Melrose Investor Day

Elster → one year in

London, 7 October 2013
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Speakers

1. Chris Miller, Melrose Chairman
   Melrose track record

2. Jerry Lauzze, CEO Elster Water
   Establishing a higher quality business through restructuring

3. Frank Hyldmar, CEO Elster Electricity
   Creating value from smart metering

4. Martyn Vaughan, CEO Elster Gas
   A substantial industrial gas opportunity

5. Q&A
Melrose

Buy

Improve

Sell

Track record

- AIM (£13m market cap) to FTSE 100 (£3.8bn market cap) in less than ten years
- Created £2.7 billion of shareholder value since the start of Melrose ten years ago
- Quadrupled shareholder equity
- Average annual return on equity investment of 27% since the first deal
- Average increase in operating margins for our acquisitions of 5 to 6 percentage points

Total Melrose¹

<table>
<thead>
<tr>
<th>Shareholder gain</th>
<th>Net shareholder investment</th>
<th>£1.1bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market capitalisation</td>
<td></td>
<td>c.£3.8bn</td>
</tr>
<tr>
<td>Total shareholder gain</td>
<td></td>
<td>c.£2.7bn</td>
</tr>
<tr>
<td>Average annual return on investment (IRR)</td>
<td></td>
<td>27%</td>
</tr>
</tbody>
</table>

Melrose deal by deal¹

<table>
<thead>
<tr>
<th>Headline² operating margin improvement</th>
<th>McKechnie +6ppts</th>
<th>Elster +3.2ppts</th>
<th>Dynacast +5ppts</th>
<th>FKI +6ppts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry</td>
<td>18%</td>
<td>12.8%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Exit / current</td>
<td>24%</td>
<td>16%</td>
<td>16%</td>
<td>16%</td>
</tr>
</tbody>
</table>

| Acquisition equity increase                 | McKechnie 3.3x   | Dynacast 3.1x   | FKI & Elster 2.1x (to date) |

¹ As at August 2013
² Before exceptional costs, exceptional income and intangible asset amortisation
Buy
Elster → performing well

What we said at acquisition → A good quality business underperforming its potential

- **Strong end markets**
  Energy demand, energy conservation and gasification

- **Good market share**
  Global number 1 in gas
  Global top 3 in both electricity and water

- **Strong cash generation**
  Turns profit into cash well
  Low requirement for working capital

- **Well established**
  Established for over 100 years
  Extensively installed meter base

- **Well diversified**
  No customer > 5% revenue
  Operations in 30 countries
  Trading in 130 countries

- **Technology strength**
  A leading designer and manufacturer of proprietary product

- **International exposure**
  2011 revenue split:
  - 49% Europe
  - 30% North America
  - 21% Rest of World

- **Good revenue visibility**
  Good order book → 4 months
  Smart orders can extend for a number of years

- **Not capital intensive**
  Sells many units
  Low working capital requirement

Results ahead of plan
Original margin targets increased
On track to double shareholder investment
Elster → ahead of the acquisition plans

Elster – ‘one year in’ → achievements to date

- Elster showing the fastest improvement in Melrose history
- Profit increased by over a third in the first year
- Original margin targets increased
- Elster now run as three businesses

Presentations from:

- Water – Jerry Lauzze → establishing a higher quality business through restructuring
- Electricity – Frank Hyldmar → creating value from smart metering
- Gas – Martyn Vaughan → a substantial industrial gas opportunity
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3. Product strategy
4. Location overview
5. Market share & competitive position
6. Financial performance summary
7. Medium term growth
8. Key developments under Melrose ownership
9. Key profit drivers
10. Conclusion
Elster Water – at a glance

