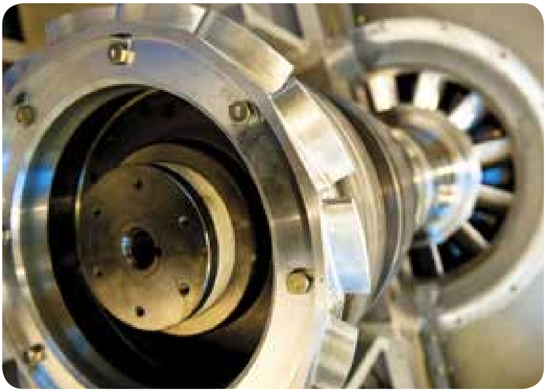
Melrose PLC
Interim Statement 2012






Buy
Improve
Sell

"These are another set of excellent results emphasising the quality of the Group and the continued success of our strategy to 'buy, improve, sell'. We have now successfully completed our next acquisition, Elster, and look forward to growing further shareholder value from our enlarged Group for the benefit of our shareholders.

Economic conditions are difficult to predict at present but we are confident that our Group companies place us in a good position to benefit from market opportunities."

Christopher Miller
Chairman

For more information about Melrose PLC view our website at **www.melroseplc.net**

Contents

Financial highlights[1]

Revenue
(Period ended 30 June 2012)

£564.6m

2011: £516.6m

Headline[2] profit before tax
(Period ended 30 June 2012)

£81.9m

2011: £70.7m

Headline[2] diluted earnings per share
(Period ended 30 June 2012)

8.2p

2011: 5.7p

Interim dividend
(Period ended 30 June 2012)

2.6p

2011: 2.6p[4]

- Revenue for the period was £564.6 million (2011: £516.6 million), a 9% increase
- Headline[2] profit before tax for the period was £81.9 million (2011: £70.7 million), an increase of 16%. Profit before tax was £46.3 million (2011: £58.9 million) which decreased due to exceptional costs, primarily acquisition and refinancing related
- Headline[2] operating margins increased to 16.1% (2011: 15.8%)
- Headline[2] diluted earnings per share ("EPS") of 8.2p (2011 pro forma[3] EPS: 7.1p) an increase of 15%. Melrose considers this the most appropriate like for like measure of EPS performance for this period
- Headline[2] diluted EPS was 8.2p (2011: 5.7p), 44% higher
- Interim dividend maintained at 2.6p (2011: 2.6p[4]) and paid on the enlarged share capital following the Rights Issue completed on 1 August 2012 after the period end
- Elster acquisition successfully completed on 23 August 2012

(1) Continuing operations only unless otherwise stated.
(2) Headline results are before exceptional costs and intangible asset amortisation.
(3) Headline EPS for continuing operations calculated on the number of shares in issue as at 30 June 2012 including the effects of the Rights Issue.
(4) Adjusted for the Rights Issue.

Chairman's statement

I am pleased to report Melrose's interim results for the six month period to 30 June 2012.

Results for the Group

Revenue for the continuing businesses in the period was £564.6 million (2011: £516.6 million), an increase of 9%, and headline profit before tax (before exceptional costs and intangible asset amortisation) increased by 16% to £81.9 million (2011: £70.7 million).

Headline diluted earnings per share ("EPS") on continuing businesses was 8.2p (2011: 5.7p) an increase of 44%. However, in your Board's view, a more representative measure of like for like EPS performance is the pro forma number which shows an increase of 15% from last year, an explanation of which is set out in the Finance Director's review. Diluted EPS on continuing businesses was 4.5p (2011: 5.1p) which decreased due to exceptional costs, primarily acquisition and refinancing related.

Further details of these results are contained in the Finance Director's review.

Dividend

Your Board has declared an interim dividend of 2.6p per share (2011: 2.6p, as adjusted for the recent Rights Issue). Your Board has elected to pay the same dividend per share on the much enlarged share capital of Melrose following the Rights Issue despite the fact that the Rights Issue was completed after 30 June 2012 and thus the Rights Issue shares were not in issue for this accounting period. The dividend will be paid on 19 October 2012 to shareholders on the register at close of business on 21 September 2012.

Trading

Revenue in the period, up 9%, is most encouraging with all divisions contributing to the rise. At the same time Group order intake remains higher than revenue giving us confidence for the second half of the year. Headline operating margins have continued to improve and are now at 16.1% leading to a highly satisfactory increase in headline operating profit, up 11%.

Working capital and operational cash generation performed well, even in the light of high capital expenditure programmes aimed at increasing the quality and performance of our businesses.

Further details on trading are contained in the Chief Executive's review.

Elster

The acquisition of Elster Group S.E. ("Elster") was completed on 23 August 2012 for a consideration of approximately £1.5 billion. This was financed by a highly successful £1.2 billion Rights Issue and a new £1.5 billion bank facility.

Elster, which is headquartered in Germany, had revenues in its last full year to 31 December 2011 of £1.2 billion and is a well-established manufacturer of metering products with operations worldwide. We believe there exists a significant opportunity to improve the performance of Elster over the next few years for the benefit of shareholders. It is obviously very early in this process but some initial steps have already been taken and we will report further on our progress at the time of our year end results.

There is more information on the Rights Issue in the Finance Director's review.

Strategy

The successful sale last year of Dynacast and the associated return of proceeds to shareholders, together with the subsequent sale of MPC, represented the last part of the cycle of our strategy of "buy, improve, sell" for our highly successful purchase of McKechnie and Dynacast in 2005. The businesses we bought as part of our FKI acquisition in 2008 are still in the "improvement" phase and their eventual sale, and return of proceeds, will be carried out in due course. In the meantime the acquisition of Elster represents the start of a new ownership cycle and we are very excited about its prospects.

Outlook

The recovery from the slump of 2008/09 has been slow and patchy nearly everywhere in the world and this seems set to continue. However, our businesses trade in sound end markets with good prospects such as the energy, oil & gas and mining sectors. Order books remain strong and our major investment programme is yet to fully reap its benefits. The addition of Elster will give us the opportunity, over several years, of enhancing existing growth prospects.

Christopher Miller
Chairman
30 August 2012

Chief Executive's review

Energy

Period ended 30 June	2012 £m	2011 £m
Revenue	**233.7**	215.8
Headline operating profit	**43.3**	41.7

Brush

Brush enjoyed a good first half of the year. Management focus in this business has continued to be on operational efficiency, investment to drive future performance and increasing market share in the aftermarket sector. Good progress has been made on all these objectives in this period.

Within the Brush Turbogenerators' business new build sales increased by 24% compared to the same period last year. This performance reflected the high demand for Brush's gas turbine driven generator packages in the 20 – 130 MW sector together with robust demand in the oil & gas and geothermal sectors. The well-publicised switch to more gas fired power generation and shorter overall project lead times are key factors in driving future demand in this sector. In this period Brush Turbogenerators has, as a result of this switch, seen a trend towards smaller turbogenerators on shorter order cycles which, combined with delays due to the economic climate in orders for some larger generators, has meant the order book has reduced from last year. The order book, however, is improving in the second half of 2012 and, as stated later, the outlook for this business remains promising. As indicated in the 2011 Annual Report, operating margins have marginally dropped in this business as a particular customer order has been completed.

Trading in the aftermarket business has started the year strongly with orders up 16% over 2011. Generator & Motor Services, the US operation acquired in 2010, made a good contribution to this upturn.

The restructuring of the generator manufacturing plant in the Netherlands, which was detailed in the 2011 Annual Report, was largely completed in the first half. Headcount and floor space have been reduced by 23% and 50% respectively and when coupled with a £2 million capital investment in new facilities, the plant is now the Brush centre of excellence for 4 pole generators. Demand for this product, which has been low this year due to market conditions, is expected to improve considerably in 2013 and this, when combined with its lower cost base, is expected to improve the performance of this business next year.

With all of its new build orders in place for the second half and a large part of its aftermarket projected sales already ordered, Brush Turbogenerators is expected to have another good year and at this stage looks well positioned for 2013.

Sales of Brush Transformers started to recover in the second half of 2011 and this has continued into 2012; sales were 38% higher than the first half of 2011 as UK demand for transformers increased during year three of the current five year OFGEM cycle. Operating margins continue to improve following the implementation of a revised manufacturing strategy and the introduction of a redesigned "value engineered" product line.

Hawker Siddeley Switchgear ("HSS") started the year relatively slowly in terms of sales but has been aided by strong order input in the period. This has resulted in HSS ending the first half of the year strongly. The second quarter operating margin was significantly higher than 2011 and reflects the considerable number of operational improvements implemented progressively throughout this period.

With a high proportion of orders already received for the second half and further operational improvements to come, we are confident that HSS will continue to build on the strong second quarter performance and further improve operating margins.

