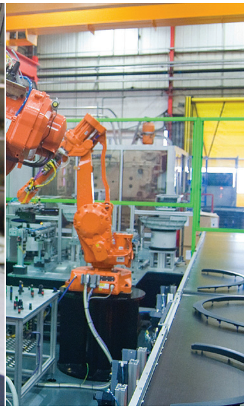
Melrose PLC
Interim Statement 2011



Making acquisitions
Driving performance
Realising value

Contents

How we performed

"The first half of 2011 has been another strong period for Melrose and, with the successful sale of Dynacast and subsequent return of capital, has seen a further validation of our 'buy, improve, sell' business model.

"Revenue has increased, and we were pleased to surpass our 15% operating margin target by improving headline margins by more than 50% in three years. We have now raised our targets, and believe that there is more to come from the existing portfolio.

"We are very pleased with the results of our businesses. Whilst there is currently some uncertainty in world markets our businesses continue to perform robustly and order books continue to increase. July trading was in line with expectations. Our investment plans and our end markets mean that we are well placed for the future.

"Following the Charter announcement of 23 August 2011 we have asked Charter to cooperate in a diligence process and to lengthen the 'put up or shut up' timetable to assist us in presenting an offer for their shareholders' consideration."

Christopher Miller
Chairman

Financial highlights[1]

Revenue
(Period ended 30 June 2011)

£555.9m

2010: £509.9m

Headline[2] profit before tax
(Period ended 30 June 2011)

£74.9m

2010: £56.7m

Headline[2] fully diluted earnings per share
(Period ended 30 June 2011)

14.0p[3]

2010: 10.9p[3]

Interim dividend
(Period ended 30 June 2011)

4.6p

2010: 4.0p

- Revenue for the period was £555.9 million (2010: £509.9 million), a 9% increase
- Order intake for the period was 18% higher than twelve months ago
- Headline[2] profit before tax for the period was £74.9 million (2010: £56.7 million), an increase of 32%. Profit before tax was £63.1 million (2010: £40.3 million)
- Headline[2] operating margins increased to 15.4% (2010: 13.8%)
- Headline[2] fully diluted earnings per share ("EPS") was 14.0p[3] (2010: 10.9p[3]), 28% higher
- Profit[4] conversion to cash of 68%[3] in the period (122%[3] since FKI) funding higher capital expenditure and trade working capital growth in line with revenue
- Interim dividend increased by 15% to 4.6p (2010: 4.0p)
- Completion of the disposal of Dynacast on 19 July 2011 for an enterprise value of £377 million with the equity value increased fourfold
- Return of Dynacast proceeds to shareholders and an ordinary share capital consolidation on 8 August 2011

(1) Continuing operations only unless otherwise stated.
(2) Headline results are before exceptional costs, exceptional income and intangible asset amortisation.
(3) Calculated using continuing and discontinued businesses.
(4) Headline[2] operating profit.

Chairman's statement

I am pleased to report Melrose's interim results for the six months to 30 June 2011.

Results for the Group

Revenue for the continuing Group in the period was £555.9 million (2010: £509.9 million), an increase of 9%, and headline profit before tax (before exceptional costs, exceptional income and intangible asset amortisation) for the continuing Group was 32% ahead at £74.9 million (2010: £56.7 million). Profit before tax was £63.1 million (2010: £40.3 million).

Headline fully diluted earnings per share ("EPS") on continuing and discontinued businesses were 14.0p (2010: 10.9p). This is considered by the Melrose PLC Board to be the best measure of EPS performance given that the sale of Dynacast and the return of capital had not happened by the half year. Fully diluted EPS on continuing and discontinued businesses were 10.7p (2010: 8.4p).

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

Dividend

Your Group continues to perform strongly and the Board has declared an interim dividend of 4.6p per share (2010: 4.0p), an increase of 15%. The dividend will be paid on 14 October 2011 to shareholders on the register at close of business on 9 September 2011.

Our policy is to pursue a progressive annual dividend policy, broadly in line with annual earnings per share growth. The Group also makes exceptional capital repayments related to disposals, as in the case of the recent Dynacast disposal.

Trading

All three continuing divisions performed well during this period and saw increased profits on revenues up by 9%. Our initial target for Group headline operating margins was set at 15% after the acquisition of FKI in 2008. It is particularly pleasing that only three years later, after a period which included a severe recession, we can report headline operating margins of 15.4%.

We have raised our targets and believe that higher margins are achievable over the next few years with our existing set of businesses. In the meantime order intake is 18% higher than in the first half of 2010 and our order books continue to increase.

Management of working capital is a key strength of the Group and measures of the efficiency of this have been much improved over the last three years since we acquired FKI and these remain at excellent and stable levels.

As signalled at the time of the 2010 full year results, capital expenditure is now on a rising trend again in all divisions with more to come. We still see significant opportunities in all our major businesses to improve productivity and selectively increase capacity where future prospects demand it.

Dynacast

The sale process mentioned in the Annual Report has been successfully concluded and on 19 July 2011 Dynacast was sold for £377 million.

Dynacast was purchased in May 2005 and in those six years the enterprise value of the company increased from £197 million to £377 million while the equity value increased fourfold. It has been an excellent acquisition and a validation of our business model and strategy. We believe the company and its management team will prosper under its new ownership.

Return of capital and share consolidation

It is part of our strategy to return realised sale proceeds to shareholders whenever possible. Shareholders overwhelmingly approved a return of capital following the sale of Dynacast at a General Meeting on 8 August and the vast majority of this was paid on 19 August. This amounted to 75p per share or approximately £373 million.

In order to leave the share price broadly unaffected, a share consolidation, reducing the number of shares in issue by a factor of 11 for 14, took place at the same time.

Strategy

The successful disposal of Dynacast and the associated return of capital to shareholders is a validation of one important part of our strategy. An equally important part is to acquire businesses where we believe we can improve value over time. We are focused on identifying the right opportunities and your Board will be rigorous in assessing these in the best interests of shareholders.

Outlook

As we highlighted at our recent capital markets event, we believe your Group is extremely well positioned for further strong growth over the years to come. As presently constituted, the energy, oil & gas and mining end markets make up over 50% of revenue. The Board believes that current performance can be improved still further as the benefits of our capital expenditure programmes and efficiency improvements continue to come through. Our order books remain in good health and your Board has confidence in further progress in the months ahead.

Christopher Miller
Chairman
24 August 2011

Chief Executive's review

I am pleased to set out below reports on the operating divisions.

Energy		
Period ended 30 June	**2011 £m**	2010 £m
Revenue	**215.8**	204.2
Headline operating profit	**41.7**	33.8

Brush Turbogenerators ("Generators")

Generators enjoyed a strong half year. Although sales were in line with the first half of 2010, profit and return on sales showed encouraging increases, reflecting management's continuing focus on operational efficiency and the higher margin aftermarket sector. This was supported by excellent cash generation.

The recovery in activity in the global power generation market, signalled in the Annual Report, continued to gather pace in the first half with new build order intake up 43% and aftermarket orders up 11% over the same period last year.

In particular, the emergency power sector experienced strong demand in the period. Brush supply a compact 25 MW generator (sufficient to supply a small town) to customers who integrate the generator into a "trailer set", a mobile gas turbine/generator package which can be quickly shipped and installed to provide immediate power when normal supplies fail. Brush sales of this product doubled over the same period in 2010 as the drought in Venezuela and the earthquake in Japan caused a marked increase in the demand for emergency power.

A significant programme of capital investment commenced in the first half of the year with an expected total investment of around £12 million during 2011 on new equipment for both the new build and aftermarket operations. This investment is targeted at productivity and capacity increases in the new build business and capacity expansion in Europe and the US for the aftermarket business.

The softness in UK demand for transformers, which was reported at the year end, continued into 2011. Nevertheless, the benefits from integrating this business into Generators, together with an increasing UK order book and higher exports, give confidence for the future.

With orders in place to cover the year's forecast sales of generators and a large part of its aftermarket projected sales already booked, Generators should again end the year strongly.

Marelli

Although sales in the first half of the year were decently higher than in the comparable period last year, profit was in line, reflecting a slightly adverse mix of business and difficulty in fully recovering higher input costs, particularly electrical steel and copper.