Proven, trusted metering solutions for the water industry

19% of Elster revenue
5% of Elster profit

A global industry leader since 1883

Operations in all major regions, 1000+ employees

Sales in 90+ markets covering all major technologies

80 million meters deployed in the past 10 years

1 Results for the year ended 31 December 2012
Product range

Elster water division
2012 sales: £213m

Residential: 58%
Commercial: 14%
Smart: 28%

Solutions

1 At 2012 actual exchange rates
Product strategy – driving margin growth

Polymer

<table>
<thead>
<tr>
<th>Year</th>
<th>Brass</th>
<th>Polymer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
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</tbody>
</table>

- **Average Price**
- **Margin**

**Poly units**
Location overview

- Main Regional Sales Offices (5)
- Regional Manufacturing Sites (6)
- Manufacturing Partner/JV (6)

Americas £67m
EMEA £118m
Asia/Oceania £28m

- Water Division HQ, Luton, UK
- Core manufacturing site (2)
- Regional Manufacturing Sites (6)
- Main Regional Sales Offices (5)
- Manufacturing Partner/JV (6)

- Injection moulding of precision measuring components
- Multi-jet meter production in Brazil
- Main European manufacturing sites in Slovakia (above) & UK
- Polymer meter production in South Africa

£ sales revenues shown for 2012
Market share & competitive position

Global meter market shares 2012

- Itron: 18%
- Sensus: 11%
- Diehl: 11%
- Zenner: 6%
- Neptune: 4%
- Badger: 2%
- Sensus: 11%
- Others (incl. Elster partners): 34%

Elster share by region 2012

North America: 14% (13%)
EMEA: 18%
Latin America: 16%
Asia-Pacific: 5%

1 Figures in brackets are 2014 estimates based on US market exit from mechanical meter sales
Source: IMS Research, 2013: Water Meter Units excluding China
Financial performance summary

Revenue¹

- £217m
- £118m, -13% in H1 2012
- £103m in H1 2013

- 2013 rationalisation of product lines and low margin business, closure of under-performing units
- 2013 positioned for profitable growth

Headline² operating profit

- Headline² operating margin
  - FY 2012: 3.3%, £7.1m
  - H1 2012: 4.5%, £5.2m
  - H1 2013: 10.2%, £10.5m

- Average headline² operating profit conversion to cash (pre capex) in H1 2013: 131%

H1 2013 cash conversion

- Working capital to revenue: 8.1% at June 2013

1. At constant currency based on H1 2013 rates
2. Before exceptional costs, exceptional income and intangible asset amortisation

Note: Pre September 2012 – Elster Group SE accounting policies
Medium term growth – driven by global challenges

- Scarcity
- Conservation
- Quality
- Customers
Medium term growth – substantial demand

Global market £ CAGR 6%

North America 9%
- 2013: 6.8m units, £455m
- 2016: 7.9m units, £659m

EMEA 4%
- 2013: 24m units, £493m
- 2016: 27m units, £507m

Latin America 5%
- 2013: 10m units, £10m
- 2016: 12m units, £17m

Asia-Pacific 6%
- 2013: 64m units, £681m
- 2016: 79m units, £794m

Source: IHS Market Research, 2013
Key developments under Melrose ownership

Key changes post acquisition

- Manufacturing footprint consolidated to drive efficiencies and serve key regional sites
- Revised business model for high value markets including North America and Germany
- New distribution model established in underperforming markets
- Re-focus sales on higher value customers and products

Productivity and profit improvement

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (£m)</th>
<th>Profit (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011A</td>
<td>225</td>
<td>4.0</td>
</tr>
<tr>
<td>2012A</td>
<td>213</td>
<td>5.6</td>
</tr>
<tr>
<td>2013 H1</td>
<td>103</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Avg FTE  | 1,452 | 1,383 | 1,173 |
Profit per Avg FT | £4.0k | £5.6k | £9.0k |

£10.5m increase in profit
Launch higher margin product mix

Focus on highest margin markets & customers

Drive operational efficiency globally

Polymer meters, C&I meters, electronic meters & AMR/I

Market penetration Europe, Middle East, North America

Consolidated large fully utilised continental operations

Our Vision: to maintain a leading global market position delivering strong financial results
Conclusion

