

**THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice as soon as possible from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.**

Subject to the restrictions set out below, if you sell or transfer or have sold or otherwise transferred all of your Existing Melrose Shares (other than ex rights) held in certificated form before 8:00 a.m. on 17 July 2012 (the “ex-rights date”), you should send this document together with the accompanying Form of Proxy and any Provisional Allotment Letter (duly renounced), if and when received, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. None of these documents should, however, be distributed, forwarded to or transmitted in or into any jurisdiction where to do so might constitute a violation of local securities laws or regulations. If you sell or transfer or have sold or otherwise transferred only part of your holding of Existing Melrose Shares (other than ex-rights) held in certificated form before the ex-rights date, you should immediately consult the stockbroker, bank or other agent through whom the sale or transfer was effected. If you sell or transfer or have sold or otherwise transferred all or some of your Existing Melrose Shares (other than ex-rights) held in uncertificated form before the ex-rights date, a claim transaction will automatically be generated by Euroclear, which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

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# MELROSE PLC

*(Incorporated and registered in England and Wales with  
Registered No. 4763064)*

**Circular to shareholders and Notice of General Meeting  
in connection with the proposed acquisition of Elster Group SE and a  
proposed 2 for 1 Rights Issue of up to 844,418,024 New Melrose Shares at 142 pence per New Melrose Share to  
raise approximately £1.2 billion**

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Applications will be made to the UKLA for the New Melrose Shares to be admitted to the premium segment of the Official List and to the London Stock Exchange for the New Melrose Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities. It is expected that Admission will become effective, and that dealings (for normal settlement) in the New Melrose Shares (nil paid) will commence, at 8.00 a.m. on 17 July 2012.

This document should be read as a whole. Your attention is drawn to the letter from your Chairman which is set out on pages 3 to 16 of this document and which contains the unanimous recommendation by the Melrose Directors that you vote in favour of the Resolutions to be proposed at the Melrose General Meeting referred to below.

Melrose Shareholders should read the whole of this document, in particular, the Risk Factors relating to the Acquisition, the Rights Issue, Elster and the Enlarged Group set out in this document on pages 17 to 40.

This document does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security. A prospectus has been prepared in accordance with the Prospectus Rules made under section 73A of FSMA, has been approved by the FSA in accordance with section 87A of FSMA and has been made available to the public as required by rule 3.2 of the Prospectus Rules. Any investment decision relating to the Rights Issue should be based upon the consideration of the Prospectus, which Qualifying Shareholders (other than those with registered addresses in, or who are resident in, the United States or any Excluded Jurisdiction) should read in full prior to making any such investment decision. The risk factors relating to Melrose in the Prospectus are also incorporated by reference into this document.



The distribution of this document and/or the Prospectus and/or the Provisional Allotment Letters and/or the transfer of the Nil Paid Rights, the Fully Paid Rights and/or the New Melrose Shares through CREST or otherwise, into jurisdictions other than the United Kingdom may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, the Prospectus and/or the Provisional Allotment Letter should not be distributed, forwarded to or transmitted in or into the United States or any Excluded Territories. This document has been prepared for the purposes of complying with English law and the Listing Rules and the information disclosed herein may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws and regulations of any jurisdiction outside of the United Kingdom.

Notice of the Melrose General Meeting, to be held at the offices of Investec Bank plc, 2 Gresham Street, London EC2V 7QP at 10.00 a.m. on 16 July 2012, is set out on pages 76 to 79 of this document. Melrose Shareholders will find enclosed with this document a Form of Proxy for use in connection with the Melrose General Meeting. Whether or not you intend to attend the Melrose General Meeting in person, please complete and sign the enclosed Form of Proxy in accordance with the instructions printed on it and return it to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA as soon as possible and, in any event, by no later than 10 a.m. on 12 July 2012. The completion and return of a Form of Proxy will not preclude you from attending and voting in person at the Melrose General Meeting or any adjournment thereof, if you so wish and are so entitled.