The new plant in Malaysia is now moving into full production, which will enable Marelli to manufacture the more standard products in a lower cost location and produce the more bespoke, higher margin products in its plant in Italy.

The higher margin marine business has started to recover, which together with good demand from renewable energy gives us confidence of a satisfactory outcome to the year.

Hawker Siddeley Switchgear ("Switchgear")

Switchgear reported a strong set of results for the period. Sales and profit were significantly higher than the corresponding period last year, resulting in a healthy improvement in return on sales.

Management's focus remains on delivering further operational efficiency gains, quality improvements and on the development of new leading-edge technology products. At the same time this will be accompanied by a concentrated effort to promote the aftermarket side of the business.

The outlook for 2011 and beyond remains positive, with continued strong demand for switchgear in both the power distribution and mass transit markets, underpinned by a healthy order book.

Lifting		
Period ended 30 June	**2011 £m**	2010 £m
Revenue	**237.9**	212.2
Headline operating profit	**40.0**	34.7

Bridon

Bridon's trading performance in the first half of the year was satisfactory. Sales were decently ahead of both the comparable prior year period and the second half of 2010, partly due to the continuing recovery in some of Bridon's major end-user markets and partly the result of the completion of some structures contracts held over from the previous year. Profit was slightly lower than in the comparable period, which benefited from the tail end of some later cycle higher margin anchor line business, and because of some lower margin structures business. Cash conversion (before capital expenditure) in the period remained strong at just over 100%.

Most of Bridon's markets continue to recover with the exception of construction in Europe and North America where activity remains subdued. In the oil & gas market demand has improved, although offshore activity in the Gulf of Mexico has been slow to recover following the lifting of the moratorium on drilling. Elsewhere, offshore activity has continued to recover, albeit slowly, 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.

The mining market has continued to be robust, reflecting the strong demand for commodities, particularly in Russia, North America and China. In addition, Bridon has seen increased orders from South Africa and Brazil, although the heavy floods in parts of Australia have affected mining activity there.

The general industrial and high performance crane market has shown little sign of improvement, except in China and some parts of Asia, as crane manufacturers remain cautious about placing orders.

During the period, Bridon commenced the construction of a new factory on the deep-water port on the River Tyne in Newcastle, estimated to cost approximately £20 million in total. This state-of-the-art facility is expected to be fully operational by the end of 2012 and 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, Bridon has completed the project to increase its manufacturing capability of large multi-strand ropes in its factory in Gelsenkirchen in Germany and is progressing with the upgrading of the Doncaster wire mill, which should be finished shortly.

On the back of healthy order intake in the first half of the year, Bridon expects that its performance for the full year will exceed that of 2010. 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 of future profitable growth.

Crosby

Crosby had an excellent start to the year with both sales and profit significantly higher than in the first half of 2010. Order intake was particularly good in its key markets of oil & gas and mining.

Sales growth has been supported by an increasing focus on developing markets in China and Latin America. Brazil is a high priority market as its offshore energy business continues to burgeon. In China, the block and sheave centre in Hangzhou continues to develop, targeting the mobile crane and land-based rig OEM companies. At the same time, promising opportunities are being followed up in Chile, Ecuador, Argentina and Mexico.

In addition, Crosby Europe continues to see improving sales and orders across Europe, resulting from the ongoing development of its block and sheave centre, based in Belgium, which was started in late 2009.

Crosby continues to focus on the implementation of several large capital projects at its main US manufacturing plants. These include investments to modernise the galvanising process, the addition of new automated machining centres and improvements to infrastructure, all with the end result of increasing capacity while reducing costs. The majority of these projects will be completed and fully operational by year end. These improvements will allow Crosby to meet both current and increasing future customer demand during upturns in the business cycle and provide for improved customer deliveries.

Crosby continues to build upon its value-added training programme adding both content, language capabilities, and reaching a larger more geographically diverse customer base. Crosby anticipates that more than 50% of the 20,000 end-users trained annually will be outside the US and Canada during 2012.

On the back of growing order books across its markets, Crosby expects the second half of the year to see further progress.

Other Industrial

Period ended 30 June	2011 £m	2010[(1)] £m
Revenue	**102.2**	93.5
Headline operating profit	**11.8**	11.5

(1) Restated following the disposal of Brush Traction, Logistex UK and Madico.

Truth

As signalled in the Annual Report, the start of 2011 saw trading at Truth held back by severe weather conditions. This, together with the continuing weakness in both the new home construction and remodelling markets resulted in sales being down on the comparable period last year. Profit was also affected by an adverse sales mix as Truth's proportion of higher margin sales in Canada declined. In addition, profit margins were affected by the inability to fully recover the significant increases in raw material prices in the period, especially zinc, carbon and stainless steel. As a result of its strong market position, Truth can typically recover such price increases, although when they are significant there can be a timing delay.

It is interesting to note that new housing starts in the US continue to run at less than half of 'normal' rates as foreclosures and excessive inventories suppress demand.

Notwithstanding this, Truth continues to make progress on many fronts, including new product introductions, global outsourcing of lower margin products and productivity gains from targeted capital expenditure, supported by close attention to the cost base.

Truth successfully launched the Sentry patio door programme in the first half of the year. This high margin and high profile product line is a natural extension of Truth's existing product range and serves to reinforce Truth as a full service provider in the industry. The early success of the Sentry programme has resulted in an expansion of the original product range to include a more complete suite of products.

Although there is currently no evidence of any upturn in the North American housing market for well documented reasons, Truth is extremely well positioned to benefit when its market starts to recover.

MPC

MPC has had a very strong start to the year on the back of a substantial increase in sales and a nearly doubled profit over the corresponding period last year.

This has been achieved as a result of a committed and focused programme of new products based on state-of-the-art moulding techniques, supported by major capital investment, which has resulted in significant sales of tooling in the period.

The highlight during the period was the winning of a £40 – £50 million five year contract with Jaguar Land Rover to supply technical components for the new "Baby Range Rover", the Evoque, which has now started to roll off the production line at Halewood. In order to achieve this, MPC has taken on over 100 additional employees and combined the twin-shot cladding skills at its factory in Stamford Bridge with the moulding expertise at its plant in Pickering to meet the exacting product specification required by the customer.

The strength of the order book gives confidence of a strong trading performance for the year as a whole.

Harris

Harris performed well during the first half of 2011, with orders, sales and profit all above 2010 levels. The company benefited from a reasonably benign operating environment with scrap metal, recovered fibre and other recyclable prices at healthy and stable levels during the period, which has enabled the company to drive operating improvements through the business.

Harris continued to invest in new product development and is already experiencing strong demand for several products and technologies that have recently been introduced to the market, primarily aimed at reducing manufacturing costs and increasing energy efficiency.

Although the order book for Harris remains healthy, a note of reservation should be sounded regarding the outlook for the rest of the year as certain customers have expressed a degree of caution about committing to making large investments in view of the unsettled economic situation.

David Roper
Chief Executive
24 August 2011

Finance Director's review

In the six months to 30 June 2011 three businesses were sold; Brush Traction, Logistex UK and Madico. In addition, Dynacast was classified as held for sale at 30 June 2011 and was subsequently sold on 19 July 2011. In accordance with IFRS 5 these four businesses have been shown as discontinued in all reported periods.

Trading results – continuing operations

To improve the understanding of the results, the term 'headline' has been used in this review. This refers to results that are calculated before exceptional costs, exceptional income and intangible asset amortisation as this is considered by the Melrose PLC Board to provide the best illustration of performance.

For continuing operations, revenue for the six months ended 30 June 2011 was £555.9 million (2010: £509.9 million) up 9% on last year and headline operating profit was £85.7 million (2010: £70.3 million) up 22% on last year, headline profit before tax was £74.9 million (2010: £56.7 million) up 32% on last year. After exceptional costs, exceptional income and intangible asset amortisation, operating profit was £73.9 million (2010: £53.9 million) and profit before tax was £63.1 million (2010: £40.3 million).