Marelli

Revenue continued to increase in the first half of 2012, mainly due to the recovery of the marine, hydroelectric and oil & gas sectors. Marelli has successfully continued to focus on a mix of sales for large and special machines, rather than smaller standard products, where the world market demand is currently flat.

Marelli remains confident that the recovery of the marine, oil & gas and hydroelectric sectors will continue throughout the remainder of 2012 and that the demand for power generation will also continue to be strong, particularly on the renewable energy side.

The current record order book gives Marelli confidence in meeting its forecasts for the full year.

Lifting

Period ended 30 June	**2012 £m**	2011 £m
Revenue	**266.3**	237.9
Headline operating profit	**47.2**	40.0

Bridon

Trading performance in the first half of the year continued to improve. Sales were ahead of both the comparable prior year period and the second half of 2011. Bridon's major end-user markets in oil & gas and mining remain strong, with projects continuing despite the well-publicised concern over economic conditions. Cash conversion (before capital expenditure) in the period was good at just under 100%.

Most of Bridon's markets have remained strong with the exception of construction in Europe and North America and the general industrial market in Europe. In the oil & gas market demand has remained consistently strong despite fluctuating oil prices. Offshore activity has continued to be encouraging in some regions with a number of new projects identified. Drilling and exploration in the Gulf of Mexico is recovering, while demand for onshore oil & gas ropes has remained solid. Bridon's ability to supply high quality, reliable and safe rope solutions in demanding conditions is key to winning business from oil companies by helping them meet the exacting standards and challenges of increasingly difficult operating environments, particularly in deep water exploration and production.

In addition, Bridon has seen increased business in Indonesia as a result of a duty imposed on imported ropes, and is developing the Brazilian business by establishing a local service centre, where the offshore oil & gas market is growing strongly.

During the period, Bridon continued construction of its new factory, Neptune, on the deep-water port on the river Tyne in Newcastle, which is estimated to cost approximately £20 million in total. This state-of-the-art facility will commence commissioning in October and be fully operational by the end of 2012. It will focus on the production of ropes up to weights of more than 600 tonnes for the increasingly demanding offshore oil & gas industry. In addition, the current upgrade of the Doncaster wire mill is now largely complete and will deliver capacity and productivity benefits in the second half. The new Technology Centre in Doncaster, a further investment of £4.5 million, will be completed early in 2013 and will improve research and development and testing capability.

On the back of a healthy order intake in the first half of the year and a strong order book, Bridon expects that its performance for the full year will exceed that of 2011. The company has leading positions in sectors with favourable market prospects, such as oil & gas and mining, which together with the capital investment being made and associated operating improvements provides confidence that Bridon can continue to progress even in the light of the current economic uncertainty.

Chief Executive's review continued

Crosby

Crosby enjoyed an excellent start to the year in terms of both revenue and profits. Order intake was particularly pleasing in all geographic regions driven primarily by Crosby's key markets of oil & gas and mining. First half revenues and operating profits were up 21% and 30% respectively.

Sales in the North American market have been strong for Crosby and it seems highly likely that it has increased its market share in this territory. Additionally, the increased focus on developing geographies such as those in China, Latin America and the Pacific Rim has yielded double digit sales growth in those markets. Brazil continues to be a priority market as its offshore energy business continues to show high potential. In China, Crosby continues to expand its block and sheave centre in Hangzhou. Now that the Hangzhou facility has achieved key certifications by third parties and OEM customers, it is expected that mobile crane and land-based rig OEM companies will further increase their business. Crosby also sees promising opportunities in Chile, Mexico, Peru, Korea and Japan.

Crosby Europe continues to see improving sales and orders across Europe and the Middle East, despite some softening in Southern Europe and Scandinavia. In response, the company has expanded its UK manufacturing site and is making investments that will allow the European entities to be more self-sufficient with localised production. The latter will make them more responsive to regional customers and thus help sales in these territories. While many of the investments are already under way, the full impact will not be felt for 18-24 months.

Similarly, several other large capital projects are in the process of being implemented within the US facilities. The modernisation of the galvanizing facility in Tulsa, Oklahoma, was completed during the first half and will provide greater capacity and throughput at a lower cost and improved quality. New powder coat paint lines, induction heaters, and forging hammers have been and are currently being installed to improve capacity and production efficiencies. These new investments will allow Crosby to meet the growing demand for its products around the world, and at the same time allow the company to better react to upturns in the business cycle with improved customer deliveries.

Crosby is building upon its value-added training program that has now been in existence for 20 years and trained over 275,000 people in total. The company continues to add content and language capabilities and is reaching an ever increasing audience.

Whilst there has been a slight softening of US order rates in the last few weeks this has been compensated by higher demand than forecast elsewhere in the world. We expect Crosby to show further progress this year.

Acco

Acco performed extremely well during the first half, with operating profits up by 76% when compared with the same period last year. An increase in sales volume, improvements in labour efficiencies and a favourable product mix added significantly to the positive trading result. The outlook for Acco in the second half remains positive.

Other Industrial

Period ended 30 June	2012 £m	2011[1] £m
Revenue	**64.6**	62.9
Headline operating profit	**9.0**	7.6

[1] Restated to include the results of Weber Knapp and MPC within discontinued operations.

Truth

Sales within Truth during the first half were above management expectations, as favourable weather conditions allowed home builders and re-modellers in the North American market an early start for the year. There are signs of gentle recovery in the US housing market but whether this is a continuing trend is likely to be clearer over the next few months.

Truth continues to manage its product portfolio with a combination of in-house manufacturing and third party sourcing of lower margin product. A key management focus has been placed on continuous improvement in processes, elimination of waste and capital investment in automation. Together these will further increase productivity and position Truth favourably in the future.

Truth is expecting continued modest growth in the single family housing starts and remodelling markets for the rest of 2012 and remains confident about gaining market share as a result of its product development pipeline.

Harris

Both sales and orders for Harris in the first half decreased by nearly 5% when compared to the same period in 2011. Operating profit also fell as a result of lower sales and increased competition. Harris is currently experiencing a slowdown in its market place and is not expected to perform better than last year. As a result close attention is being paid by its management to its cost structure.

Simon Peckham
Chief Executive
30 August 2012

Finance Director's review

The results for the six months to 30 June 2012 are presented below. These results include the disposal of the McKechnie Plastic Components ("MPC") business, previously shown within the Other Industrial division. In accordance with IFRS 5 the trading results of MPC are shown as discontinued in all periods presented in these interim financial statements. In addition, Weber Knapp, also previously shown within the Other Industrial division, was sold in the second half of 2011 and therefore comparative information for the six months ended 30 June 2011 has been restated to show the results of this business as discontinued.

Trading results – continuing operations

To help understand the results of the continuing operations, consistent with previous periods, the term "headline" has been used. This refers to results calculated before exceptional costs and intangible asset amortisation as this is considered by the Melrose PLC Board to be the best measure of performance.

For continuing operations, revenue for the six months ended 30 June 2012 was £564.6 million (2011: £516.6 million) up 9% on last year and headline operating profit was £90.7 million (2011: £81.5 million) up 11% on last year. The Melrose Group headline operating margin (defined as headline operating profit as a percentage of revenue) for the six months was 16.1%, up 0.3 percentage points on last year and headline profit before tax was £81.9 million (2011: £70.7 million) up 16% on last year. After exceptional costs and intangible asset amortisation, operating profit was £64.1 million (2011: £69.7 million) and profit before tax was £46.3 million (2011: £58.9 million).

Trading by division – continuing operations

A split of revenue and headline operating profit by division is shown in the table below. Each of the three trading divisions has increased its revenue and headline operating profit compared to last year. The performance of these trading divisions is discussed in the Chief Executive's review.

	2012			2011		
	Revenue £m	**Headline operating profit/(loss) £m**	**Headline operating margin %**	Revenue £m	Headline operating profit/(loss) £m	Headline operating margin %
Energy	**233.7**	**43.3**	**18.5**	215.8	41.7	19.3
Lifting	**266.3**	**47.2**	**17.7**	237.9	40.0	16.8
Other Industrial	**64.6**	**9.0**	**13.9**	62.9	7.6	12.1
Central – corporate	**–**	**(4.8)**	**–**	–	(4.3)	–
Central – LTIPs[1]	**–**	**(4.0)**	**–**	–	(3.5)	–
Continuing Group	**564.6**	**90.7**	**16.1**	516.6	81.5	15.8

[1] Long term incentive plans.

Central costs comprise £4.8 million (2011: £4.3 million) of Melrose PLC corporate costs and a Long Term Incentive Plan ("LTIP") accrual of £4.0 million (2011: £3.5 million). The LTIP accrual includes an amount of £0.8 million (2011: £0.9 million) in respect of the previous Melrose Incentive Scheme, which matured on 22 March 2012, and an accrual of £0.7 million (2011: £nil) in respect of the new five year Melrose 2012 share-based Incentive Scheme which commenced on 11 April 2012. The annual accrual for the new five year scheme was calculated in accordance with IFRS 2 using a standard pricing model and will be constant until the date of crystallisation.