1. **Large global supplier – an industry leader**
   - Presence in all major water markets with revenues from all continents
   - Broad product portfolio to meet global market requirements

2. **Long term customer relationships & strategic partnerships**
   - Strong contracted revenues in key markets
   - Significant opportunity to build value through further product penetration

3. **Innovative product strategy – growth & higher margins**
   - Product development aligned with key market trends
   - Product portfolio migrates to higher value/margin products

4. **Optimised organisation & footprint – improved margins**
   - Consolidated manufacturing footprint improves efficiencies and margins
   - Focused sales on highest value customers and highest margin product mix

5. **Positioned for profit growth – restructure mainly complete**
   - Sales growth in most attractive market segments
   - Opportunities for further margin improvement
Thank you

Jerry Lauzze
CEO, Water
Elster Electricity

Frank Hyldmar
CEO, Electricity

London, 7 October 2013
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9. Global technology leadership
10. Conclusion
Elster Electricity – at a glance

24% of Elster revenue\(^1\)
10% of Elster profit\(^1\)

Sales and assembly in all major regions

Smart projects and trusted partner with most key utilities globally

Market leading position in Smart Metering and Grid Solutions

More than 3.5 Million deployed Smart Meter end-points

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1 Results for the year ended 31 December 2012
Product range → the smart opportunity

**Single and polyphase electronic meters**

1. **Meters**
   - smart

2. **Networks**
   - secure

3. **Value added services**
   - streamlined

4. **Meter data collection**
   - Interoperable by design

5. **Open software**
   - For 3rd party applications
Product range → the smart opportunity

Complete infrastructure with end-points, repeaters and data concentrators/gateways

1 Meters smart
2 Networks secure
3 Value added services streamlined
4 Meter data collection Interoperable by design
5 Open software For 3rd party applications

Product range → the smart opportunity

Complete infrastructure with end-points, repeaters and data concentrators/gateways

1 Meters smart
2 Networks secure
3 Value added services streamlined
4 Meter data collection Interoperable by design
5 Open software For 3rd party applications
Product range → the smart opportunity

Planning, logistics and installation services

1. Meters smart
2. Networks secure
3. Value added services streamlined
4. Meter data collection Interoperable by design
5. Open software For 3rd party applications
Product range → the smart opportunity

Interoperability for multiple vendors

1. Meters smart
2. Networks secure
3. Value added services streamlined
4. Meter data collection Interoperable by design
5. Open software For 3rd party applications
Product range → the smart opportunity

Intelligent handling of actionable information

1. Meters
   - smart

2. Networks
   - secure

3. Value added services
   - streamlined

4. Meter data collection
   - Interoperable by design

5. Open software
   - For 3rd party applications
Product overview ➔ the smart opportunity

Intelligence in every step of the energy value chain

1. Meters
   - smart

2. Networks
   - secure

3. Value added services
   - streamlined

4. Meter data collection
   - Interoperable by design

5. Open software
   - For 3rd party applications
By product type

- Metering: 70%
  - Commercial & residential
- Networks: 20%
- Meter data collection & services: 10%

By market type

- Smart metering: 77%
- Non-smart metering: 23%

By geography

- North America: 50%
- Europe: 25%
- Latin America: 9%
- RoW: 16%
Location overview

- Elster Metering Ltd., Stafford (UK)
- Elster Solutions Raleigh (USA)
- Elster Meditores S.A. Buenos Aires (ARG)
- Elster Metronica Moscow (RUS)
- Elster GmbH, Mainz-Kastel (GER)
- Elster Electricity site with assembly
- Elster Electricity office
Market share & competitive position

Metering business £3bn worldwide

- Residential Metering: 69%
- C & I Metering: 19%
- Networks: 10%
- Other: 2%

Excluding China

Sector suppliers

- Landis+Gyr: 46%
- Elster: 11%
- Sensus: 9%
- Aclara: 7%
- Other competitors: 69%
- Itron: 5%
- Silver Spring Networks: 5%
- PRI Secure: 3%
- Chinese Manufacturers: 2%