The improvement in headline operating profit was driven by the robust 9% revenue growth and a further increase in the Melrose Group headline operating margin (defined as headline operating profit as a percentage of revenue) to 15.4%, up 1.6 percentage points on last year.

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.

Central costs comprise £4.3 million (2010: £6.2 million) of Melrose PLC corporate costs and an LTIP accrual of £3.5 million (2010: £3.5 million). This accrual includes an amount of £0.9 million (2010: £0.9 million) in respect of the Melrose 2009 Incentive Share Scheme. This annual accrual was calculated in accordance with IFRS 2 using a standard pricing model when the scheme was established and is constant until the date of crystallisation. In addition, there was a charge of £2.6 million (2010: £2.6 million) for the cash-based senior management incentive schemes. These schemes are for senior operational management and are designed to reward improvement in business performance mainly over the period to 2014.

	2011			2010		
	Revenue £m	**Headline operating profit/(loss) £m**	**Headline operating margin %**	Revenue £m	Headline operating profit/(loss) £m	Headline operating margin %
Energy	**215.8**	**41.7**	**19.3**	204.2	33.8	16.6
Lifting	**237.9**	**40.0**	**16.8**	212.2	34.7	16.4
Other Industrial	**102.2**	**11.8**	**11.5**	93.5	11.5	12.3
Central – corporate	**–**	**(4.3)**	**–**	–	(6.2)	–
Central – LTIPs[1]	**–**	**(3.5)**	**–**	–	(3.5)	–
Continuing Group	**555.9**	**85.7**	**15.4**	509.9	70.3	13.8

(1) Long term incentive plans.

Exceptional costs

There are no exceptional costs nor is there any exceptional income in the Income Statement relating to continuing businesses in the period (2010: £4.3 million exceptional costs). The charge for amortisation of intangible assets in the period was £11.8 million (2010: £12.1 million).

However, the Group did incur two exceptional cash costs in the period, both of which were fully anticipated and fully provided. They represented the settlement of two exceptional liabilities that were acquired with FKI plc. The first related to the transfer of £10.4 million of FKI captive insurance liabilities to an external party, Safety National Inc., so that the Group has no further exposure to these risks. The second related to a £9.4 million legal settlement in respect of a historical FKI owned company, De Wind GmbH, disposed of prior to the Group's acquisition of FKI.

A £19.8 million provision had previously been recognised to cover both of these exceptional costs and this was consequently utilised on their resolution. In addition, £3.6 million of provisions related to businesses either disposed of or held for sale. Along with other non material items this explains the £24.9 million reduction during the period.

Disposal of businesses

Three smaller businesses have been sold in the period, namely Brush Traction, Logistex UK and Madico, all of which were previously shown within the Other Industrial division. These businesses in total had revenue of £58.0 million in 2010.

The net proceeds for these businesses were £18.4 million and the profit on disposal was £1.3 million. In addition, £21.9 million of gross pension liabilities were sold with the Logistex UK business, and over £100 million of contingent liabilities in the form of parent company guarantees and bonds were transferred to the buyer with the disposal of Brush Traction.

Assets held for sale – Dynacast (subsequently sold on 19 July 2011)

On 6 June 2011 Melrose announced that it had signed an agreement for the disposal of Dynacast to a newly incorporated company, KDI Holdings Inc, managed by Kenner & Company, Inc. Subsequently on 19 July 2011 Melrose completed the disposal of Dynacast for an enterprise value of £377 million (US $607 million). This comprised £366.5 million (US $590 million) in cash received on completion, together with Dynacast taking with it £10.5 million (US $17 million) of net pension liabilities.

This crystallised Dynacast as an extremely successful investment for Melrose. During its six years of ownership the enterprise value of Dynacast increased from £197 million to £377 million, the equity value increased by four times and it also meant that nearly £1 billion in cash has been generated from the £429 million McKechnie and Dynacast acquisitions in May 2005.

Return of Capital and number of shares in issue

Consistent with the Melrose strategy of returning proceeds to shareholders following significant disposals, post the sale of Dynacast, Melrose returned £373.2 million to shareholders on 19 August 2011.

The return was made via a redeemable share scheme. Alongside this, a share consolidation took place which reduced the number of ordinary shares in issue by a factor of 11 for 14, or by 21%, from 497.6 million to 391.0 million.

Earnings per share (EPS)

In accordance with IAS 33, two sets of basic and fully diluted EPS numbers are disclosed on the face of the Income Statement, one for continuing operations and one that also includes discontinued operations. The dilution factor recognises the impact of the 29.3 million shares that would be issued under the Melrose 2009 Incentive Share Scheme valued as at 30 June 2011.

At 30 June 2011 Dynacast was included within discontinued operations but the return of capital had not yet occurred. Therefore, to make comparisons with last year more meaningful, a headline fully diluted EPS for continuing and discontinued operations of 14.0p has also been shown. This represents a 28% increase over last year's headline fully diluted EPS of 10.9p.

The subsequent completion of the sale of Dynacast, the return of capital and the share consolidation had a net dilutive effect of 6% on headline fully diluted EPS.

Cash generation and net debt

The six months to 30 June 2011 has consolidated the Group's efficiencies and track record achieved in recent years.

A key performance measure for Melrose is the profit conversion to cash. This represents the amount of cash (post working capital movement and capital expenditure) that is generated from headline operating profit. Since acquiring FKI on 1 July 2008 this conversion is 122%, and the conversion percentage for the six months to 30 June 2011 was 68%.

The lower percentage in the first half of 2011 is because of two factors, firstly a capex to depreciation multiple in the period of 1.3x and secondly a working capital build consistent with the revenue growth in the businesses.

At June 2011 it was pleasing to note that debtor and creditor days have remained the same as at December 2010. Inventory values increased to support the growth in revenue, exacerbated at the half year due to the lower seasonal production in July and August.

Working capital as a percentage of revenue for the continuing Group, now excluding Dynacast and the other businesses sold in the period and at like for like exchange rates, was 12.9% (31 December 2010: 11.2%) with the rise compared to last year explained by needing to prepare for the faster pace of growth this year. On a forward looking calculation it is 11.8%.

Capital expenditure, in the continuing Group, as a multiple of depreciation was significant at 1.5x in the six months to June 2011 (2010: 0.6x). For the discontinued businesses it was 0.9x (2010: 0.5x). This was the result of investing in all continuing divisions to drive further improvements and capacity increases. By division the capital spend to depreciation ratios were Energy 1.0x (2010: 0.9x), Lifting 1.9x (2010: 0.6x) and Other Industrial 1.6x (2010: 0.5x). Further capital spend is expected in future periods, including in the Energy division.

An analysis of cash generated from trading for the six months to 30 June 2011 and for the three years since owning FKI is shown in the table below.

Cash generated from trading(1)	**Six months to 30 June 2011 £m**	Three years to 30 June 2011 £m
Headline operating profit	110.5	551.1
Depreciation and computer software amortisation	15.9	103.8
Working capital movement	(31.8)	119.6
Net capital expenditure	(19.9)	(100.7)
Headline operating cash flow (post capex)	**74.7**	**673.8**
Headline EBITDA(2) conversion to cash pre capex %	**75%**	**118%**
Headline operating profit conversion to cash post capex %	**68%**	**122%**
Net interest and net tax paid	(22.2)	(120.0)
Defined benefit pension contributions	(16.9)	(92.5)
Other (including restructuring costs)	(25.1)	(108.9)
Cash generated from trading	**10.5**	**352.4**

(1) Including discontinued businesses.
(2) Operating profit before depreciation and amortisation.

Leverage

Net debt to headline operating profit before depreciation and amortisation (leverage) continued to improve. Leverage on existing businesses was 1.2x at 30 June 2011, a reduction from 1.3x as at 31 December 2010, 1.6x at 30 June 2010, and 2.7x at the point of the FKI acquisition on 1 July 2008.

Post the return of capital to shareholders the leverage in the Group has increased as the proceeds of the Dynacast sale were given back to shareholders. On a proforma basis, assuming the return had already happened, the leverage at 30 June 2011 would have been 1.7x.

Interest cover

The interest cover at 30 June 2011 was 11.5x and is therefore very comfortable against the interest cover covenant of 3.5x.