If you hold Melrose Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti (CREST participant ID RA19), so that it is received by no later than 10.00 a.m. on 12 July 2012. The completion and return of a Form of Proxy or CREST Proxy Instruction will not preclude you from attending and voting in person at the Melrose General Meeting or any adjournment thereof, if you so wish and are so entitled. If you have any questions about this document, or the Melrose General Meeting, or are in any doubt as to how to complete the Form of Proxy please call the Shareholder Helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) on 0871 384 2778 (from within the UK) and +44 121 415 0128 (from outside the UK). Calls to the Shareholder Helpline cost 8 pence per minute from a BT landline, excluding VAT. Other network providers' costs may vary. Calls to the Shareholder Helpline from outside the UK will be charged at the applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. Please note that calls may be monitored or recorded and Equiniti cannot provide financial advice or advice on the merits of the Acquisition or the Rights Issue.

Subject to, among other things, the passing of the Transaction Resolutions, it is expected that Qualifying non-CREST Shareholders (subject to certain exceptions) will be sent a Provisional Allotment Letter on 16 July 2012, and that Qualifying CREST Shareholders (subject to certain exceptions) will receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled on 17 July 2012. The Nil Paid Rights so credited in CREST are expected to be enabled for settlement by Euroclear as soon as practicable after Admission. The Underwriters may, in accordance with applicable legal and regulatory provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the Melrose Shares and/or related instruments for their own account for the purpose of hedging their commitments under the Underwriting Agreement. Except as required by applicable law or regulation, the Underwriters do not propose to make any public disclosure in relation to such transactions.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Melrose Shares are not transferable except in accordance with, and the distribution of the Prospectus is subject to, the restrictions set out in paragraph 7 of Part XII (*Terms and Conditions of the Rights Issue*) of the Prospectus in relation to the United States and the Excluded Jurisdictions. No action has been taken by the Company, the Sponsors or the Underwriters that would permit an offer of the New Melrose Shares or rights thereto or possession or distribution the Prospectus or any other offering or publicity material or the Provisional Allotment Letters, the Nil Paid Rights or the Fully Paid Rights in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

**The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Melrose Shares have not been and will not be registered under the US Securities Act, or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, pledged, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from, or in a transaction not subject to the registration requirements of, the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters or the New Melrose Shares in the United States or in any of the Excluded Territories.**

**None of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters, the New Melrose Shares, this document, the Prospectus or any other offering document has been approved or disapproved by the SEC, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Rights Issue or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.**

Each of J.P. Morgan, JPMSL, Investec, Barclays, HSBC and RBC, each of which is authorised and regulated in the United Kingdom by the FSA, is acting solely for Melrose and no one else in connection with the Acquisition or the Rights Issue and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Acquisition or the Rights Issue and will not be responsible to anyone other than Melrose for providing the protections afforded to respective clients of J.P. Morgan, JPMSL, Investec, Barclays, HSBC or RBC or for providing advice in connection with the Acquisition or the Rights Issue or any other matter referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on J.P. Morgan, JPMSL, Investec, Barclays, HSBC or RBC under FSMA or the regulatory regime established thereunder: (i) none of J.P. Morgan, JPMSL, Investec, Barclays, HSBC or RBC accepts any responsibility whatsoever and makes no warranty, express or implied in relation to the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with Melrose, Melrose Bidco, the Nil Paid Rights, the Fully Paid Rights, the Melrose Shares, the Acquisition or the Rights Issue and (ii) each of J.P. Morgan, JPMSL, Investec, Barclays, HSBC and RBC accordingly disclaims, to the fullest extent permitted by law, all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this document or any such statement.

