and look forward in due course to inviting shareholders to invest in the next project.

A Circular relating to the disposal is expected to be published and posted to shareholders on or around 29 July 2015. The Circular, when published, will be made available on Melrose's website (www.melroseplc.net) and will be submitted to the National Storage Mechanism and be available for inspection at www.morningstar.co.uk/uk/nsm.do.

Enquiries:

Rothschild – Lead Financial Adviser and Joint Sponsor: +44 (0)20 7280 5000

Ravi Gupta

Yuri Shakhmin

J.P. Morgan – Financial Adviser, Joint Sponsor and Joint Broker: +44 (0)20 7742 4000

John Mayne

Chris Dickinson

Montfort Communications – Financial PR: +44 (0)20 3514 0897

Nick Miles

+44 (0)7973 130669

Hannah Glynn

+44 (0)7711 080806

Investec – Joint Broker: +44 (0)20 7597 4000

Keith Anderson

Carlton Nelson

Christopher Baird

Notes for editors

The Elster business is a world leader in measuring and improving the flow of natural gas, electricity and water. For the financial year ended 31 December 2014, Elster has gross assets of £2,577 million and generated £1,050 million of total revenue and £206 million of headline³ operating profit.

Elster comprises three operating units: Elster Gas (the gas meters, systems, heat process units and technologies business segment of Elster), Elster Electricity (the electricity meters, communications and energy management business segment of Elster) and Elster Water (the water metering and communications systems business segment of Elster).

Melrose (www.melroseplc.net) buys good manufacturing businesses with strong fundamentals whose performance can be improved. Melrose finances its acquisitions using a low level of leverage, improves the businesses by a mixture of investment and changed management focus, sells them and returns the proceeds to shareholders. Melrose's shares are traded on the London Stock Exchange. For more news and information on Melrose, please visit www.melroseplc.net/about-us.

³ Before exceptional costs, exceptional income and intangible asset amortisation

Disclaimers

Rothschild, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting solely for Melrose and no one else in connection with the disposal and, save for any responsibility which may arise under FSMA or the regulatory regime established thereunder, will not be responsible to anyone other than Melrose for providing the protections afforded to the respective clients of Rothschild or for providing advice in connection with the disposal, the contents of this announcement or any transaction, arrangement or other matter referred to in this announcement.

J.P. Morgan Limited (which conducts its UK investment banking activities as “J.P. Morgan Cazenove”), which is authorised and regulated by the Financial Conduct Authority, is acting as financial adviser to Melrose and no one else in connection with the Transaction and will not be responsible to anyone other than Melrose for providing the protections afforded to its clients or for providing advice in connection with the Transaction, the contents of this announcement or any matter referred to in this announcement.

Investec Bank plc which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting exclusively for Melrose and for no one else in connection with the subject matter of this announcement and will not be responsible to anyone other than Melrose for providing the protections afforded to its clients or for providing advice in connection with the subject matter of this announcement.

This announcement contains certain “forward looking statements” including with respect to certain of the Melrose group’s plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words “believes”, “intends”, “should”, “plans”, “pursues”, “seeks” and “anticipates” (or negatives thereof), and variations thereof or words of similar meaning, are forward looking. By their nature, all forward looking statements involve assumptions, risk and uncertainty because they relate to future events and circumstances which are beyond Melrose’s control including, among other things, the domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation and deflation; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and any regulations in the jurisdictions in which Melrose and its affiliates operate. As a result, Melrose’s actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the forward looking statements and no assurances can be given that the forward looking statements in this announcement will be realised.

Any forward looking statements made herein speak only as of the date they are made. Except as required by the Financial Conduct Authority, the London Stock Exchange or any other applicable law or regulation, Melrose expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this announcement to reflect any change in Melrose’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.