The interest cover covenant is calculated on headline operating profit for all businesses existing in the previous twelve months. Excluding Dynacast from the calculation the interest cover would have been 8.7x.

Exchange

A split of revenue by currency for the Group was as follows for the six months to June 2011:

	US$	Euro	Sterling	Other	Total
Revenue by currency	218.3	128.4	146.6	62.6	555.9
Percentage split	39%	23%	27%	11%	100%

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

	Average rate	Closing rate
US Dollar:		
Six months to June 2011	**1.62**	**1.61**
Twelve months to December 2010	1.55	1.56
Six months to June 2010	1.53	1.49
Euro:		
Six months to June 2011	**1.15**	**1.11**
Twelve months to December 2010	1.17	1.16
Six months to June 2010	1.15	1.22

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 2011 decreasing Group revenue by 2% and headline operating profit by 1%; the reduction caused by the weakening of the US Dollar was partially offset by the gain on the Czech Koruna.

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 2011 was £93.4 million (31 December 2010: £119.6 million).

The defined benefit obligation as at 30 June 2011 is calculated based upon the actuarial valuations as at 31 December 2010. There were not any significant fluctuations or one-off events during the six months to June 2011 that would require adjustment to the actuarial assumptions made at 31 December 2010.

The defined benefit plan assets and liabilities have been updated to reflect the £16.9 million of contributions made by the employer companies, the benefits earned during the period to 30 June 2011 and the reclassification of Dynacast related defined benefit obligations as assets held for sale.

The long term strategy for the UK plans is to focus on the cash flows required to fund the liabilities as they fall due. These cash flows extend many years into the future and the ultimate objective is that the total pool of assets, derived from future company contributions and the investment strategy, allows each cash payment to members to be made when due. 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.

In addition, the strategy includes reducing the volatility of liabilities whenever commercially viable.

Tax

The Group Income Statement headline tax rate for continuing businesses was 26% (2010: 29%) in the period. The ongoing management of tax remains a focus, in particular the cash tax rate and the tax on disposals. No tax is expected to be paid on the Dynacast disposal due to the substantial shareholder exemption rules in the UK. The headline cash tax rate for continuing businesses in the period was 4% (2010: 19%) 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.

Principal risks and uncertainties

Except for the risks highlighted separately in these interim results, the principal risks and uncertainties faced by the Group have not changed from 2010. In summary the financial risks include liquidity risk, finance cost risk, exchange rate risk and commodity cost risk. These risks have the potential to affect the Group's results and financial position during the remainder of 2011. A more detailed explanation of these risks is set out on pages 24 and 25 of the Annual Report for the year ended 31 December 2010, a copy of which is available on the Company's website, www.melroseplc.net.

Geoffrey Martin
Group Finance Director
24 August 2011

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

David Roper
Chief Executive
24 August 2011

Geoffrey Martin
Group Finance Director
24 August 2011

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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 2011 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 14. 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 2011 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
24 August 2011

Condensed Consolidated Income Statement

	Notes	6 months ended 30 June 2011 Unaudited £m	Restated(1) 6 months ended 30 June 2010 Unaudited £m	Restated(1) year ended 31 December 2010 £m
Continuing operations				
Revenue	3	**555.9**	509.9	1,045.8
Cost of sales		**(391.5)**	(356.2)	(738.4)
Gross profit		**164.4**	153.7	307.4
Headline(2) operating expenses		**(78.5)**	(83.0)	(159.0)
Share of results of joint ventures		**(0.2)**	(0.4)	(0.4)
Intangible asset amortisation		**(11.8)**	(12.1)	(24.1)
Exceptional costs	5	**–**	(4.3)	(10.3)
Exceptional income	5	**–**	–	21.4
Total net operating expenses	4	**(90.5)**	(99.8)	(172.4)
Operating profit		**73.9**	53.9	135.0
Headline(2) operating profit	3	**85.7**	70.3	148.0
Finance costs		**(14.4)**	(17.1)	(34.6)
Finance income		**3.6**	3.5	9.3
Profit before tax		**63.1**	40.3	109.7
Headline(2) profit before tax		**74.9**	56.7	122.7
Headline(2) tax		**(19.4)**	(16.2)	(34.8)
Exceptional tax(3)		**6.7**	4.6	29.5
Total tax	6	**(12.7)**	(11.6)	(5.3)
Profit for the period from continuing operations		**50.4**	28.7	104.4
Headline(2) profit for the period from continuing operations		**55.5**	40.5	87.9
Discontinued operations				
Profit for the period from discontinued operations(4)	9	**6.2**	14.8	36.9
Profit for the period		**56.6**	43.5	141.3
Attributable to:				
Equity holders of the parent		**56.5**	43.4	141.1
Non-controlling interests		**0.1**	0.1	0.2
		56.6	43.5	141.3
Earnings per share				
From continuing operations				
– Basic	7	**10.1p**	5.8p	21.0p
– Fully diluted	7	**9.6p**	5.6p	20.0p
From continuing and discontinued operations				
– Basic	7	**11.4p**	8.7p	28.4p
– Fully diluted	7	**10.7p**	8.4p	27.0p
– Headline(2) basic	7	**14.8p**	11.3p	25.4p
– Headline(2) fully diluted	7	**14.0p**	10.9p	24.1p

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Includes exceptional tax and tax on exceptional items and intangible asset amortisation.
(4) Includes £12.6 million of exceptional costs in the six months ended 30 June 2011 relating to the disposal of Dynacast.

Condensed Consolidated Statement of Comprehensive Income

	6 months ended 30 June 2011 Unaudited £m	6 months ended 30 June 2010 Unaudited £m	Year ended 31 December 2010 £m
Profit for the period	**56.6**	43.5	141.3
Currency translation on net investments	**16.8**	(13.4)	8.0
Currency translation on non-controlling interests	**–**	–	0.1
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	**(0.7)**	(0.1)	(0.1)
Gains/(losses) on cash flow hedges	**7.8**	(7.9)	(7.8)
Transfer to Income Statement on cash flow hedges	**(4.2)**	(3.0)	(0.5)
Actuarial (loss)/gain on retirement benefit obligations	**–**	(31.8)	13.8
Other comprehensive income/(expense) before tax	**19.7**	(56.2)	13.5
Tax relating to components of other comprehensive income/(expense)	**1.9**	–	7.9
Other comprehensive income/(expense) after tax	**21.6**	(56.2)	21.4
Total comprehensive income/(expense) for the period	**78.2**	(12.7)	162.7
Attributable to:			
Equity holders of the parent	**78.1**	(12.8)	162.4
Non-controlling interests	**0.1**	0.1	0.3
	78.2	(12.7)	162.7

Condensed Consolidated Statement of Cash Flows

	Notes	6 months ended 30 June 2011 Unaudited £m	Restated(1) 6 months ended 30 June 2010 Unaudited £m	Restated(1) year ended 31 December 2010 £m
Net cash from operating activities from continuing operations	11	**11.5**	37.1	74.4
Net cash from operating activities from discontinued operations	11	**14.8**	21.0	43.5
Net cash from operating activities		**26.3**	58.1	117.9
Investing activities				
Disposal of businesses		**18.4**	(0.1)	(0.1)
Net cash disposed		**(0.4)**	–	–
Disposal costs relating to assets held for sale		**(3.3)**	–	–
Purchase of property, plant and equipment		**(15.1)**	(7.9)	(23.2)
Proceeds from disposal of property, plant and equipment		**–**	0.1	0.2
Purchase of computer software		**(0.8)**	(0.3)	(1.2)
Dividends received from joint ventures		**–**	0.1	0.3
Interest received		**4.2**	3.5	9.3
Acquisition of subsidiaries and non-controlling interests		**–**	(7.8)	(9.1)
Net cash from/(used in) investing activities from continuing operations		**3.0**	(12.4)	(23.8)
Net cash used in investing activities from discontinued operations	11	**(4.1)**	(1.9)	(6.4)
Net cash used in investing activities		**(1.1)**	(14.3)	(30.2)
Financing activities				
Repayment of obligations under finance leases		**–**	–	(1.1)
Dividends paid	8	**(34.8)**	(23.9)	(43.8)
Net cash used in financing activities from continuing operations		**(34.8)**	(23.9)	(44.9)
Net cash used in financing activities from discontinued operations	11	**(0.3)**	(0.3)	(0.5)
Net cash used in financing activities		**(35.1)**	(24.2)	(45.4)
Net (decrease)/increase in cash and cash equivalents		**(9.9)**	19.6	42.3
Cash and cash equivalents at the beginning of the year		**195.7**	147.5	147.5
Effect of foreign exchange rate changes		**1.6**	0.6	5.9
Cash and cash equivalents at the end of the period		**187.4**	167.7	195.7

(1) Restated to include the cash flows of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.