Key customers

E.ON
Hydro Quebec
EDF
CFE
al tayer
IBERDROLA
AES Eletropaulo
FPU

1 Excluding China
Financial performance summary

**Revenue**

- FY 2012: £275m
- H1 2012: £134m (-12%)
- H1 2013: £118m

- 2012 included unusually high sales in some countries due to local economic stimulus packages
- More growth to come, especially in the EMEA region

**Headline operating profit growth**

- FY 2012: £15.6m (5.7%)
- H1 2012: £3.8m (2.8%)
- H1 2013: £6.2m (5.3%)

- Average headline operating profit conversion to cash (pre capex) in H1 2013: 174%

**Working capital to revenue**

- At June 2013: 4.4%

**H1 2013 cash conversion**

- Margin improvement made in Melrose ownership, H1 2013 already above H1 2012
- Margins in 2013 were positively impacted by consolidation of manufacturing sites and other cost control measures

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1. At constant currency based on H1 2013 rates
2. Before exceptional costs, exceptional income and intangible asset amortisation

Note: Pre September 2012 – Elster Group SE accounting policies
Electricity meters global growth forecasted

Global electricity meters demand

- Global market volumes are forecast to grow substantially from 2013 until the end of 2017
  - NA market will stabilise and see slight reduction with stimulus money coming to an end
  - Significant growth forecasted in EU with countries starting mass roll out to meet 20/20/20 targets
    - UK, France and Germany to be main short term growth drivers
- Market to reach annual volume of 35 million Smart meters by 2017 from 19 million in 2012

Communications

- Narrowband PLC and GPRS communications expected to be the fastest growing communications technologies over the next five years
  - From less than 6 million meters shipped in 2012 to an expected more than 16 million in 2017

1 Excluding China
2 Source: IHS research
Medium term growth

Meter data software market will continue to grow and is essential for the continuous sales process

Observations

- Most utilities have yet to effectively integrate the data provided by AMI systems beyond basic meter-to-cash functionality
- Due to the fact that there are several competing data models, one clear strategy for utilities has not yet emerged, despite efforts

Outlook

- Having meter data collection and meter data management is important for the value creation and avoidance of commoditisation of the smart metering value chain
- Opening up the software to 3rd party applications and system integrators is vital to achieving further smart metering projects
- Meter data software market size has a CAGR of 16.5% 

1 Source: Pike MDM 2012 / Pike smart grid data analytics 2012
<table>
<thead>
<tr>
<th>Production and supply chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Consolidated assembly and supply chain for NA into Mexico</td>
</tr>
<tr>
<td>▪ Investment in automated production and testing facility to meet growth in Europe</td>
</tr>
<tr>
<td>▪ Reduced product costs significantly by outsourcing non core processes to OEM suppliers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technology leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Investment in new software generation to meet market demand for open interfaces</td>
</tr>
<tr>
<td>▪ Strategy in place to migrate legacy software offerings across regions into one platform</td>
</tr>
<tr>
<td>▪ Focus on partners to build customised software applications</td>
</tr>
<tr>
<td>▪ “Non technical loss” solution introduced in Brazil</td>
</tr>
<tr>
<td>▪ Capture energy management market</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Organisational alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Regional focus with lean central team</td>
</tr>
<tr>
<td>▪ Optimised research and development expenditure focusing on regional core competencies</td>
</tr>
<tr>
<td>▪ Global alignment and coordination of supply chain</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operational excellence</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Design to cost focus across all product categories</td>
</tr>
<tr>
<td>▪ Non core activities outsourced to partners and lower cost countries</td>
</tr>
<tr>
<td>▪ End-to-end testing and quality centre established in Romania across regions and divisions</td>
</tr>
</tbody>
</table>
Global technology leadership