#### **CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS**

This document may contain forward looking statements that are based on current expectations or beliefs, as well as assumptions about future events. Generally, the words “will”, “may”, “should”, “continue”, “believes”, “expects”, “intends”, “anticipates” or similar expressions identify forward-looking statements. These statements are based on the current expectations of management and are naturally subject to risks, uncertainties and changes in circumstances. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and management’s plans and objectives, to differ materially from those expressed or implied in the forward looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward looking statements are the ability to combine successfully the businesses of Melrose and Elster and to realise expected synergies from that potential combination, changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

Melrose does not undertake any obligation (except as required by the Listing Rules, the Disclosure and Transparency Rules and the rules of the London Stock Exchange) to revise or update any forward looking statement contained in this document, regardless of whether that statement is affected as a result of new information, future events or otherwise.

Forward-looking statements contained in this document do not in any way seek to qualify the working capital statement contained in paragraph 2 of Part VI (*Additional Information*) of this document.

#### **RELEVANT DOCUMENTATION**

The Prospectus, which includes further information on the Acquisition, the Rights Issue, certain risk factors, Melrose, Elster, the Melrose Board and the New Melrose Shares, has not been posted to Melrose Shareholders with this document. Melrose Shareholders (other than any persons with a registered address in, or who are resident in, the United States or any Excluded Territory) may obtain a copy of the Prospectus from the Melrose Group website ([www.melroseplc.net](http://www.melroseplc.net)), provided that no attempt should be made by an Overseas Shareholder to obtain a copy of the Prospectus where to do so would constitute a violation of securities laws in the relevant jurisdiction.

This document is dated 29 June 2012.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS<sup>(1)</sup>

Each of the times and dates in the table below is indicative only and may be subject to change.

All references in this document to times are to London time unless otherwise stated.

Announcement of the Acquisition and Rights Issue . . . . .	29 June 2012
Publication of and posting of this document, the Prospectus, the Notice of General Meeting and the Form of Proxy . . . . .	29 June 2012
Tender Offer commences in the US/ Tender Offer Document is filed with the SEC . . . . .	On or about 6 July 2012
Elster to file Recommendation Statement on Schedule 14D-9, in which the Elster Board recommends acceptance of the Tender Offer . . . . .	On or about 6 July 2012
Rights Issue Record Date . . . . .	close of business on 12 July 2012
Latest time and date for receipt of Forms of Proxy . . . . .	10.00 a.m. on 12 July 2012
<b>Melrose General Meeting . . . . .</b>	<b>10.00 a.m. on 16 July 2012</b>
Despatch of Provisional Allotment Letters (to Qualifying non-CREST Shareholders only) <sup>(2)</sup> . . . . .	16 July 2012
Publication of notice in the London Gazette . . . . .	17 July 2012
Existing Melrose Shares marked “ex” by the London Stock Exchange . .	8.00 a.m. on 17 July 2012
Dealings (for normal settlement) in New Melrose Shares, nil paid, commence on the London Stock Exchange . . . . .	8.00 a.m. on 17 July 2012
Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only) <sup>(2)</sup> . . . . .	as soon as practicable after 8.00 a.m. on 17 July 2012
Nil Paid Rights and Fully Paid Rights enabled in CREST . . . . .	as soon as practicable after 8.00 a.m. on 17 July 2012
Recommended latest time for requesting withdrawal of Nil Paid Rights and Fully Paid Rights from CREST (i.e., if your Nil Paid Rights and Fully Paid Rights are in CREST and you wish to convert them to certificated form) . . . . .	4.30 p.m. on 25 July 2012
Latest time for depositing renounced Provisional Allotment Letters, nil or fully paid, into CREST or for dematerialising Nil Paid Rights or Fully Paid Rights into a CREST stock account (i.e. if your Nil Paid Rights and Fully Paid Rights are represented by a Provisional Allotment Letter and you wish to convert them to uncertificated form) . . . . .	3.00 p.m. on 26 July 2012
Latest time and date for splitting Provisional Allotment Letters, nil or fully paid . . . . .	3.00 p.m. on 27 July 2012
<b>Latest time and date for acceptance, payment in full and registration of renunciation of Provisional Allotment Letters . . . . .</b>	<b>11.00 a.m. on 31 July 2012</b>
Results of Rights Issue to be announced through a Regulatory Information Service . . . . .	by 8.00 a.m. on 1 August 2012
<b>Dealings in New Melrose Shares, fully paid, commence on the London Stock Exchange . . . . .</b>	<b>by 8.00 a.m. on 1 August 2012</b>