As at 30 June 2011, the Group's net debt was £286.8 million (30 June 2010: £331.1 million, 31 December 2010: £287.4 million). A reconciliation of the movement in net debt is shown in note 11.

Condensed Consolidated Balance Sheet

	Notes	30 June 2011 Unaudited £m	30 June 2010 Unaudited £m	31 December 2010 £m
Non-current assets				
Goodwill and other intangible assets		**926.2**	1,201.4	1,181.6
Property, plant and equipment		**217.1**	244.9	253.7
Derivative financial assets		**0.1**	–	–
Deferred tax assets		**29.1**	18.5	33.0
Trade and other receivables		**1.4**	4.0	1.9
		1,173.9	1,468.8	1,470.2
Current assets				
Inventories		**208.5**	225.7	216.3
Trade and other receivables		**215.2**	232.1	257.7
Derivative financial assets		**5.1**	0.4	3.9
Cash and cash equivalents		**187.4**	167.7	195.7
Assets held for sale	9	**349.9**	–	–
		966.1	625.9	673.6
Total assets	3	**2,140.0**	2,094.7	2,143.8
Current liabilities				
Trade and other payables		**277.7**	345.1	355.3
Interest-bearing loans and borrowings		**2.7**	1.4	0.3
Derivative financial liabilities		**3.4**	3.3	8.3
Current tax liabilities		**63.8**	54.5	52.4
Provisions	12	**25.1**	31.0	35.9
Liabilities held for sale(1)	9	**94.0**	–	–
		466.7	435.3	452.2
Net current assets		**499.4**	190.6	221.4
Non-current liabilities				
Trade and other payables		**2.1**	4.9	4.7
Interest-bearing loans and borrowings		**471.5**	497.4	482.8
Derivative financial liabilities		**5.5**	9.5	3.9
Deferred tax liabilities		**105.0**	125.0	114.9
Retirement benefit obligations		**93.4**	191.3	119.6
Provisions	12	**68.7**	103.7	82.8
		746.2	931.8	808.7
Total liabilities	3	**1,212.9**	1,367.1	1,260.9
Net assets		**927.1**	727.6	882.9
Equity				
Share capital		**1.1**	1.1	1.1
Share premium account		**279.1**	279.1	279.1
Merger reserve		**285.1**	285.1	285.1
Capital redemption reserve		**220.1**	220.1	220.1
Hedging and translation reserves		**90.2**	47.2	71.0
Retained earnings		**50.1**	(106.8)	25.1
Equity attributable to holders of the parent		**925.7**	725.8	881.5
Non-controlling interests		**1.4**	1.8	1.4
Total equity		**927.1**	727.6	882.9

(1) Liabilities directly associated with assets classified as held for sale.

Condensed Consolidated Statement of Changes in Equity

	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 holders of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2010	1.1	279.1	285.1	220.1	71.6	(95.4)	761.6	1.7	763.3
Profit for the period	–	–	–	–	–	43.4	43.4	0.1	43.5
Other comprehensive expense	–	–	–	–	(24.4)	(31.8)	(56.2)	–	(56.2)
Total comprehensive (expense)/income	–	–	–	–	(24.4)	11.6	(12.8)	0.1	(12.7)
Dividends paid	–	–	–	–	–	(23.9)	(23.9)	–	(23.9)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	0.9	0.9	–	0.9
At 30 June 2010 (unaudited)	1.1	279.1	285.1	220.1	47.2	(106.8)	725.8	1.8	727.6
Profit for the period	–	–	–	–	–	97.7	97.7	0.1	97.8
Other comprehensive income	–	–	–	–	23.8	53.7	77.5	0.1	77.6
Total comprehensive income	–	–	–	–	23.8	151.4	175.2	0.2	175.4
Dividends paid	–	–	–	–	–	(19.9)	(19.9)	(0.2)	(20.1)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	0.9	0.9	–	0.9
Acquisition of non-controlling interest	–	–	–	–	–	(0.5)	(0.5)	(0.4)	(0.9)
At 31 December 2010	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**

Notes to the condensed set of financial statements

1. Corporate information

The interim financial information for the six months ended 30 June 2011 has been formally reviewed by the auditor, not audited. The information for the year ended 31 December 2010 shown in this report does not constitute the Company's 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 filed with 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 June 2010 and December 2010 in these interim financial statements has been restated to include the results and cash flows of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations, and exclude them from continuing operations.

During the period, Melrose PLC and subsidiaries ("the Group") disposed of three trading operations acquired as part of the FKI acquisition, namely Brush Traction, Logistex UK and Madico, previously classified within the Other Industrial segment. These are now reported within discontinued operations.

On 6 June 2011, the Group announced that it had signed an agreement for the disposal of the Dynacast segment ("Dynacast") to a newly incorporated company, KDI Holdings Inc. At 30 June 2011 the disposal was conditional, amongst other things, upon obtaining regulatory clearances in the relevant jurisdictions in which Dynacast operates. The disposal completed on 19 July 2011. In accordance with IFRS 5: "Non-current assets held for sale and discontinued operations", the Dynacast segment has been classified as held for sale and is now reported within discontinued operations.

2. Summary of significant accounting policies

The interim financial information for the six months ended 30 June 2011, which has been approved by a committee of the Board of Directors on 24 August 2011, has been prepared on the basis of the accounting policies set out in the Group's 2010 Annual Report and accounts on pages 52 to 57 and can be found on the Group's website www.melroseplc.net. This Interim Statement should therefore be read in conjunction with the 2010 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.

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 on pages 4 to 7.

The Group's principal risks and uncertainties are discussed in the Finance Director's review on page 12 and are set out in more detail on pages 24 and 25 in the Group's Annual Report for the year ended 31 December 2010.

After making appropriate enquiries, 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, Marelli and Switchgear business units, all specialist suppliers of energy industrial products to the global market. The Lifting segment consists primarily of the businesses of Bridon and Crosby, serving the oil & gas production, mining, petrochemical, alternative energy and general construction markets. The Other Industrial segment incorporates all other business units, details of the significant companies within this segment are set out in the Chief Executive's review on pages 6 and 7.

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 2009 Melrose Incentive Share Scheme and the divisional management LTIP schemes that are in operation across the Group.

The discontinued segment incorporates the Dynacast, Brush Traction, Logistex UK and Madico 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.

3. Segment information continued

The following tables present revenue and profit information and certain asset and liability information regarding the Group's operating segments for the six month period ended 30 June 2011 and comparative periods.

Segment revenues and results

	Note	Segment revenue from external customers		
		6 months ended 30 June 2011 £m	Restated(1) 6 months ended 30 June 2010 £m	Restated(1) year ended 31 December 2010 £m
Continuing operations				
Energy		**215.8**	204.2	427.5
Lifting		**237.9**	212.2	422.7
Other Industrial		**102.2**	93.5	195.6
Total continuing operations		**555.9**	509.9	1,045.8
Discontinued operations	9	**156.3**	165.8	333.7
Total revenue		**712.2**	675.7	1,379.5

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.