In addition, there was a charge of £2.5 million (2011: £2.6 million) for the cash based senior management incentive schemes. These schemes are for senior operational management within the businesses and are designed to reward improvement in business performance usually over a five year period.

Exceptional items

In the six months to 30 June 2012 the Group incurred exceptional costs of £23.8 million (2011: £nil), of which £21.9 million related to acquisition and refinancing activities. In addition, £1.9 million of restructuring costs were incurred in the six months to 30 June 2012 (2011: £nil). The charge for amortisation of intangible assets in the period was £11.8 million (2011: £11.8 million).

Disposal of businesses

On 25 June 2012 the MPC business, previously held within the Other Industrial division, was sold. Gross cash proceeds were £30.7 million with costs of disposal of £2.4 million. Net assets disposed were £28.9 million resulting in a loss on disposal of £0.6 million. MPC contributed revenue of £73.5 million and headline operating profit of £6.6 million in the year ended 31 December 2011.

This disposal brought to a conclusion the successful investment in Dynacast and McKechnie which were acquired in May 2005 for a net equity investment of £244 million and have generated, from trading and disposal proceeds, nearly £800 million of cash giving a return on equity of approximately 3.25 times.

Long Term Incentive Plan

On 11 April 2012, at a Melrose General Meeting, shareholders voted in favour of the early crystallisation of the previous Incentive Scheme, bringing forward the maturity date from 31 May 2012 to 22 March 2012. On crystallisation the Incentive Shares were converted into 31.2 million Melrose Ordinary Shares, an increase of 8% to the total number of shares in issue. As a result the total number of Ordinary Shares in the Company increased from 391.0 million to 422.2 million.

At the same meeting a new five year share-based 2012 Melrose Incentive Scheme was approved by shareholders which mirrors the previous Incentive Scheme in most respects except that under this new scheme the potential reward has been reduced from 10% to 7.5% of the increase in shareholder value creation. In addition, a 5% dilution cap has been included in the new scheme rules. This new scheme has an end date of 31 May 2017.

The charge to headline profit for the 2012 Incentive Scheme will be approximately £4 million per annum (previous Incentive Scheme: £1.8 million per annum).

Earnings Per Share ("EPS")

The EPS calculations in this interim report have been restated for two reasons. Firstly, EPS numbers have been restated for the classification of MPC, in all reported periods, and Weber Knapp, for the six months to June 2011 only, as discontinued operations. Secondly, all periods have been restated following the completion of the 2 for 1 Rights Issue. Although this completed after the Balance Sheet date, in accordance with IAS 33, the EPS numbers have been restated to apply a bonus factor of 57% to reflect the impact of the Rights Issue.

Finance Director's review continued

The headline diluted EPS for the continuing Group in these interim statements is 8.2p (2011: 5.7p) which represents a 44% increase on the prior year. However, the Melrose Board believes that a pro forma headline diluted EPS for 2011, calculated using the results of the continuing operations and the number of shares in issue as at 30 June 2012 including the effects of the Rights Issue, gives the best reflection of like for like performance in the period. This results in a headline diluted EPS of 8.2p for the first six months of 2012 and a pro forma headline diluted EPS of 7.1p for the six months to 30 June 2011 which shows a more representative 15% year on year increase.

In addition, in accordance with IAS 33, two sets of basic and diluted EPS numbers are disclosed on the face of the Income Statement, one for continuing operations and one that also includes discontinued operations. In the six months ended 30 June 2012 the diluted EPS for continuing operations was 4.5p (2011: 5.1p) and for both continuing and discontinued operations was 4.7p (2011: 6.1p) these decreased due to exceptional costs, primarily acquisition and refinancing related.

Cash generation and net debt

During the first six months of 2012 significant investment in the businesses continued with a capital expenditure to depreciation ratio of 2.0x. The operating cash generated post working capital movement, but pre capital expenditure, as a percentage of headline EBITDA (defined as headline operating profit before depreciation and amortisation) was 78% (2011: 75%) which included a working capital outflow of £22.1 million as, similar to the prior year, the businesses prepared for further growth in the second half of the year.

An analysis of cash generated from trading for the six months to 30 June 2012 is shown in the table below.

	Six months ended 30 June 2012 £m
Headline operating profit	**90.7**
Depreciation and computer software amortisation	**11.2**
Working capital movement	**(22.1)**
Headline operating cash flow (pre capex)	**79.8**
Headline EBITDA conversion to cash (pre capex) %	**78%**
Net capital expenditure	**(22.7)**
Net interest and net tax paid	**(29.2)**
Defined benefit pension contributions	**(18.3)**
Other (including discontinued operations)	**(19.6)**
Cash flow from trading (after all costs including tax)	**(10.0)**

Movement in net debt	£m
Opening net debt	**(289.6)**
Cash flow from trading (after all costs including tax)	**(10.0)**
Net cash flow from disposals (including net cash disposed)	**27.1**
Amount paid to shareholders	**(33.9)**
Foreign exchange and other non-cash movements	**(0.1)**
Closing net debt	**(306.5)**

Leverage and interest cover

The Balance Sheet leverage (calculated as net debt at closing exchange rates divided by headline operating profit before depreciation and amortisation for the last twelve months at average exchange rates) was 1.5x at 30 June 2012 (31 December 2011: 1.4x). For the net debt to headline EBITDA bank facility covenant both amounts are calculated using average exchange rates. This would also give a ratio of 1.5x which gives sensible headroom compared to the covenant test of 3.0x.

The interest cover at 30 June 2012 was 15.3x (31 December 2011: 11.7x) and is therefore comfortable against the interest cover covenant test of 4.0x.

Refinancing

In January 2012 a new five year committed £600 million multi-currency revolving credit facility, signed in December 2011, was drawn down, replacing the committed £750 million syndicated term loan and revolving credit facility which was fully repaid. This facility has no mandatory repayments in its term and allows borrowings to be repaid as cash is generated.

The facility has been drawn in the Group's core currencies namely US Dollars, Euros and Sterling in the most suitable proportion to protect, as effectively as possible, against the currency risk within the Group.

Since the half year a new £1.5 billion bank facility has been drawn down to accommodate the acquisition of the Elster Group S.E. ("Elster") which is disclosed in the post Balance Sheet events section of this report and to refinance the new Group where necessary.

Tax

The Group Income Statement headline tax rate for continuing businesses in the period was 26% (2011: 26%). The ongoing management of tax remains a focus and in particular the cash tax rate and the tax on disposals. The headline cash tax rate for continuing businesses in the period was 14% (2011: 4%) helped by the use of trading losses around the Group. Over time we expect the gap between the income tax rate and the cash tax rate to narrow substantially.

Pensions

The Group has a number of defined benefit and defined contribution plans. The IAS 19 deficit of the defined benefit pension plans as at 30 June 2012 was £131.4 million (31 December 2011: £117.7 million).

The most significant pension plan in the Group is the FKI UK Pension Plan which represents 79% of the IAS 19 deficit (31 December 2011: 67%). The valuation of this Plan was updated as at 30 June 2012 by independent actuaries to reflect updated key assumptions. The net accounting deficit on this Plan was £103.4 million (31 December 2011: £79.4 million). This Plan had assets at 30 June 2012 of £605.0 million (31 December 2011: £600.3 million) and liabilities of £708.4 million (31 December 2011: £679.7 million). The reason for the increase in the FKI UK Pension Plan liabilities was due to a change in assumptions at 30 June 2012 to reflect market conditions. The assumptions used were:

	30 June 2012 Assumptions %	31 December 2011 Assumptions %
Discount rate	**4.50**	4.90
Inflation	**2.80**	3.10

Finance Director's review continued

Total assets and liabilities in the Group's defined benefit plans have also been updated to reflect the £12.3 million of contributions made by the employer companies, a one-off contribution of £6.0 million following the disposal of MPC and the benefits earned during the period to 30 June 2012.

The Melrose Group contributes £18.5 million to the FKI UK Pension Plan and £4.6 million to the McKechnie UK Pension Plan per annum. Both contribution plans are currently due for renegotiation.

Provisions

The only significant change in provisions during the six months to 30 June 2012 was in respect of the litigation case in Bridon. The Annual Report for the year ended 31 December 2011 contains details of this litigation case. On 23 May 2012, Bridon, Noble and Certex reached a consensual resolution and confidential settlement of the litigation and all claims have been dismissed with prejudice. The settlement sum has been paid by Bridon since the half year end. Including legal costs and taking account of current contributions from insurers, the settlement was in line with the £25.8 million provision made at the year end.