New Melrose Shares credited to CREST accounts . . . . .	as soon as practicable after 8.00 a.m. on 1 August 2012
Despatch of definitive share certificates for the New Melrose Shares in certificated form . . . . .	by no later than 8 August 2012
Tender Offer Expiration Date . . . . .	expected to be during August 2012
Announcement of the Tender Offer results and acceptance of the Elster ADSs and/or Elster Shares tendered in the Tender Offer <sup>(3)</sup> . . . . .	Promptly after the Tender Offer Expiration Date

**Notes:**

1. The times and dates set out in the expected timetable of principal events above and mentioned throughout this document may be adjusted by Melrose and/or Melrose Bidco in consultation with J.P. Morgan, JPMSL, Investec, Barclays, HSBC and RBC in which event details of the new times and dates will be notified to the UKLA, the London Stock Exchange and, where appropriate, Qualifying Shareholders.
2. Subject to certain restrictions relating to Qualifying non-CREST Shareholders with registered addresses outside the EEA.
3. Acceptance of the Elster ADSs and/or Elster Shares tendered in the Tender Offer assumes all conditions to the Tender Offer have been satisfied or waived by Melrose Bidco.



## PART I

### LETTER FROM THE CHAIRMAN OF MELROSE



Precision House  
Arden Road  
Alcester  
Warwickshire  
B49 6HN  
Tel +44 (0) 1789 761 020

(Registered in England and Wales with  
number 4763064)

#### Directors:

Christopher Miller (*Executive Chairman*)  
David Roper (*Executive Vice-Chairman*)  
Simon Peckham (*Chief Executive*)  
Geoffrey Martin (*Group Finance Director*)  
Miles Templeman (*Senior Non-Executive Director*)  
Perry Crosthwaite (*Non-Executive Director*)  
John Grant (*Non-Executive Director*)  
Justin Dowley (*Non-Executive Director*)

29 June 2012

#### To Melrose Shareholders

Dear Shareholder,

#### PROPOSED ACQUISITION OF ELSTER GROUP SE AND 2 FOR 1 RIGHTS ISSUE

##### 1. INTRODUCTION

Today the Boards of Melrose and Elster announced that they had reached agreement on the terms of a recommended proposal whereby Melrose Bidco, a wholly owned subsidiary of Melrose, will acquire for cash the entire issued ordinary share capital of Elster. The Acquisition will be implemented principally by way of a US tender offer to Elster ADS Holders and Elster Shareholders at a price of \$20.50 per Elster ADS or \$82 per Elster Share (as the case may be) (approximately \$2.3 billion, or £1.5 billion<sup>(1)</sup>, in aggregate) which is expected to be commenced on or about 6 July. Elster is one of the world's largest providers of gas, electricity and water meters, gas utilisation products and related communications, networking and software solutions. Elster is a European public limited liability company (*Societas Europaea*) with its registered seat in Essen, Germany. Elster ADSs representing Elster's ordinary share capital are traded on the NYSE (each Elster ADS represents one fourth of one Elster Share). The Acquisition represents a significant opportunity for Melrose to execute its strategy of acquiring specialised industrial businesses and maximising the value inherent in those businesses. Subject to the satisfaction or, where appropriate, waiver of the conditions of the Tender Offer, it is expected that the Tender Offer will become Effective during August 2012.

Melrose is proposing to finance the Acquisition and associated expenses through a combination of new debt and equity. Melrose is proposing to raise approximately £1.2 billion, before expenses, by way of a fully underwritten Rights Issue. The balance of the cost of the Acquisition, after the application of the net proceeds of the Rights Issue, will be funded by loans under the term facility and the revolving credit facility under the New Facilities Agreement which has been put in place and which will replace the Company's existing facilities.