	Notes	Segment result		
		6 months ended 30 June 2011 £m	Restated(1) 6 months ended 30 June 2010 £m	Restated(1) year ended 31 December 2010 £m
Continuing operations				
Energy		**41.7**	33.8	73.7
Lifting		**40.0**	34.7	66.7
Other Industrial		**11.8**	11.5	22.8
Central – corporate		**(4.3)**	(6.2)	(8.6)
Central – LTIPs(2)		**(3.5)**	(3.5)	(6.6)
Headline(3) operating profit		**85.7**	70.3	148.0
Intangible asset amortisation		**(11.8)**	(12.1)	(24.1)
Exceptional costs	5	**–**	(4.3)	(10.3)
Exceptional income	5	**–**	–	21.4
Operating profit		**73.9**	53.9	135.0
Finance costs		**(14.4)**	(17.1)	(34.6)
Finance income		**3.6**	3.5	9.3
Profit before tax		**63.1**	40.3	109.7
Tax charge	6	**(12.7)**	(11.6)	(5.3)
Profit for the period from discontinued operations		**6.2**	14.8	36.9
Profit for the period		**56.6**	43.5	141.3

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.
(2) Long term incentive plans.
(3) As defined in the Income Statement.

3. Segment information continued

	Total assets			Total liabilities		
	30 June 2011 £m	Restated[1] 30 June 2010 £m	Restated[1] 31 December 2010 £m	**30 June 2011 £m**	Restated[1] 30 June 2010 £m	Restated[1] 31 December 2010 £m
Continuing operations						
Energy	**669.4**	621.6	643.7	**221.3**	238.5	216.0
Lifting	**754.2**	761.1	750.4	**199.0**	213.2	190.1
Other Industrial	**132.7**	125.9	122.1	**54.1**	53.1	49.1
Central – corporate	**233.8**	200.1	243.4	**629.4**	708.2	678.4
Central – LTIPs[2]	**–**	–	–	**15.1**	10.3	12.5
Total continuing operations	**1,790.1**	1,708.7	1,759.6	**1,118.9**	1,223.3	1,146.1
Discontinued operations	**349.9**	386.0	384.2	**94.0**	143.8	114.8
Total	**2,140.0**	2,094.7	2,143.8	**1,212.9**	1,367.1	1,260.9

(1) Restated to include the total assets and total liabilities of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.
(2) Long term incentive plans.

	Capital expenditure[1]			Depreciation[1]		
	6 months ended 30 June 2011 £m	Restated[2] 6 months ended 30 June 2010 £m	Restated[2] year ended 31 December 2010 £m	**6 months ended 30 June 2011 £m**	Restated[2] 6 months ended 30 June 2010 £m	Restated[2] year ended 31 December 2010 £m
Continuing operations						
Energy	**3.9**	3.6	9.4	**4.0**	4.1	8.0
Lifting	**9.3**	2.8	9.8	**4.8**	4.9	9.4
Other Industrial	**5.0**	1.6	5.1	**3.2**	3.4	6.3
Central – corporate	**–**	0.1	0.2	**0.3**	0.3	0.7
Total continuing operations	**18.2**	8.1	24.5	**12.3**	12.7	24.4
Discontinued operations	**3.1**	2.1	7.4	**3.6**	4.4	8.5
Total	**21.3**	10.2	31.9	**15.9**	17.1	32.9

(1) Including computer software.
(2) Restated to include the capital expenditure[1] and depreciation[1] of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.

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 2011 £m	Restated[2] 6 months ended 30 June 2010 £m	Restated[2] year ended 31 December 2010 £m	**30 June 2011 £m**	Restated[3] 30 June 2010 £m	Restated[3] 31 December 2010 £m
UK	**92.6**	80.3	156.5	**365.1**	365.9	362.4
Europe	**141.0**	140.1	294.1	**353.3**	322.1	339.6
North America	**221.9**	209.2	429.6	**415.2**	455.6	432.7
Other	**100.4**	80.3	165.6	**9.7**	8.8	9.9
Total continuing operations	**555.9**	509.9	1,045.8	**1,143.3**	1,152.4	1,144.6
Discontinued operations	**156.3**	165.8	333.7	**–**	293.9	290.7
Total	**712.2**	675.7	1,379.5	**1,143.3**	1,446.3	1,435.3

(1) The comparative revenue numbers for the 6 months ended 30 June 2010 have been restated to show revenue by destination rather than by origin as previously disclosed.
(2) Restated to include the revenue from external customers of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.
(3) Restated to include the non-current assets of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.

4. Net operating expenses

Net operating expenses comprise:	**6 months ended 30 June 2011 £m**	Restated[1] 6 months ended 30 June 2010 £m	Restated[1] year ended 31 December 2010 £m
Continuing operations			
Selling and distribution costs	**(40.8)**	(39.0)	(77.6)
Administration expenses	**(49.5)**	(56.1)	(105.5)
Share of results of joint ventures	**(0.2)**	(0.4)	(0.4)
Other operating costs – exceptional	**–**	(4.3)	(10.3)
Other operating income – exceptional	**–**	–	21.4
Total net operating expenses from continuing operations	**(90.5)**	(99.8)	(172.4)
Total net operating expenses from discontinued operations	**(15.2)**	(19.5)	(37.2)
Total net operating expenses	**(105.7)**	(119.3)	(209.6)

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.

5. Exceptional costs and income

Exceptional costs	6 months ended 30 June 2011 £m	6 months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Continuing operations			
Restructuring costs	–	–	(5.9)
Defined benefit pension plan disposal	–	(3.9)	(4.0)
Acquisitions and disposals of businesses	–	(0.4)	(0.4)
Total exceptional costs	–	(4.3)	(10.3)

During 2010, the Group incurred £5.9 million of costs relating to restructuring programmes which included the integration of the Transformers business into the Turbogenerators business within the Energy division.

During 2010, the Group entered into a buyout arrangement to dispose of the liabilities of the Bridon Group Senior Executive Plan for £4.0 million in excess of the IAS 19 carrying value of plan net liabilities.

On 12 February 2010, the Group acquired 100% of the share capital of Generator & Motor Services of Pennsylvania, LLC and, in accordance with IFRS 3 (revised 2008), the £0.2 million of costs incurred on acquisition were recognised in the Income Statement. Also, during 2010 the Prelok France business, previously shown within the Other Industrial segment, was disposed of for a net loss of £0.2 million.

The Group incurred two exceptional cash costs in the period, both were fully anticipated and fully provided and represented the closing of two exceptional liabilities that were acquired with FKI plc. The first related to the transfer of £10.4 million of FKI captive insurance liabilities to an external party, so that the Group has no further exposure to these risks. The second related to a £9.4 million legal settlement in respect of an historical FKI owned company, De Wind GmbH. A £19.8 million provision had previously been recognised to cover both of these exceptional costs and this was consequently utilised on their resolution and therefore no exceptional Income Statement charge is shown in the period.

Exceptional income	6 months ended 30 June 2011 £m	6 months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Continuing operations			
Pension curtailment gain	–	–	13.1
FKI captive insurance commutation gain	–	–	5.6
Net release of provisions	–	–	2.7
Total exceptional income	–	–	21.4

During 2010, it was announced to members of the FKI UK Pension Plan that it would be closed to the accrual of future benefits on 28 February 2011, resulting in a curtailment gain of £13.1 million.

During 2010, a gain of £5.6 million was generated by the commutation of certain insurance policies within the FKI captive insurance company.

The net release of provisions of £2.7 million during 2010 represents the release of a provision set up on the acquisition of FKI net of an additional environmental and legal provision.

6. Tax

Analysis of the charge/(credit) in the period:	Note	6 months ended 30 June 2011 £m	Restated(1) 6 months ended 30 June 2010 £m	Restated(1) year ended 31 December 2010 £m
Continuing operations				
Current tax		**18.8**	10.2	16.6
Deferred tax		**(6.1)**	1.4	(11.3)
Total income tax charge from continuing operations		**12.7**	11.6	5.3
Discontinued operations				
Current tax		**6.4**	5.5	12.2
Deferred tax		**–**	(0.2)	(3.5)
Total income tax charge from discontinued operations	9	**6.4**	5.3	8.7
Total income tax charge		**19.1**	16.9	14.0

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.

The effective 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 £74.9 million, giving £19.4 million.

The headline tax charge on continuing activities of £19.4 million has been reduced by a tax credit of £6.7 million relating to intangible assets to give a total tax charge on continuing activities of £12.7 million. The tax credit includes a deferred tax credit on the amortisation of intangible assets of £3.1 million together with a further credit of £3.6 million which is due to the reduction of the total deferred tax liabilities caused by the change, on 28 March 2011, of the UK corporation tax rate to 26% with effect from 1 April 2011.