Non technical losses – South America

Distribution automation – Russia / CIS

Multi utility - Europe

Smart grid solutions – North America

Significant investment for the future: Project Jupiter

- Align software offering across all entities
- Build world class meter data collection engine
- Develop open interface to allow 3rd party development of applications

- Interoperability with all main smart systems
- Focus on utility use cases with local adaptation
- Develop service business
Conclusion

1. Continued investment under Melrose ownership

2. Clear strategy: become the global leader in smart metering and grid solutions

3. Assembly and supply chain improved

4. Increase service revenue across all product categories
Thank you

Frank Hyldmar
CEO, Electricity
1. Elster Gas at a glance
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8. Key developments under Melrose ownership
9. Focusing on Industrial & Commercial
10. Conclusion
Elster Gas – at a glance

The global leader in gas metering

Extensive product portfolio across the gas value chain

Highly profitable

Excellent growth prospects

57% of Elster revenue

85% of Elster profit

1 Results for the year ended 31 December 2012
Product range - the Gas value chain

**Upstream**
- Conventional Gas (On and Off-shore)
  - Extraction
  - Processing
- Unconventional Gas (Shale gas)
  - Extraction
  - Processing
- Unconventional Gas (Methane)
  - Extraction
  - Processing

**Midstream**
- Liquid natural gas
  - Liquefaction
  - Shipping
  - Receiving
- Pipelines
  - Gas-to-liquids

**Downstream**
- Liquid natural gas
  - Transport and Storage
- Underground Gas Storage
- Biogas
- Butane
- Propane
- Hydro carbon liquids
- LPG
- Diesel
- Jet fuel
- Residential
- Commercial
- NG Vehicles
- Industrial
- Power Gen
- Petro-chemical
- Refinery
- LPG

**Product range**
- the Gas value chain
Product range - metering and related products

71% of Gas revenue

Upstream

Extraction, pipelines, gas stations

Ultrasonic meter
Turbine meter
Gas chromatograph
Flow computer

Midstream

Downstream

Industrial, commercial, residential

Europe/ROW meter
USA meter
Rotary piston meter
Regulator
Turbine meter
Volume corrector

Extraction, pipelines, gas stations

Industrial, commercial, residential
Product range - gas utilisation products

**29% of Gas revenue**

**Industrial process heat**

- **Single burner**
  - (low temperature applications)

- **Multi burner**
  - (high temperature applications)

**Residential heating**

- **Heat generation**
  - (combustion)

- **Heat management**
  - (comfort controls)
Revenue by end market and geography

Revenue by end market

- **Commercial & Industrial:**
  - Standard commercial meter – 6%
  - Standard industrial meter – 9%
  - Smart C&I meter – 1%
  - Electronic industrial (VC, data logger) – 4%
  - Industrial process heat – 20%

- **Mid/Upstream:**
  - Stations – 9%
  - Ultrasonic meters – 2%

- **Residential meter & related:**
  - Standard residential meter – 18%
  - Smart residential meter – 1%
  - Meter related products – 14%

- **Other non-meter:**
  - Residential heating – 9%
  - Aftermarket – 7%

Revenue by geography

- **Europe:** 48%
- **North America:** 29%
- **South America:** 4%
- **Asia:** 4%
- **China:** 4%
- **Middle East/Africa:** 4%
- **Russia:** 5%
- **RoW:** 5%

Based on 2012 actual revenue
Location overview

Lotte, Germany
- 856 employees
- Established 65 years
- Residential & Commercial meters
- Residential Heating
- Industrial process heat

Mainz, Germany
- 454 Employees
- Founded 1848
- Established 60 years
- Industrial meters
- MP & HP Regulators

Stara Tura, Slovakia
- 396 employees
- Acquired 1993, building from 2004
- 2nd extension 2012
- Residential & Industrial meters
- LP & MP Regulators
- Air heaters

Nebraska City, US
- 667 employees
- Acquired 1988
- Residential & Commercial meters
- Industrial meters
- LP & MP Regulators