Exchange

Exchange rates used in the periods included in this interim report were:

	Average rate	Closing rate
US Dollar:		
Six months to June 2012	**1.58**	**1.57**
Twelve months to December 2011	1.60	1.55
Six months to June 2011	1.62	1.61
Euro:		
Six months to June 2012	**1.22**	**1.24**
Twelve months to December 2011	1.15	1.20
Six months to June 2011	1.15	1.11

The main exposures to foreign currencies within the Group are the US Dollar and the Euro.

Overall, the translation effect on the Group results was small in the six months to 30 June 2012 compared to the six months to 30 June 2011 with Group revenue unaffected and headline operating profit decreasing by 2%, the reduction caused by the weakening of the Euro and the Czech Koruna being partially offset by the gain on the US Dollar.

Principal risks and uncertainties

Except for the risks highlighted separately in these interim results and the risks associated with the Elster acquisition, the principal risks and uncertainties faced by the Group have not changed from 2011. In summary the financial risks include liquidity risk, finance cost risk, exchange rate risk, commodity cost risk and pension risk. These risks have the potential to affect the Group's results and financial position during the remainder of 2012. A more detailed explanation of risks and uncertainties is set out on pages 31 to 33 of the Annual Report for the year ended 31 December 2011, a copy of which is available on the Company's website, www.melroseplc.net.

Post Balance Sheet events — acquisition of Elster

On 23 August 2012 Melrose completed the acquisition of Elster for a total cash consideration of £1.5 billion. The costs of acquiring Elster are expected to be between £70 million and £75 million of which approximately £30 million relate to the raising of equity and approximately £25 million relate to bank facility arrangement fees.

The acquisition and associated expenses have been funded through a combination of new debt and equity. On 1 August 2012 a 2 for 1, fully underwritten Rights Issue was completed and subsequently 844.4 million new Melrose Shares were issued raising £1.2 billion. This took the number of shares in issue to 1,266.6 million. In addition, a new five year bank facility has been agreed totalling £1.5 billion, split into a £0.5 billion term loan and a £1.0 billion revolving credit facility agreement. The term loan was partly used to fund the acquisition with the remaining amounts used to refinance, where necessary, the existing indebtedness of both Melrose and Elster and to finance the enlarged Group's working capital requirements.

Geoffrey Martin
Group Finance Director
30 August 2012

Responsibility statement

We confirm that to the best of our knowledge:

a) the condensed set of financial statements has been prepared in accordance with IAS 34: "Interim Financial Reporting";

b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Simon Peckham
Chief Executive
30 August 2012

Geoffrey Martin
Group Finance Director
30 August 2012

Financial contents

Condensed financial statements

Notes to the condensed set of financial statements

Independent review report to Melrose PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Cash Flows, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
30 August 2012

Condensed Consolidated Income Statement

	Notes	6 months ended 30 June 2012 Unaudited £m	Restated[1] 6 months ended 30 June 2011 Unaudited £m	Restated[2] year ended 31 December 2011 £m
Continuing operations				
Revenue	3	**564.6**	516.6	1,080.4
Cost of sales		**(387.3)**	(359.0)	(749.7)
Gross profit		**177.3**	157.6	330.7
Headline[3] operating expenses		**(86.3)**	(75.9)	(156.5)
Share of results of joint ventures		**(0.3)**	(0.2)	–
Intangible asset amortisation		**(11.8)**	(11.8)	(23.7)
Exceptional operating costs	5	**(14.8)**	–	(40.0)
Total operating expenses	4	**(113.2)**	(87.9)	(220.2)
Operating profit		**64.1**	69.7	110.5
Headline[3] operating profit	3	**90.7**	81.5	174.2
Headline[3] finance costs		**(11.7)**	(14.4)	(29.5)
Exceptional finance costs	5	**(9.0)**	–	–
Total finance costs		**(20.7)**	(14.4)	(29.5)
Finance income		**2.9**	3.6	10.0
Profit before tax		**46.3**	58.9	91.0
Headline[3] profit before tax		**81.9**	70.7	154.7
Headline[3] tax		**(21.4)**	(18.3)	(39.7)
Exceptional tax[4]		**8.4**	6.7	58.8
Total tax	6	**(13.0)**	(11.6)	19.1
Profit for the period from continuing operations		**33.3**	47.3	110.1
Headline[3] profit for the period from continuing operations		**60.5**	52.4	115.0
Discontinued operations				
Profit for the period from discontinued operations	9	**1.3**	9.3	176.4
Profit for the period		**34.6**	56.6	286.5
Attributable to:				
Owners of the parent		**34.6**	56.5	286.4
Non-controlling interests		**–**	0.1	0.1
		34.6	56.6	286.5
Earnings per share[5]				
From continuing operations				
– Basic	7	**4.7p**	5.4p	13.8p
– Diluted	7	**4.5p**	5.1p	12.9p
– Headline[3] basic	7	**8.5p**	6.0p	14.4p
– Headline[3] diluted	7	**8.2p**	5.7p	13.5p
From continuing and discontinued operations				
– Basic	7	**4.9p**	6.5p	35.8p
– Diluted	7	**4.7p**	6.1p	33.6p
– Headline[3] basic	7	**8.8p**	8.5p	17.5p
– Headline[3] diluted	7	**8.4p**	8.0p	16.4p

(1) Restated to include the results of Weber Knapp and MPC within discontinued operations.
(2) Restated to include the results of MPC within discontinued operations.
(3) Before exceptional costs and intangible asset amortisation.
(4) Includes exceptional tax and tax on exceptional items and intangible asset amortisation.
(5) Six months ended 30 June 2011 and year ended 31 December 2011 restated for the effects of the Rights Issue (note 7).

Condensed Consolidated Statement of Comprehensive Income

	6 months ended 30 June 2012 Unaudited £m	6 months ended 30 June 2011 Unaudited £m	Year ended 31 December 2011 £m
Profit for the period	**34.6**	56.6	286.5
Currency translation on net investments	**(11.4)**	16.8	(17.3)
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	**–**	(0.7)	(52.6)
(Losses)/gains on cash flow hedges	**(4.3)**	7.8	(0.1)
Transfer to Income Statement on cash flow hedges	**9.4**	(4.2)	(5.1)
Actuarial loss on retirement benefit obligations	**(31.1)**	–	(37.1)
Other comprehensive (expense)/income before tax	**(37.4)**	19.7	(112.2)
Tax relating to components of other comprehensive (expense)/income	**1.8**	1.9	16.8
Other comprehensive (expense)/income after tax	**(35.6)**	21.6	(95.4)
Total comprehensive (expense)/income for the period	**(1.0)**	78.2	191.1
Attributable to:			
Owners of the parent	**(1.0)**	78.1	191.0
Non-controlling interests	**–**	0.1	0.1
	(1.0)	78.2	191.1

Condensed Consolidated Statement of Cash Flows

	Notes	6 months ended 30 June 2012 Unaudited £m	Restated[1] 6 months ended 30 June 2011 Unaudited £m	Restated[2] year ended 31 December 2011 £m
Net cash from operating activities from continuing operations	11	**13.2**	9.3	70.8
Net cash from operating activities from discontinued operations	11	**1.7**	17.0	20.4
Net cash from operating activities		**14.9**	26.3	91.2
Investing activities				
Disposal of businesses		**30.7**	18.4	374.4
Net cash disposed		**(1.2)**	(0.4)	(0.5)
Acquisition and disposal costs		**(2.4)**	(3.3)	(3.2)
Purchase of property, plant and equipment		**(22.6)**	(13.6)	(33.0)
Proceeds from disposal of property, plant and equipment		**0.3**	–	0.3
Purchase of computer software		**(0.4)**	(0.7)	(1.4)
Interest received		**2.9**	4.2	10.0
Dividends paid to non-controlling interests		**(0.1)**	–	–
Net cash from investing activities from continuing operations		**7.2**	4.6	346.6
Net cash used in investing activities from discontinued operations	11	**(1.8)**	(5.7)	(9.4)
Net cash from/(used in) investing activities		**5.4**	(1.1)	337.2
Financing activities				
Return of capital	8	**(1.1)**	–	(372.1)
Repayment of borrowings		**(483.2)**	–	–
New bank loans raised		**423.6**	–	–
Costs of raising finance		**(3.2)**	–	–
Dividends paid	8	**(32.8)**	(34.8)	(52.8)
Net cash used in financing activities from continuing operations		**(96.7)**	(34.8)	(424.9)
Net cash used in financing activities from discontinued operations	11	**–**	(0.3)	(0.3)
Net cash used in financing activities		**(96.7)**	(35.1)	(425.2)
Net (decrease)/increase in cash and cash equivalents		**(76.4)**	(9.9)	3.2
Cash and cash equivalents at the beginning of the year		**195.6**	195.7	195.7
Effect of foreign exchange rate changes		**(2.5)**	1.6	(3.3)
Cash and cash equivalents at the end of the period		**116.7**	187.4	195.6

(1) Restated to include the cash flows of Weber Knapp and MPC within discontinued operations.
(2) Restated to include the cash flows of MPC within discontinued operations.