The total tax charge on continuing activities of £12.7 million represents a headline current tax charge on continuing operations of £18.8 million, a headline deferred tax charge of £0.6 million and the £6.7 million deferred tax credit on intangible items explained above.

A further reduction of the UK corporation tax rate to 25% with effect from 1 April 2012 has not been applied during the period to the deferred tax balances. This is because the formal enactment did not take place prior to 30 June 2011. The effect of this further tax reduction will be to reduce the deferred tax liability on intangible assets by a further £3.3 million in the second half of 2011.

In addition to the amount charged to the Income Statement, a credit of £1.9 million (year ended 31 December 2010: £7.9 million) has been recognised directly in the Statement of Comprehensive Income. This represents a tax credit of £2.4 million (year ended 31 December 2010: £8.1 million) in respect of retirement benefit obligations and a tax charge of £0.5 million (year ended 31 December 2010: £0.2 million) in respect of movements on cash flow hedges.

7. Earnings per share

Earnings attributable to equity holders of the parent	**6 months ended 30 June 2011 £m**	Restated(1) 6 months ended 30 June 2010 £m	Restated(1) year ended 31 December 2010 £m
Profit for the purposes of earnings per share	**56.5**	43.4	141.1
Less: profit for the period from discontinued operations (note 9)	**(6.1)**	(14.7)	(36.7)
Earnings for basis of earnings per share from continuing operations	**50.4**	28.7	104.4
Continuing operations:			
Intangible asset amortisation	**11.8**	12.1	24.1
Exceptional costs (note 5)	**–**	4.3	10.3
Exceptional income (note 5)	**–**	–	(21.4)
Exceptional tax(2)	**(6.7)**	(4.6)	(29.5)
Earnings for basis of headline(2) earnings per share from continuing operations	**55.5**	40.5	87.9
Discontinued operations:			
Profit for the period from discontinued operations (note 9)	**6.1**	14.7	36.7
Gain on disposal of net assets	**(1.3)**	–	–
Intangible asset amortisation	**1.3**	1.3	2.5
Exceptional items (note 9)	**12.6**	–	–
Exceptional tax(2)	**(0.4)**	(0.4)	(0.9)
Earnings for basis of headline(2) earnings per share from continuing and discontinued operations	**73.8**	56.1	126.2

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.
(2) As defined in the Income Statement.

	6 months ended 30 June 2011 Number	6 months ended 30 June 2010 Number	Year ended 31 December 2010 Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share (million)	**497.6**	497.6	497.6
Further shares for the purposes of fully diluted earnings per share (million)(1)	**29.3**	17.6	25.3
Weighted average number of Ordinary Shares for the purposes of fully diluted earnings per share (million)	**526.9**	515.2	522.9

(1) Relating to the 2009 Melrose Incentive Share Scheme.

7. Earnings per share continued

Earnings per share	6 months ended 30 June 2011 pence	Restated(1) 6 months ended 30 June 2010 pence	Restated(1) year ended 31 December 2010 pence
Basic earnings per share			
From continuing and discontinued operations	**11.4**	8.7	28.4
From continuing operations	**10.1**	5.8	21.0
From discontinued operations	**1.3**	2.9	7.4
Fully diluted earnings per share			
From continuing and discontinued operations	**10.7**	8.4	27.0
From continuing operations	**9.6**	5.6	20.0
From discontinued operations	**1.1**	2.8	7.0
Headline(2) basic earnings per share			
From continuing and discontinued operations	**14.8**	11.3	25.4
From continuing operations	**11.2**	8.1	17.7
Headline(2) fully diluted earnings per share			
From continuing and discontinued operations	**14.0**	10.9	24.1
From continuing operations	**10.5**	7.9	16.8

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.
(2) As defined in the Income Statement.

8. Dividends

	6 months ended 30 June 2011 £m	6 months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Second interim dividend for the year ended 31 December 2009 paid of 4.8p	**–**	23.9	23.9
Interim dividend for the year ended 31 December 2010 paid of 4.0p	**–**	–	19.9
Final dividend for the year ended 31 December 2010 paid of 7.0p	**34.8**	–	–
Total dividends paid	**34.8**	23.9	43.8

A proposed 2011 interim dividend of 4.6p per Ordinary Share was approved by the Board on 24 August 2011 and, in accordance with IAS 10, has not been included as a liability as at 30 June 2011.

9. Discontinued operations

The comparative information for June 2010 and December 2010 in these interim financial statements has been restated to exclude the results and cash flows of Dynacast, Brush Traction, Logistex UK and Madico from continuing operations and include them as discontinued operations.

Financial performance of discontinued operations:

	Note	**6 months ended 30 June 2011 Unaudited £m**	Restated[1] 6 months ended 30 June 2010 Unaudited £m	Restated[1] year ended 31 December 2010 £m
Revenue		**156.3**	165.8	333.7
Operating costs		**(131.5)**	(144.2)	(284.8)
Headline[2] operating profit		**24.8**	21.6	48.9
Intangible asset amortisation		**(1.3)**	(1.3)	(2.5)
Exceptional items[3]		**(12.6)**	–	–
Net finance income/(costs)		**0.4**	(0.2)	(0.8)
Profit before tax		**11.3**	20.1	45.6
Tax charge	6	**(6.4)**	(5.3)	(8.7)
Profit after tax		**4.9**	14.8	36.9
Cumulative translation differences recycled on disposals		**0.7**	–	–
Gain on disposal of net assets		**0.6**	–	–
Profit for the period from discontinued operations		**6.2**	14.8	36.9
Attributable to:				
Equity holders of the parent		**6.1**	14.7	36.7
Non-controlling interests		**0.1**	0.1	0.2
		6.2	14.8	36.9

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.
(2) As defined in the Income Statement.
(3) Costs relating to the disposal of Dynacast.

Disposal of businesses

During the period, the Group disposed of three trading operations acquired as part of the FKI acquisition, namely Brush Traction, Logistex UK and Madico. These were previously classified within the Other Industrial segment and are now shown within discontinued operations. These businesses were disposed of in the first half of 2011 for a net gain of £1.3 million after the recycling of cumulative translation differences of £0.7 million.

9. Discontinued operations continued

The major classes of assets and liabilities comprising the operations disposed of during the six month period to 30 June 2011 were as follows:

	Discontinued operations £m
Goodwill and other intangible assets	16.4
Property, plant and equipment	5.2
Inventories	6.6
Trade and other receivables	10.4
Cash and cash equivalents	0.4
Total assets disposed of	39.0
Trade and other payables	(20.5)
Tax	(0.2)
Retirement benefit obligations	(0.1)
Provisions	(0.4)
Total liabilities disposed of	(21.2)
Net assets disposed of	17.8
Cumulative translation differences recycled on disposals	(0.7)
Profit on disposal	1.3
Consideration net of costs	18.4
Net cash disposed of	(0.4)
Cash inflow from disposals	**18.0**

Held for sale

On 6 June 2011, the Group announced that it had signed an agreement for the disposal of the Dynacast segment to a newly incorporated company, KDI Holdings Inc for consideration of US $590.0 million (£366.5 million). At 30 June 2011 the disposal was conditional, amongst other things, upon obtaining regulatory clearances in the relevant jurisdictions in which Dynacast operates. The disposal was completed on 19 July 2011. In accordance with IFRS 5, the Dynacast segment has been classified as held for sale at 30 June 2011 and is now reported within discontinued operations.

The major classes of assets and liabilities comprising the net assets classified as held for sale are as follows:

	Assets held for sale 30 June 2011 £m
Goodwill and other intangible assets	225.6
Property, plant and equipment	40.3
Deferred tax assets	6.9
Inventories	24.7
Trade and other receivables	52.4
Total assets classified as held for sale	349.9
Trade and other payables	(67.4)
Current tax liabilities	(6.9)
Deferred tax liabilities	(5.5)
Retirement benefit obligations	(11.0)
Provisions	(3.2)
Total liabilities associated with assets classified as held for sale	(94.0)
Net assets classified as held for sale	**255.9**

10. Retirement benefit obligations

The defined benefit obligation at 30 June 2011 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. In addition, the defined benefit plan assets and liabilities have been updated to reflect the £16.9 million of contributions made to the defined benefit plans, the benefits earned during the period to 30 June 2011 and the reclassification of Dynacast related defined benefit obligations as assets held for sale.