Due to its size, the Acquisition constitutes a Class 1 transaction under the Listing Rules and therefore requires the approval of Melrose Shareholders. Melrose Shareholders will also be asked to approve an

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(1) Based on an exchange rate of £1.00=\$1.55 on 28 June 2012.

allotment of shares in connection with the Rights Issue and to grant certain authorities with respect to the Enlarged Share Capital following the completion of the Rights Issue. Accordingly, the Melrose General Meeting has been convened for 10 a.m. on 16 July 2012 at the offices of Investec. An explanation of the Resolutions to be proposed at the Melrose General Meeting is set out in paragraph 9 below. The Melrose Board considers that the Resolutions are in the best interests of Melrose Shareholders as a whole, and therefore unanimously recommends that Melrose Shareholders vote in favour of the Resolutions as the Melrose Directors intend to do in respect of their own beneficial holdings of Melrose Shares.

Furthermore, Melrose Bidco has received irrevocable undertakings to tender unconditionally (and not withdraw) Elster ADSs (or the underlying Elster Shares to which they relate) pursuant to the Tender Offer from Rembrandt and Nachtwache in respect of their entire beneficial holdings (amounting in aggregate to approximately 62.17 per cent. of the total share capital of Elster as at the day immediately prior to the date of this document) and has also received irrevocable undertakings from certain of the Elster Directors and Management Elster ADS Holders to tender (and not withdraw) their entire beneficial holdings (amounting in aggregate to approximately 2.02 per cent. of the total share capital of Elster as at the day immediately prior to the date of this document) unless a Superior Offer is publicly proposed.

I am writing to you to give you further details of the Acquisition and the Rights Issue, including the reasons for each, to explain why the Melrose Board considers them to be in the best interests of Melrose Shareholders as a whole and to seek your approval of the Resolutions.

## 2. SUMMARY OF THE KEY TERMS OF THE ACQUISITION

Pursuant to the Tender Offer, which will be on the terms and subject to the conditions set out in the Tender Offer Document, Elster ADS Holders/Elster Shareholders, as the case may be, will receive:

<b>for each Elster ADS</b>	<b>\$20.50 in cash</b>
<b>for each Elster Share</b>	<b>\$82 in cash</b>

A summary of the conditions to the completion of the Tender Offer is set out below. The proposed acquisition values the entire issued ordinary share capital of Elster at approximately \$2.3 billion (£1.5 billion<sup>(2)</sup>), and the \$20.50 per Elster ADS to be offered pursuant to the Tender Offer represents a premium of approximately 48.6 per cent. to the price of an Elster ADS on 11 June 2012, the last Business Day prior to speculation that Rembrandt was considering a sale of its Elster ADSs (and/or Elster Shares) and approximately 44.3 per cent. to the average price of an Elster ADS in the six month period ending on 11 June 2012.

Pursuant to the Tender Offer, Melrose Bidco will acquire good and unencumbered title to the Elster ADSs and Elster Shares tendered, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claims.

The Tender Offer Document will be filed with the SEC promptly after the date of this document with no material changes to the terms and conditions of the Tender Offer set out in Part III (*Terms and Conditions of the Acquisition*) of this document.

Melrose Bidco's offer is for the entire issued ordinary share capital of Elster. Any Elster ADSs acquired by Melrose Bidco pursuant to the Tender Offer may be cancelled (and the underlying Elster Shares withdrawn from the ADS Depository) at any time in accordance with the terms of the deposit agreement governing the Elster ADS programme. The Melrose Board intends to procure the cancellation of the Elster ADSs acquired by Melrose Bidco pursuant to the Tender Offer and to withdraw the underlying Elster Shares as soon as possible following the Effective Date.

If the Tender Offer becomes Effective and Melrose Bidco has received valid tenders representing less than 100 per cent. of the Elster ADSs (and/or the Elster Shares), Melrose Bidco may acquire further Elster ADSs (and/or Elster Shares) by way of (i) further offer(s) which may be required by law in connection with delisting the Elster ADSs from the NYSE, implementing a domination agreement or implementing Squeeze-out or Merger Squeeze-out at such price(s) as may be required by applicable law, and/or (ii) further offer(s) or purchases of Elster ADSs (and/or Elster Shares).