As at 30 June 2012, the Group's net debt was £306.5 million (30 June 2011: £286.8 million, 31 December 2011: £289.6 million). A reconciliation of the movement in net debt is shown in note 11.

Condensed Consolidated Balance Sheet

	Notes	30 June 2012 Unaudited £m	30 June 2011 Unaudited £m	31 December 2011 £m
Non-current assets				
Goodwill and other intangible assets		**879.0**	926.2	906.1
Property, plant and equipment		**208.3**	217.1	215.3
Derivative financial assets		**–**	0.1	–
Deferred tax assets		**49.2**	29.1	40.4
Trade and other receivables		**0.6**	1.4	0.3
		1,137.1	1,173.9	1,162.1
Current assets				
Inventories		**218.0**	208.5	205.8
Trade and other receivables		**215.2**	215.2	216.3
Derivative financial assets		**1.6**	5.1	1.7
Cash and cash equivalents		**116.7**	187.4	195.6
Assets held for sale		**–**	349.9	–
		551.5	966.1	619.4
Total assets	3	**1,688.6**	2,140.0	1,781.5
Current liabilities				
Trade and other payables		**273.8**	277.7	276.0
Interest-bearing loans and borrowings		**–**	2.7	28.8
Derivative financial liabilities		**8.4**	3.4	14.1
Current tax liabilities		**27.1**	63.8	16.9
Provisions	12	**45.7**	25.1	58.2
Liabilities held for sale[1]		**–**	94.0	–
		355.0	466.7	394.0
Net current assets		**196.5**	499.4	225.4
Non-current liabilities				
Trade and other payables		**1.6**	2.1	1.6
Interest-bearing loans and borrowings		**423.2**	471.5	457.5
Derivative financial liabilities		**2.5**	5.5	1.6
Deferred tax liabilities		**95.6**	105.0	98.3
Retirement benefit obligations		**131.4**	93.4	117.7
Provisions	12	**63.3**	68.7	62.4
		717.6	746.2	739.1
Total liabilities	3	**1,072.6**	1,212.9	1,133.1
Net assets		**616.0**	927.1	648.4
Equity				
Issued share capital		**1.1**	1.1	26.8
Share premium account		**126.0**	279.1	126.0
Merger reserve		**285.1**	285.1	285.1
Capital redemption reserve		**373.2**	220.1	346.4
Hedging and translation reserves		**(9.3)**	90.2	(2.6)
Retained earnings		**(160.1)**	50.1	(133.4)
Equity attributable to owners of the parent		**616.0**	925.7	648.3
Non-controlling interests		**–**	1.4	0.1
Total equity		**616.0**	927.1	648.4

[1] Liabilities directly associated with assets classified as held for sale.

Condensed Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2011 (audited)	1.1	279.1	285.1	220.1	71.0	25.1	881.5	1.4	882.9
Profit for the period	–	–	–	–	–	56.5	56.5	0.1	56.6
Other comprehensive income	–	–	–	–	19.2	2.4	21.6	–	21.6
Total comprehensive income	–	–	–	–	19.2	58.9	78.1	0.1	78.2
Dividends paid	–	–	–	–	–	(34.8)	(34.8)	(0.1)	(34.9)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	0.9	0.9	–	0.9
At 30 June 2011 (unaudited)	1.1	279.1	285.1	220.1	90.2	50.1	925.7	1.4	927.1
Profit for the period	–	–	–	–	–	229.9	229.9	–	229.9
Other comprehensive expense	–	–	–	–	(92.8)	(24.2)	(117.0)	–	(117.0)
Total comprehensive (expense)/income	–	–	–	–	(92.8)	205.7	112.9	–	112.9
Issue of redeemable preference C shares	372.1	(153.1)	–	(220.1)	–	–	(1.1)	–	(1.1)
Preference C shares redeemed	(346.4)	–	–	346.4	–	–	–	–	–
Return of capital	–	–	–	–	–	(372.1)	(372.1)	–	(372.1)
Dividends paid	–	–	–	–	–	(18.0)	(18.0)	(0.1)	(18.1)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	0.9	0.9	–	0.9
Disposal of non-controlling interests	–	–	–	–	–	–	–	(1.2)	(1.2)
At 31 December 2011 (audited)	26.8	126.0	285.1	346.4	(2.6)	(133.4)	648.3	0.1	648.4
Profit for the period	–	–	–	–	–	34.6	34.6	–	34.6
Other comprehensive expense	–	–	–	–	(6.7)	(28.9)	(35.6)	–	(35.6)
Total comprehensive (expense)/income	–	–	–	–	(6.7)	5.7	(1.0)	–	(1.0)
Preference C shares redeemed	(25.7)	–	–	26.8	–	(1.1)	–	–	–
Dividends paid	–	–	–	–	–	(32.8)	(32.8)	(0.1)	(32.9)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	1.5	1.5	–	1.5
At 30 June 2012 (unaudited)	**1.1**	**126.0**	**285.1**	**373.2**	**(9.3)**	**(160.1)**	**616.0**	**–**	**616.0**

Notes to the condensed set of financial statements

1. Corporate information

The interim financial information for the six months ended 30 June 2012 has been reviewed by the auditor, but not audited. The information for the year ended 31 December 2011 shown in this report does not constitute statutory accounts for that period as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor has reported on those accounts. Their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The comparative information for the period to 30 June 2011 in these interim financial statements has been restated to include the results and cash flows of Weber Knapp and MPC, previously disclosed within the Other Industrial segment, within discontinued operations, and exclude them from continuing operations. The comparative information for the year ended 31 December 2011 in these interim financial statements has been restated to include the results and cashflows of MPC within discontinued operations, and exclude them from continuing operations.

2. Summary of significant accounting policies

The interim financial information for the six months ended 30 June 2012, which has been approved by a committee of the Board of Directors on 30 August 2012, has been prepared on the basis of the accounting policies set out in the Group's 2011 Annual Report and financial statements on pages 69 to 76 and can be found on the Group's website www.melroseplc.net. This Interim Statement should therefore be read in conjunction with the 2011 information. The accounting policies used in the preparation of the interim financial information have been consistently applied to all periods presented. This Interim Statement has been prepared in accordance with IAS 34: "Interim Financial Reporting" as adopted by the European Union.

Adoption of new accounting standards

There were no new accounting standards which are applicable to the Group in the current period.

Going concern

The Group's business activities in the period, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's review.

The Group's principal risks and uncertainties are discussed in the Finance Director's review and are set out in more detail on pages 29 to 33 in the Group's Annual Report for the year ended 31 December 2011.

After making appropriate enquiries and consideration of the impact of the acquisition of Elster Group S.E. on the forecasts of the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these Interim Statements.

3. Segment information

Segment information is presented in accordance with IFRS 8: "Operating Segments" which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reported to the Group's Board in order to allocate resources to the segments and assess their performance. The Group's reportable operating segments under IFRS 8 are as follows:

- Energy
- Lifting
- Other Industrial

The Energy segment incorporates the Turbogenerators and Marelli business units, specialist suppliers of energy industrial products to the global market. The Lifting segment consists of the businesses of Bridon, Crosby and Acco, serving oil & gas production, mining, petrochemical, alternative energy and general construction markets. The Other Industrial segment consists primarily of the businesses of Truth and Harris, serving the housing and steel recycling markets.

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

- Central – corporate
- Central – LTIPs[1]

[1] Long term incentive plans.

The Central corporate cost centre contains the Melrose Group head office costs whilst the Central LTIPs cost centre contains the costs associated with the previous Melrose Incentive Scheme (crystallised on 22 March 2012), the new five year 2012 Melrose Incentive Scheme (granted on 11 April 2012) and the divisional management LTIP schemes that are in operation across the Group.

The discontinued segment incorporates the Dynacast, Brush Traction, Logistex UK, Madico, Weber Knapp and MPC businesses.

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

The Group's geographical segments are determined by the location of the Group's non-current assets and, for revenue, the location of external customers. Inter-segment sales are not material and have not been included in the segment information.

The following tables present revenue, profit and certain asset and liability information regarding the Group's operating segments for the six month period ended 30 June 2012 and comparative periods.

Notes to the condensed set of financial statements
continued

3. Segment information (continued)
Segment revenues and results

		Segment revenue from external customers		
	Note	6 months ended 30 June 2012 £m	Restated[1] 6 months ended 30 June 2011 £m	Restated[2] year ended 31 December 2011 £m
Continuing operations				
Energy		**233.7**	215.8	461.6
Lifting		**266.3**	237.9	484.4
Other Industrial		**64.6**	62.9	134.4
Total continuing operations		**564.6**	516.6	1,080.4
Discontinued operations	9	**35.9**	195.6	251.3
Total revenue		**600.5**	712.2	1,331.7

[1] Restated to include the results of Weber Knapp and MPC within discontinued operations.
[2] Restated to include the results of MPC within discontinued operations.