The defined benefit obligation as at 30 June 2011 of £93.4 million is calculated using the latest updated actuarial valuations as at 31 December 2010. There have not been any significant fluctuations or one-off events since that time that the Directors believe require adjustment to those actuarial assumptions.

11. Notes to the Cash Flow Statement

	6 months ended 30 June 2011 £m	Restated(1) 6 months ended 30 June 2010 £m	Restated(1) year ended 31 December 2010 £m
Reconciliation of headline(2) operating profit to cash generated by continuing operations			
Headline(2) operating profit from continuing operations	**85.7**	70.3	148.0
Adjustments for:			
Depreciation of property, plant and equipment	**12.0**	12.3	23.7
Amortisation of computer software	**0.3**	0.4	0.7
Restructuring costs paid and movements in other provisions	**(24.5)**	(9.0)	(29.1)
Operating cash flows before movements in working capital	**73.5**	74.0	143.3
(Increase)/decrease in inventories	**(18.7)**	1.2	12.5
Increase in receivables	**(11.7)**	(13.4)	(34.8)
Increase in payables	**4.6**	18.7	28.4
Cash generated by operations	**47.7**	80.5	149.4
Tax paid	**(3.1)**	(10.6)	(23.9)
Interest paid	**(20.0)**	(18.2)	(25.6)
Defined benefit pension contributions paid	**(13.1)**	(14.6)	(25.5)
Net cash from operating activities from continuing operations	**11.5**	37.1	74.4

(1) Restated to include the cash flows of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.
(2) As defined in the Income Statement.

11. Notes to the Cash Flow Statement continued

	6 months ended 30 June 2011 £m	Restated(1) 6 months ended 30 June 2010 £m	Restated(1) year ended 31 December 2010 £m
Cash flow from discontinued operations			
Cash generated from discontinued operations	**21.9**	24.3	49.1
Tax paid	**(3.3)**	(2.4)	(3.3)
Interest paid	**–**	(0.1)	(0.3)
Defined benefit pension contributions paid	**(3.8)**	(0.8)	(2.0)
Net cash from operating activities from discontinued operations	**14.8**	21.0	43.5
Purchase of property, plant and equipment	**(4.0)**	(2.0)	(6.3)
Proceeds on disposal of property, plant and equipment	**–**	0.1	0.1
Dividends paid to non-controlling interests	**(0.1)**	–	(0.2)
Net cash used in investing activities from discontinued operations	**(4.1)**	(1.9)	(6.4)
Net movement in borrowings	**(0.3)**	(0.3)	(0.5)
Net cash used in financing activities from discontinued operations	**(0.3)**	(0.3)	(0.5)

(1) Restated to include the cash flows of Dynacast, Brush Traction, Logistex UK and Madico within discontinued operations.

Net debt reconciliation

	At 31 December 2010 £m	Cash flow £m	Foreign exchange difference £m	Disposals £m	Other non-cash movements £m	At 30 June 2011 £m
Cash	195.7	(25.0)	1.6	15.1	–	**187.4**
Debt due within one year	(0.3)	0.3	–	–	(2.7)	**(2.7)**
Debt due after one year	(482.8)	–	9.9	–	1.4	**(471.5)**
Net debt	(287.4)	(24.7)	11.5	15.1	(1.3)	**(286.8)**

12. Provisions

	Surplus leasehold property costs £m	Environmental and legal costs £m	Incentive scheme related £m	FKI captive insurance £m	Other £m	Total £m
At 1 January 2011	26.4	57.7	12.5	11.0	11.1	118.7
Disposals	(0.1)	–	–	–	(0.3)	(0.4)
Transfer to held for sale	(2.1)	–	–	–	(1.1)	(3.2)
Utilised(1)	(2.8)	(9.9)	–	(10.4)	(2.4)	(25.5)
Arising in the year	–	–	2.6	–	1.8	4.4
Unwind of discount	0.2	0.2	–	–	–	0.4
Exchange differences	(0.5)	(0.4)	–	–	0.3	(0.6)
At 30 June 2011	**21.1**	**47.6**	**15.1**	**0.6**	**9.4**	**93.8**
Current	5.2	9.9	–	0.6	9.4	25.1
Non-current	15.9	37.7	15.1	–	–	68.7
	21.1	**47.6**	**15.1**	**0.6**	**9.4**	**93.8**

(1) Includes the utilisation of £19.8 million of provisions against expected exceptional cash costs in the period (note 5).

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

Environmental and legal 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.

The FKI captive insurance provision relates to known and actuarial assessments of future claims covered by the captive including, but not limited to, public and product liability, employer's liability in the UK and US automotive claims.

Other provisions relate primarily to onerous contracts and restructuring costs to be incurred.

Where appropriate, provisions have been discounted using a discount rate of 3% (31 December 2010: 3%).

13. Contingent liabilities

Two Bridon companies that Melrose acquired as part of the acquisition of FKI plc are defendants, with their American distributor, in an action in the U.S. federal court in Houston, Texas, commenced by Noble Drilling Services, Inc., a purchaser of wire anchor lines that were manufactured by Bridon (prior to its acquisition by Melrose), sold by its distributor and used by Noble to moor certain of its mobile, semisubmersible offshore drilling rigs in the Gulf of Mexico. Noble has claimed for damages plus loss of goodwill, alleging that certain ropes were defective and broke during Hurricane Ike in 2008. In a separate case pending and now consolidated in the same court, the lessee of the same offshore drilling rigs, Anadarko Petroleum Corp. sued Noble for damages plus removal of debris, claiming that the rigs were unseaworthy in breach of the terms of its agreement with Noble to operate the rigs. Noble in turn has asserted identical claims to those asserted in the first action, alleging that if Noble is found liable to Anadarko, Bridon and its distributor should be liable for any damages that Noble suffers.

13. Contingent liabilities continued

The aggregate amount claimed is within Bridon's insurance coverage of up to US $165 million (at current exchange rates) that may be available to respond and Bridon's insurers have been indemnifying its defence costs to date. Bridon intends to vigorously defend against the claims asserted against it. Since 2008, Bridon has provided US $7.5 million in respect of this claim.

In addition, as a result of the acquisition of the McKechnie and FKI businesses, certain further contingent legal, environmental and tax liabilities were identified. Whilst it is difficult to reasonably estimate the ultimate outcome of these claims, the Directors' best estimate of the outcome of these claims has been included in the Balance Sheet.

The Group has contingent liabilities representing guarantees and contract bonds given in the ordinary course of business on behalf of trading subsidiaries. No losses are anticipated to arise on these contingent liabilities.

14. Post Balance Sheet events

The disposal of the Dynacast division was completed on 19 July 2011 for proceeds of US $590.0 million (£366.5 million). Disposal costs incurred in the period were £12.6 million (note 9) and net assets at 30 June 2011 were £255.9 million (note 9).

On 8 August 2011 at a General Meeting, shareholders approved a return of capital of £373.2 million, equivalent to 75 pence per Ordinary Share which was paid on 19 August 2011. In conjunction with this return of capital an 11 for 14 share capital consolidation took place and resulted in the number of Ordinary Shares in issue reducing from 497,586,779 to 390,961,043.

Company and shareholder information

Financial calendar 2011

Record date of interim dividend	9 September 2011
Payment of interim dividend	14 October 2011
Preliminary announcement of 2011 results	March 2012

Head office

Leconfield House
Curzon Street
London
W1J 5JA

Tel: +44 (0) 20 7647 4500
Fax: +44 (0) 20 7647 4501
www.melroseplc.net

Registered office

Precision House
Arden Road
Alcester
Warwickshire
B49 6HN

Tel: +44 (0) 1789 761020
Fax: +44 (0) 1789 761057

Registered number

4763064

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

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).

If calling from overseas: +44 (0) 121 415 7047.

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