Worldwide locations

Total 3787 employees
Market share & competitive position

**Metering and related products**

*2012 global market £2.1bn*

- Elster number 1 globally
- 74% of Elster sales in Europe and US (29% market share)

**Gas Utilisation products**

*2012 global market £1.0bn*

- Elster number 2 globally
- 78% of Elster sales in Europe (25% market share)

Based on 2012 actual revenue
Financial performance summary

**Revenue**

- **FY 2012**: £669m
- **H1 2012**: £334m
- **H1 2013**: £348m

- Revenue growth mainly in upstream gas stations
- No significant smart revenues

**Headline operating profit**

- **FY 2012**: £138.5m
- **H1 2012**: £69.6m
- **H1 2013**: £76.1m

- 20.7% Headline operating margin
- 20.8% H1 2012
- 21.9% H1 2013

- Elimination of low margin or loss making products and/or customers
- Significant structure cost improvement

**H1 2013 cash conversion**

- 72%

Average headline operating profit conversion to cash (pre capex) in H1 2013

**Working capital to revenue**

- 5.5%

At June 2013

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1. At constant currency based on H1 2013 rates
2. Before exceptional costs, exceptional income and intangible asset amortisation

Note: Pre September 2012 – Elster Group SE accounting policies
Medium term growth

The golden age of gas
# Key developments under Melrose ownership

## Elster Gas – the first 12 months

<table>
<thead>
<tr>
<th>Key developments</th>
<th>A “joined up” company</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Global Gas business</td>
<td>Strategic plan (hope is not a strategy!)</td>
</tr>
<tr>
<td>Top to bottom culture change</td>
<td>An empowered management team running the business</td>
</tr>
<tr>
<td>From top line to bottom line driven</td>
<td>US business (32% of total sales) now part of the team</td>
</tr>
<tr>
<td>Focused cost reduction and margin improvement</td>
<td>Reconnected sales and manufacturing</td>
</tr>
<tr>
<td>Value for money “targeted” research and development</td>
<td>New compensation culture</td>
</tr>
<tr>
<td>Cash generation</td>
<td>Actions, not just words, KPIs and reports</td>
</tr>
</tbody>
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Focusing on Commercial and Industrial

**Why?**

- Take advantage of the upstream gasification demand increase
- Good downstream “smart” business case also driving demand
- Attractive gross margins
- Differentiate from competitors
- Leverage Elster brand

**How?**

- Significant investment in new product research and development (64% of total)
- Four significant new products launched in 2013
- Globally applicable products (USA and China)
- Restructured China operation
- Enter expanding Russian market via wholly owned subsidiary
Elster Gas – the next 4 years

Strategy

Drive Sales Growth

- Execute Commercial and Industrial product strategy
- Take bigger share of US non residential market
- Get fair share of European residential smart meter market

Increased Productivity

- Further improve sales/profit per employee (+8% / +14% respectively in 2013)
- Continue to rationalise the manufacturing footprint (3 sites closed in 2013)
- Additional headcount reductions (4% in 2013)
- Further structural cost reductions (5% in 2013)

Investment

- Increase manufacturing capacity of European smart meters
- Accelerate new product introductions
- Possible bolt on acquisitions in gas industrial products
Conclusion

1. **Strong and respected brand with a quality product**
   - Supplying to over 130 countries worldwide
   - 75 million gas metering devices deployed in last ten years

2. **Good forecast market growth in next five years**
   - Strong upstream and downstream gas market exposure
   - Leading European smart meter supplier

3. **Increased focus on Commercial and Industrial segment**
   - Significant new product launches achieved and planned
   - Attractive margins

4. **Good productivity growth in the first year – more of the same planned for the next four years**
   - Growing profitably and increasing margins
   - Further manufacturing footprint reductions
   - Further headcount and non headcount cost reductions

5. **Investment**
   - European smart meter capacity
   - New products
   - Possible bolt on acquisitions in Gas Industrial Products
Thank you

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Q&A