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(2) Based on an exchange rate of £1.00=\$1.55 on 28 June 2012.

Following the Tender Offer becoming Effective, Melrose Bidco will have the ability to take steps to pursue a delisting of Elster ADSs from the NYSE.

The completion of the Tender Offer is conditional upon:

- the passing (without material amendment) of the Transaction Resolutions at the Melrose General Meeting;
- Admission having occurred;
- receipt of anti-trust clearances from the relevant regulatory authorities in the EU, US, Ukraine and Russia;
- there having been validly tendered (and not properly withdrawn) prior to the Tender Offer Expiration Date such number of Elster ADSs (and/or Elster Shares) that represent at least 75 per cent. of the total share capital of Elster as at the Tender Offer Expiration Date;
- the Elster Board having recommended (and having not withdrawn its recommendation for) the Tender Offer;
- there not being any judgment, order, decree or law (in the United States, the United Kingdom or in the Federal Republic of Germany) entered, enacted, promulgated, enforced or issued by any court or other governmental entity of competent jurisdiction or other legal restraint or prohibition in effect enjoining or otherwise preventing or materially delaying the making of the Tender Offer, the acceptance for payment of any Elster ADSs and/or Elster Shares, Melrose's or Melrose Bidco's full rights of ownership and voting of the Elster ADSs and/or Elster Shares or Melrose's or Melrose Bidco's ownership or operation of Elster;
- Elster not having breached or failed to perform certain obligations required to be performed by it under the Investment Agreement at or prior to the Tender Offer Expiration Date;
- the Investment Agreement not having been terminated in accordance with its terms; and
- the satisfaction or waiver of the other conditions of the Tender Offer, which are considered to be customary for a transaction of this nature.

The conditions relating to the approval of the Acquisition by Melrose Shareholders, clearance by the EU and US regulatory authorities, the Admission of the New Melrose Shares and the Investment Agreement not having been terminated will not be waived in whole or in part and the other conditions may be waived by Melrose Bidco.

In order to facilitate the Acquisition, the Company and Melrose Bidco have entered into an Investment Agreement with Elster in which Elster has given certain undertakings to cooperate with the Company and Melrose Bidco, and the Company and Melrose Bidco have given certain undertakings to Elster concerning, among other things, their conduct in connection with the Acquisition and intentions in connection with the continuation of the Elster Group's business after the Effective Date. A summary of the Investment Agreement is set out at paragraph 2 of Part III (*Terms and Conditions of the Acquisition*) of this document.

### **3. BACKGROUND TO AND REASONS FOR THE ACQUISITION**

Melrose's track record is built on the twin cores of Melrose's strategy of acquiring high quality manufacturing businesses with exposure to strong end markets which have the opportunity to be developed. Once it has achieved its strategy it will realise value and return this to shareholders. Melrose believes that this is particularly relevant in the current economic climate. The proposed acquisition of Elster fits well with this strategy.

Melrose believes that Elster is a good manufacturing business with further potential, which serves strong end markets with attractive long term demand drivers such as growing global energy demand, energy efficiency and conservation and the replacement cycle. Moreover, Elster has good revenue visibility with an order book of approximately four months<sup>(3)</sup>, contracted future revenues of seven months<sup>(3)</sup> and low dependence on any single customer.

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(3) As at 31 March 2012.

### *Elster has leading positions in attractive markets*

Elster is a world leading engineering company and one of the world's largest providers of gas, electricity and water meters, gas utilisation products and related communications, networking and software solutions. Elster generated revenues of \$1,869 million in 2011 from providing products and solutions for use in residential, commercial and industrial end markets, as well as transmission and distribution applications, and has one of the most extensively installed meter bases in the world. Elster's products and solutions measure and control the supply of electricity, gas and water in traditional and "Smart Grid" markets in 130 countries worldwide, and in total Elster has deployed more than 200 million meters over the course of the last decade.