		Segment result		
	Notes	6 months ended 30 June 2012 £m	Restated[1] 6 months ended 30 June 2011 £m	Restated[2] year ended 31 December 2011 £m
Continuing operations				
Energy		**43.3**	41.7	91.1
Lifting		**47.2**	40.0	82.6
Other Industrial		**9.0**	7.6	16.5
Central – corporate		**(4.8)**	(4.3)	(9.2)
Central – LTIPs[3]		**(4.0)**	(3.5)	(6.8)
Headline[4] operating profit		**90.7**	81.5	174.2
Intangible asset amortisation		**(11.8)**	(11.8)	(23.7)
Exceptional costs		**(14.8)**	–	(40.0)
Operating profit		**64.1**	69.7	110.5
Finance costs – headline[4]		**(11.7)**	(14.4)	(29.5)
Finance costs – exceptional		**(9.0)**	–	–
Finance income		**2.9**	3.6	10.0
Profit before tax		**46.3**	58.9	91.0
Tax	6	**(13.0)**	(11.6)	19.1
Profit for the period from discontinued operations	9	**1.3**	9.3	176.4
Profit for the period		**34.6**	56.6	286.5

[1] Restated to include the results of Weber Knapp and MPC within discontinued operations.
[2] Restated to include the results of MPC within discontinued operations.
[3] Long term incentive plans.
[4] As defined on the Income Statement.

3. Segment information (continued)

	Total assets			Total liabilities		
	30 June 2012 £m	Restated[(1)] 30 June 2011 £m	Restated[(2)] 31 December 2011 £m	**30 June 2012 £m**	Restated[(1)] 30 June 2011 £m	Restated[(2)] 31 December 2011 £m
Continuing operations						
Energy	**634.1**	669.4	641.0	**246.8**	221.3	231.6
Lifting	**783.6**	754.2	767.3	**246.5**	199.0	212.3
Other Industrial	**87.5**	88.2	79.1	**25.4**	34.4	24.8
Central – corporate	**183.4**	233.8	251.7	**536.1**	629.4	632.2
Central – LTIPs[(3)]	**–**	–	–	**17.8**	15.1	15.3
Total continuing operations	**1,688.6**	1,745.6	1,739.1	**1,072.6**	1,099.2	1,116.2
Discontinued operations	**–**	394.4	42.4	**–**	113.7	16.9
Total	**1,688.6**	2,140.0	1,781.5	**1,072.6**	1,212.9	1,133.1

(1) Restated to include the total assets and total liabilities of Weber Knapp and MPC within discontinued operations.
(2) Restated to include the total assets and total liabilities of MPC within discontinued operations.
(3) Long term incentive plans.

	Capital expenditure[(1)]			Depreciation[(1)]		
	6 months ended 30 June 2012 £m	Restated[(2)] 6 months ended 30 June 2011 £m	Restated[(3)] year ended 31 December 2011 £m	**6 months ended 30 June 2012 £m**	Restated[(2)] 6 months ended 30 June 2011 £m	Restated[(3)] year ended 31 December 2011 £m
Continuing operations						
Energy	**5.2**	3.9	11.4	**4.0**	4.0	7.9
Lifting	**15.4**	9.3	21.3	**5.1**	4.8	8.8
Other Industrial	**2.0**	1.1	2.0	**1.8**	2.3	4.3
Central – corporate	**0.8**	–	–	**0.3**	0.3	0.6
Total continuing operations	**23.4**	14.3	34.7	**11.2**	11.4	21.6
Discontinued operations	**1.7**	7.0	8.1	**0.9**	4.5	5.6
Total	**25.1**	21.3	42.8	**12.1**	15.9	27.2

(1) Including computer software.
(2) Restated to include the capital expenditure[(1)] and depreciation[(1)] of Weber Knapp and MPC within discontinued operations.
(3) Restated to include the capital expenditure[(1)] and depreciation[(1)] of MPC within discontinued operations.

Notes to the condensed set of financial statements

continued

3. Segment information (continued)

Geographical information

The Group operates in various geographical areas around the world. The Group's country of domicile is the UK and the Group's revenues and non-current assets in Europe and North America are also considered to be material.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding derivative financial assets, deferred tax assets, and non-current trade and other receivables) by geographical location are detailed below:

	Revenue[1] from external customers			Non-current assets		
	6 months ended 30 June 2012 £m	Restated[2] 6 months ended 30 June 2011 £m	Restated[3] year ended 31 December 2011 £m	**30 June 2012 £m**	Restated[2] 30 June 2011 £m	Restated[3] 31 December 2011 £m
UK	**55.8**	62.5	129.3	**354.0**	346.9	348.9
Europe	**131.0**	136.9	280.8	**308.0**	353.2	321.7
North America	**256.4**	216.9	463.2	**415.0**	412.8	422.2
Other	**121.4**	100.3	207.1	**10.3**	9.7	10.5
Total continuing operations	**564.6**	516.6	1,080.4	**1,087.3**	1,122.6	1,103.3
Discontinued operations	**35.9**	195.6	251.3	**–**	20.7	18.1
Total	**600.5**	712.2	1,331.7	**1,087.3**	1,143.3	1,121.4

(1) Revenue is presented by destination.
(2) Restated to include the revenue from external customers and non-current assets of Weber Knapp and MPC within discontinued operations.
(3) Restated to include the revenue from external customers and non-current assets of MPC within discontinued operations.

4. Operating expenses

Operating expenses comprise:	**6 months ended 30 June 2012 £m**	Restated[1] 6 months ended 30 June 2011 £m	Restated[2] year ended 31 December 2011 £m
Continuing operations			
Selling and distribution costs	**41.1**	39.2	76.7
Administration expenses	**57.0**	48.5	103.5
Share of results of joint ventures	**0.3**	0.2	–
Other operating costs – exceptional	**14.8**	–	40.0
Total operating expenses from continuing operations	**113.2**	87.9	220.2
Total operating expenses from discontinued operations	**2.3**	17.8	22.2
Total operating expenses	**115.5**	105.7	242.4

(1) Restated to include the results of Weber Knapp and MPC within discontinued operations.
(2) Restated to include the results of MPC within discontinued operations.

5. Exceptional costs

Exceptional costs	**6 months ended 30 June 2012 £m**	6 months ended 30 June 2011 £m	Restated[1] year ended 31 December 2011 £m
Continuing operations			
Acquisition and refinancing costs			
– operating	**12.9**	–	3.1
– financing	**9.0**	–	–
Restructuring costs	**1.9**	–	15.9
Increase in legal provision	**–**	–	21.0
Total exceptional costs	**23.8**	–	40.0

(1) Restated to include the results of MPC within discontinued operations.

Acquisition and refinancing costs relate to the acquisition of Elster Group S.E. (£12.9 million) and the refinancing of the debt facility in January 2012 which resulted in £9.0 million of interest rate swap close-out costs and the accelerated amortisation of arrangement fees. The costs incurred in 2011 consist predominately of the expenses arising during the aborted process to acquire Charter International plc.

During the period, the Group incurred £1.9 million (2011: £15.9 million) of costs relating to restructuring programmes. Restructuring costs incurred in the second half of 2011 included the integration of the Hawker Siddeley Switchgear business into the Turbogenerators business within the Energy division and the reorganisation of the Brush facility in the Netherlands also within the Energy division. Within the Lifting division, there was restructuring at Bridon's Doncaster works following the large-scale investment to relocate certain activities from Doncaster to the newly invested Neptune Energy Park facility in Newcastle upon Tyne.

During 2011, a legal provision in respect of two Bridon companies, in connection with product liability litigation in the US inherited, in part, from the FKI acquisition was increased to £25.8 million (US $40.0 million). Noble Drilling Services ("Noble") was claiming from Bridon and its US distributor for alleged losses arising from Hurricane Ike causing two offshore drilling rigs secured by Bridon ropes to break station in the Gulf of Mexico. On 23 May 2012, Bridon, Noble and Certex reached a consensual resolution and confidential settlement of the litigation and all claims have been dismissed with prejudice. The settlement sum paid by Bridon on 6 July 2012 (including legal costs and taking account of current contributions from insurers) remained fully provided as at 30 June 2012.

Notes to the condensed set of financial statements

continued

6. Tax

Analysis of the charge/(credit) in the period	**6 months ended 30 June 2012 £m**	Restated[1] 6 months ended 30 June 2011 £m	Restated[2] year ended 31 December 2011 £m
Continuing operations			
Current tax	**21.6**	17.7	(7.6)
Deferred tax	**(8.6)**	(6.1)	(11.5)
Total income tax charge/(credit) from continuing operations	**13.0**	11.6	(19.1)
Discontinued operations			
Current tax	**0.6**	7.5	8.9
Deferred tax	**–**	–	(0.2)
Total income tax charge from discontinued operations	**0.6**	7.5	8.7
Total income tax charge/(credit)	**13.6**	19.1	(10.4)

[1] Restated to include the results of Weber Knapp and MPC within discontinued operations.
[2] Restated to include the results of MPC within discontinued operations.