Elster has leading market positions in its core product categories: Gas, the highest margin sector where Elster is number one globally and electricity and water where Elster is in the top three globally. Elster's strong incumbent position in these markets and its breadth of product and technology solutions provides the ability for Elster to generate attractive growth and returns. Furthermore it is well placed to benefit from the growth in its end markets, driven by ongoing developments and needs for improved efficiency, closer regulation, better customer service, greater functionality and energy conservation.

### *Further opportunities to develop Elster's business and improve efficiency*

The Melrose Board believes there are further business development opportunities for Elster as well as an opportunity to improve efficiency, both of which are expected to improve Elster's financial performance. The Melrose Board believes through its experience it can assist the operational management of Elster to improve the financial performance of Elster.

#### *(i) Business development opportunities*

Melrose plans to support Elster's management team to grow the Elster business to its fullest potential, in accordance with a business plan to be agreed with the Elster management team. Melrose has a great track record of working with management teams to develop such plans and deliver top tier operational performance from its investments. The Melrose Board believes similar opportunities are available at Elster.

The Melrose Board believes there are two main drivers for future growth. The first is the global growth in gas, driven in particular by new gas production and distribution coming on-line, will result in Elster's Gas division growing significantly over the medium term. Elster's gas division represented 57.7 per cent. of its 2011 revenues and Elster operates across the entire value chain in gas, from upstream extraction, through midstream (transmission and storage) through downstream (distribution, commercial and industrial and residential) (together representing approximately three-quarters of Elster's gas division) and finally through to the utilisation of gas in the home or industry (representing approximately one-quarter of Elster's gas division).

In addition there is a rising level of adoption of smart meters which offer increased efficiency and accuracy to both customers and suppliers of gas, electricity and water. Elster should benefit across its gas, water and electricity product classes from the deployment of smart meters but this is expected to be a particularly strong driver of growth for the electricity business. Smart products are higher value products giving scope for accelerated revenue growth and, potentially, margin expansion. Currently the proportion of Elster's revenues derived from Smart products is 27 per cent. and the Melrose Board believes this can grow.

The Melrose Board has identified a number of opportunities to invest and develop the Elster business. These include investment in operations; investment in smart metering technology to ensure technology leadership; investment in new product development e.g. polymer products in water; and investment in bolt-on acquisitions.

#### *(ii) Elster's previously announced reinvestment programme and listed company cost saving*

In the first quarter of the 2012 financial year, the Elster Board authorised a reinvestment programme which was intended to position Elster to take advantage of growth opportunities associated with global gasification trends and Smart Grid deployments in Europe, and further optimise operational improvements. Planned actions included consolidating operations and sites, mainly in North America and Europe, relocating certain product-lines to other existing Elster operations, increasing the mix of

production in low-cost countries and improving the financial performance of Elster's water business unit. The planned consolidation of operations included the proposed closure of four major facilities and a reduction in the number of small- and mid-sized facilities. In addition, the programme included the consolidation of some administrative functions, particularly across finance, procurement and human resources. The programme commenced in the first quarter of 2012 and is expected to continue through to 2014.

The total costs expected to be incurred were in the range of \$40 million to \$60 million from 2012 financial year through to 2014 financial year, with \$20 million to \$35 million to be incurred in 2012 financial year. Approximately 70 per cent. of these costs related to severance and retention costs, with the remainder relating to operation and product line transportation, relocation costs and other exit costs. Estimated recurring annual cost savings of approximately \$40 million were expected, starting in the 2014 financial year.

The Melrose Board has significant experience of successfully executing restructuring and reinvestment programmes on plan, on time and on budget and this programme has the Melrose Board's support. Consequently Melrose looks forward to working with the Elster team to maximise the efficiencies and gains to be made through this programme while potentially identifying additional areas of operational improvement.

In addition as a company listed in the United States, Elster has significant costs related to its listing. By cancelling Elster's ADS listing in the United States and becoming a part of the Enlarged Group, Elster's management would be able to further enhance its focus on growing the business and reducing the costs associated with maintaining a listing in the United States.