The effective tax rate in respect of headline profit before tax on continuing activities for the year is expected to be 26%. The headline tax charge on continuing activities has been calculated by applying the expected rate to the headline profit before tax of £81.9 million, giving a headline tax charge of £21.4 million.

The headline tax charge on continuing activities of £21.4 million has been reduced by a tax credit on exceptional items of £8.4 million to give a total tax charge on continuing activities of £13.0 million. The tax credit on exceptional items includes a deferred tax credit on the amortisation of intangible assets of £2.9 million, a further deferred tax credit of £3.3 million which is due to the reduction of the deferred tax liabilities caused by the change of the UK corporation tax rate to 24% with effect from 1 April 2012; and a current tax credit of £2.2 million in respect of refinancing costs recognised as exceptional.

A further reduction in the UK corporation tax rate to 23% with effect from 1 April 2013 has not been applied during the period to the deferred tax balance. This is because the formal enactment did not take place prior to 30 June 2012. The effect of this further tax reduction will be to reduce the deferred tax liability on intangible assets by a further £3.0 million in the second half of 2012.

In addition to the amount charged to the Income Statement, a credit of £1.8 million (6 months ended 30 June 2011: £1.9 million) has been recognised directly in the Statement of Comprehensive Income. This represents a tax credit of £2.2 million (6 months ended 30 June 2011: £2.4 million) in respect of retirement benefit obligations and a tax charge of £0.4 million (6 months ended 30 June 2011: £0.5 million) in respect of movements on cash flow hedges.

7. Earnings per share

Earnings attributable to owners of the parent	**6 months ended 30 June 2012 £m**	Restated[1] 6 months ended 30 June 2011 £m	Restated[2] year ended 31 December 2011 £m
Profit for the purposes of earnings per share	**34.6**	56.5	286.4
Less: profit for the period from discontinued operations (note 9)	**(1.3)**	(9.2)	(176.3)
Earnings for basis of earnings per share from continuing operations	**33.3**	47.3	110.1
Continuing operations:			
Intangible asset amortisation	**11.8**	11.8	23.7
Exceptional costs (note 5)	**23.8**	–	40.0
Exceptional tax[3]	**(8.4)**	(6.7)	(58.8)
Earnings for basis of headline[3] earnings per share from continuing operations	**60.5**	52.4	115.0
Discontinued operations:			
Profit for the period from discontinued operations (note 9)	**1.3**	9.2	176.3
Loss/(profit) on disposal of businesses	**0.6**	(1.3)	(152.4)
Intangible asset amortisation	**–**	1.3	1.4
Exceptional items (note 9)	**–**	12.6	0.1
Tax on intangible asset amortisation	**–**	(0.4)	(0.8)
Earnings for basis of headline[3] earnings per share from continuing and discontinued operations	**62.4**	73.8	139.6

[1] Restated to include the results of Weber Knapp and MPC within discontinued operations.
[2] Restated to include the results of MPC within discontinued operations.
[3] As defined on the Income Statement.

Notes to the condensed set of financial statements

continued

7. Earnings per share (continued)

	6 months ended 30 June 2012 Number	6 months ended 30 June 2011 Number	Year ended 31 December 2011 Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share (million) including the effects of the Rights Issue[1]	**710.2**	873.2	798.9
Further shares for the purposes of diluted earnings per share (million)[2] including the effects of the Rights Issue[1]	**30.7**	51.5	52.8
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share (million)[2] including the effects of the Rights Issue[1]	**740.9**	924.7	851.7

[1] On 1 August 2012, a 2 for 1, fully underwritten, Rights Issue was completed and subsequently 844.4 million new Melrose Shares were issued raising £1.2 billion to part fund the acquisition of Elster Group S.E. In accordance with IAS 33, a bonus factor associated with the issue of the new share capital of 57% has been applied to the number of Ordinary Shares (including comparative periods presented) for the purpose of earnings per share calculations.

[2] Relating to the 2012 Melrose Incentive Scheme and the previous Melrose Incentive Scheme for the six months ended 30 June 2012 and the previous Melrose Incentive Scheme for the 2011 comparative periods.

Earnings per share	**6 months ended 30 June 2012 pence**	Restated[1] 6 months ended 30 June 2011 pence	Restated[2] year ended 31 December 2011 pence
Basic earnings per share			
From continuing and discontinued operations	**4.9**	6.5	35.8
From continuing operations	**4.7**	5.4	13.8
From discontinued operations	**0.2**	1.1	22.0
Diluted earnings per share			
From continuing and discontinued operations	**4.7**	6.1	33.6
From continuing operations	**4.5**	5.1	12.9
From discontinued operations	**0.2**	1.0	20.7
Headline[3] basic earnings per share			
From continuing and discontinued operations	**8.8**	8.5	17.5
From continuing operations	**8.5**	6.0	14.4
Headline[3] diluted earnings per share			
From continuing and discontinued operations	**8.4**	8.0	16.4
From continuing operations	**8.2**	5.7	13.5

[1] Restated to include the results of Weber Knapp and MPC within discontinued operations and including the effects of the Rights Issue.

[2] Restated to include the results of MPC within discontinued operations and including the effects of the Rights Issue in August 2012.

[3] As defined on the Income Statement.

8. Dividends

	6 months ended 30 June 2012 £m	6 months ended 30 June 2011 £m	Year ended 31 December 2011 £m
Final dividend for the year ended 31 December 2010 paid of 7.0p (4.0p)(1)	–	34.8	34.8
Interim dividend for the year ended 31 December 2011 paid of 4.6p (2.6p)(1)	–	–	18.0
Final dividend for the year ended 31 December 2011 paid of 8.4p (4.8p)(1)	32.8	–	–
Total dividends paid	32.8	34.8	52.8
Proposed interim dividend for the period ended 30 June 2012 of 2.6p	32.9	–	–

(1) Adjusted to include the effects of the Rights Issue in August 2012.

A proposed 2012 interim dividend of 2.6p per Ordinary Share was approved by the Board on 30 August 2012 and, in accordance with IAS 10, has not been included as a liability as at 30 June 2012.

In addition to dividends paid, shareholders approved a £373.2 million return of capital on 8 August 2011 of which £372.1 million was paid on 19 August 2011 and £1.1 million was paid on 30 April 2012.

9. Discontinued operations

The comparative information for the six month period to 30 June 2011 in these interim financial statements has been restated to exclude the results and cash flows of Weber Knapp and MPC from continuing operations and include them as discontinued operations. The comparative information for the year ended 31 December 2011 has also been restated to exclude the results and cashflows of MPC from continuing operations and include them as discontinued operations.

Discontinued operations in 2011 also contain the results and cash flows of the Dynacast, Brush Traction, Logistex UK and Madico businesses.

Notes to the condensed set of financial statements

continued

9. Discontinued operations (continued)

Financial performance of discontinued operations:

	6 months ended 30 June 2012 Unaudited £m	Restated[1] 6 months ended 30 June 2011 Unaudited £m	Restated[2] year ended 31 December 2011 £m
Revenue	**35.9**	195.6	251.3
Operating costs	**(33.4)**	(166.6)	(217.3)
Headline[3] operating profit	**2.5**	29.0	34.0
Intangible asset amortisation	**–**	(1.3)	(1.4)
Exceptional items[4]	**–**	(12.6)	(0.1)
Net finance income	**–**	0.4	0.2
Profit before tax	**2.5**	15.5	32.7
Headline[3] tax	**(0.6)**	(7.9)	(9.5)
Tax on intangible asset amortisation	**–**	0.4	0.8
Profit after tax	**1.9**	8.0	24.0
Cumulative translation differences recycled on disposals	**–**	0.7	52.6
(Loss)/gain on disposal of net assets of discontinued operations	**(0.6)**	0.6	99.8
Profit for the period from discontinued operations	**1.3**	9.3	176.4
Attributable to:			
Owners of the parent	**1.3**	9.2	176.3
Non-controlling interests	**–**	0.1	0.1
	1.3	9.3	176.4

(1) Restated to include the results of Weber Knapp and MPC within discontinued operations.
(2) Restated to include the results of MPC within discontinued operations.
(3) As defined on the Income Statement.
(4) Costs relating to the disposal of Dynacast and MPC.

Disposal of businesses

On 25 June 2012, the Group disposed of MPC, a business acquired as part of the McKechnie acquisition in 2005. This was previously classified within the "Other Industrial" segment and is now shown within discontinued operations.

9. Discontinued operations (continued)

The major classes of assets and liabilities disposed of with this business were as follows:

	Discontinued operations £m
Goodwill and other intangible assets	**3.8**
Property, plant and equipment	**15.1**
Inventories	**7.6**
Trade and other receivables	**19.8**
Cash and cash equivalents	**1.2**
Total assets disposed of	**47.5**
Trade and other payables	**18.0**
Tax	**0.6**
Total liabilities disposed of	**18.6**
Net assets disposed of	**28.9**
Cash consideration net of costs[1]	**28.3**
Loss on disposal of net assets of discontinued operations	**(0.6)**
Cumulative translation differences recycled on disposals	**–**
Loss on disposal of business	**(0.6)**

[1] Includes £2.4 million of disposal costs.

10. Retirement benefit obligations

The defined benefit obligation at 30 June 2012 of £131.4 million (31 December 2011: £117.7 million) is estimated based on the latest full actuarial valuations at 31 December 2008 for the UK plans and at 1 January 2011 for the US plans. These are currently in the process of being formally valued as at 31 December 2011 and 1 January 2012 respectively. The valuation of the FKI UK Pension Plan, the most significant pension plan in the Group, has been updated at 30 June 2012 by independent actuaries to reflect updated assumptions regarding discount rates, inflation rates and asset values. At 31 December 2011, the discount rate was 4.9% and the RPI assumption was 3.1%. These have been updated to 4.5% and 2.8% respectively at 30 June 2012. In addition, the defined benefit plan assets and liabilities have been updated to reflect the £18.3 million of contributions made to the defined benefit plans during the period, which included a one-off contribution of £6.0 million made following the disposal of the MPC business, and the benefits earned during the period to 30 June 2012.

Notes to the condensed set of financial statements
continued

11. Notes to the Cash Flow Statement

	6 months ended 30 June 2012 £m	Restated[1] 6 months ended 30 June 2011 £m	Restated[2] year ended 31 December 2011 £m
Reconciliation of headline[3] operating profit to cash generated by continuing operations			
Headline[3] operating profit from continuing operations	**90.7**	81.5	174.2
Adjustments for:			
Depreciation of property, plant and equipment	**10.8**	11.1	21.0
Amortisation of computer software	**0.4**	0.3	0.6
Restructuring costs paid and movements in other provisions	**(10.6)**	(24.5)	(32.2)
Operating cash flows before movements in working capital	**91.3**	68.4	163.6
Increase in inventories	**(21.0)**	(15.8)	(17.5)
Increase in receivables	**(17.1)**	(12.0)	(14.5)
Increase in payables	**16.0**	4.8	13.0
Cash generated by operations	**69.2**	45.4	144.6
Tax paid	**(11.3)**	(3.0)	(22.9)
Interest paid	**(20.8)**	(20.0)	(26.0)
Interest rate swap close-out costs	**(5.6)**	–	–
Defined benefit pension contributions paid	**(18.3)**	(13.1)	(24.9)
Net cash from operating activities from continuing operations	**13.2**	9.3	70.8

(1) Restated to include the cash flows of Weber Knapp and MPC within discontinued operations.
(2) Restated to include the cash flows of MPC within discontinued operations.
(3) As defined on the Income Statement.

11. Notes to the Cash Flow Statement (continued)

Cash flow from discontinued operations	**6 months ended 30 June 2012 £m**	Restated[1] 6 months ended 30 June 2011 £m	Restated[2] year ended 31 December 2011 £m
Cash generated from discontinued operations	**1.7**	24.2	28.1
Tax paid	**–**	(3.4)	(3.8)
Defined benefit pension contributions paid	**–**	(3.8)	(3.9)
Net cash from operating activities from discontinued operations	**1.7**	17.0	20.4
Purchase of property, plant and equipment	**(1.8)**	(5.5)	(9.5)
Purchase of computer software	**–**	(0.1)	(0.2)
Interest received	**–**	–	0.5
Dividends paid to non-controlling interests	**–**	(0.1)	(0.2)
Net cash used in investing activities from discontinued operations	**(1.8)**	(5.7)	(9.4)
Net movement in borrowings	**–**	(0.3)	(0.3)
Net cash used in financing activities from discontinued operations	**–**	(0.3)	(0.3)

[1] Restated to include the cash flows of Weber Knapp and MPC within discontinued operations.
[2] Restated to include the cash flows of MPC within discontinued operations.

Net debt reconciliation

	At 31 December 2011 £m	Cash flow £m	Disposal proceeds £m	Other non-cash movements £m	Effect of foreign exchange £m	**At 30 June 2012 £m**
Cash	195.6	(107.1)	30.7	–	(2.5)	**116.7**
Debt due within one year	(27.7)	27.7	–	–	–	**–**
Debt due after one year	(457.5)	31.9	–	(3.9)	6.3	**(423.2)**
Net debt	(289.6)	(47.5)	30.7	(3.9)	3.8	**(306.5)**

Interest-bearing loans and borrowings at 31 December 2011 included a £1.1 million liability for the redemption of 1,392,194 redeemable preference C shares which were deferred and subsequently redeemed on 30 April 2012. In accordance with applicable accounting standards, the liability was not included in net debt.

Notes to the condensed set of financial statements
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12. Provisions

	Surplus leasehold property costs £m	Environmental and legal costs £m	Incentive scheme related £m	Other £m	Total £m
At 1 January 2012	19.7	63.7	15.3	21.9	120.6
Utilised	(2.7)	(4.7)	–	(7.2)	(14.6)
Arising in the year	0.3	–	2.5	0.4	3.2
Unwinding of discount	0.2	0.2	–	–	0.4
Exchange differences	(0.2)	(0.3)	–	(0.1)	(0.6)
At 30 June 2012	**17.3**	**58.9**	**17.8**	**15.0**	**109.0**
Current	4.2	26.5	–	15.0	45.7
Non-current	13.1	32.4	17.8	–	63.3
	17.3	**58.9**	**17.8**	**15.0**	**109.0**

The provision for surplus leasehold property costs represents the estimated net rentals payable over the term of the leases together with any dilapidation costs.

Environmental and legal costs provisions relate to the estimated remediation costs of pollution, soil and groundwater contamination at certain sites and estimated future costs and settlements in relation to legal claims.

Incentive scheme related provisions are in respect of long term incentive plans for divisional senior management.

Other provisions relate primarily to costs that will be incurred in respect of restructuring programmes and warranty provisions.

13. Post Balance Sheet events

On 29 June 2012, Melrose PLC announced that it had reached an agreement with Elster Group S.E. ("Elster") on the terms of a recommended cash offer for the entire issued share capital of Elster. On 1 August 2012, a 2 for 1, fully underwritten Rights Issue was completed. Subsequently 844,418,024 new Melrose shares were issued raising £1.2 billion. On 23 August 2012 Melrose completed the acquisition of Elster for a total cash consideration of £1.5 billion.

Elster is a world leading engineering company and one of the world's largest providers of gas, electricity and water meters, gas utilisation products and related communications, networking and software solutions.

In June 2012, the Group agreed a new five year banking facility for the purpose of financing the acquisition of Elster. On 23 August 2012, all amounts outstanding on the original facility were repaid. The new facility, totalling £1.5 billion, is split £0.5 billion term loan and £1.0 billion revolving credit facility agreement. £0.3 billion of the term loan was used to fund the acquisition, with the remaining amounts used to finance the existing indebtedness of both Melrose and Elster and to finance the enlarged Group's working capital requirements.

During the six months to 30 June 2012, £12.9 million of non-contingent acquisition related costs were recognised within exceptional costs. The total acquisition costs are expected to be between £70 million and £75 million of which approximately £30 million relates to the raising of equity and approximately £25 million relates to bank arrangement fees in relation to the raising of debt finance. Costs contingent on the acquisition and Rights Issue have not been accrued at the half year in compliance with IAS 37.

The fair value and initial carrying amount recognised at the acquisition date for each class of Elster's assets, liabilities and contingent liabilities along with profits earned during the period have not been disclosed as it is not practical to do so in the time available since the acquisition.

Company and shareholder information

As at 13 September 2012 there were 8,196 holders of Ordinary Shares in the Company. Their shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
1–5,000	6,591	80.42	6,729,862	0.53
5,001–50,000	1,060	12.93	14,806,178	1.17
50,001–100,000	101	1.23	7,318,519	0.58
100,001–500,000	205	2.50	46,950,247	3.71
Over 500,000	239	2.92	1,190,822,230	94.01
Total	**8,196**	**100.00**	**1,266,627,036**	**100.00**

Financial calendar

Record date of interim dividend	21 September 2012
Payment of interim dividend	19 October 2012
Interim Management Statement	November 2012
Preliminary announcement of 2012 results	March 2013

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Shareholders can view up to date information about their shareholding by visiting the shareholders' website at www.shareview.co.uk.

Shareholder helpline number is 0871 384 2030 (calls charged at 8p per minute from a BT landline, other provider call costs may vary).

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