#### **4. FINANCING OF THE ACQUISITION**

##### *General*

The Acquisition and associated expenses will be funded through a combination of new debt and new equity, approximately: \$1,816 million (£1,171 million<sup>(4)</sup>) from the total net proceeds of the fully underwritten Rights Issue and \$498 million (£321 million<sup>(4)</sup>) from the proceeds of loans under the term facility and the revolving credit facility under the New Facilities Agreement which has been entered into with the Company's relationship banks. The revolving credit facility will also be used (i) by Melrose to finance the Melrose Group's working capital requirements and for general corporate purposes (including refinancing existing indebtedness under the Existing Facilities Agreement or otherwise, and for financing acquisitions) and (ii) after the Effective Date, by the Elster Group, to finance its working capital requirements and for general corporate purposes (including, if required, refinancing existing indebtedness whether under the Senior Notes, the Elster RCF or otherwise, and for financing future acquisitions). The Rights Issue has been fully underwritten on the basis set out in the Underwriting Agreement. Details of the terms of the New Facilities Agreement and the Underwriting Agreement are set out in paragraphs 3 and 4, respectively, of Part III (*Terms and Conditions of the Acquisition*) of this document.

Melrose has always looked to maintain a prudent level of gearing (calculated as net debt divided by headline operating profit before depreciation and amortisation) in order to provide it with the flexibility to invest in its businesses. Therefore, to fund the Acquisition, in addition to new debt, Melrose intends to raise new equity. The Melrose Board, taking into account, inter alia, the size of the fundraising relative to the current market capitalisation of Melrose and to maintain pre-emption rights of Melrose Shareholders, believes the most appropriate method to do this is by way of a rights issue.

##### *Principal Terms of the Rights Issue*

Melrose proposes to raise approximately £1.2 billion (net of commissions), by way of a fully underwritten Rights Issue of up to 844,418,024 New Melrose Shares. The Rights Issue Price of 142 pence per New Melrose Share, which is payable in full on acceptance by not later than 11.00 a.m on 31 July 2012, represents a 61.5 per cent. discount to the Closing Price of 368.7 pence per Existing Melrose Share on 28 June 2012 (being the last trading day prior to the publication of this document) and a 34.7 per cent.

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(4) Based on an exchange rate of £1.00=\$1.55 on 28 June 2012.

discount to the theoretical ex-rights price of 217.6 pence per New Melrose Share calculated by reference to the Closing Price on the same day. If a Qualifying Shareholder does not take up any of his entitlement to New Melrose Shares, his proportionate shareholding will be diluted by 66.7 per cent. However, if a Qualifying Shareholder takes up his Rights in full, he will, after the Rights Issue has been completed and excluding any fraction of an Ordinary Share, as nearly as practicable have the same proportionate voting rights and entitlements to dividends as he had on the Record Date.

If a Qualifying Shareholder does not subscribe for the New Melrose Shares to which he is entitled, such Shareholder can instead sell his rights to those New Melrose Shares and receive the net proceeds in cash. This is referred to as dealing in the rights “nil paid” and, subject to the fulfilment of certain conditions, dealings (for normal settlement) on the London Stock Exchange in the Nil Paid Rights are expected to commence at 8.00 a.m. on 17 July 2012. If a Qualifying Shareholder does not wish to take up his rights, he does not have to take any action and the Underwriters will use all reasonable endeavours to find investors to take up such rights at the end of the Rights Issue offer period. If the Underwriters find investors and are able to achieve a price not less than the Rights Issue Price plus the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of VAT which, in the reasonable opinion of the Underwriters, are not recoverable), such Qualifying Shareholder will be sent a cheque for the amount of that aggregate premium above the Rights Issue Price less related expenses (including any applicable brokerage and commissions and amounts in respect of VAT which, in the reasonable opinion of the Underwriters, are not recoverable), so long as the amount in question is at least £5.

Subject to the fulfilment of, amongst others, the conditions set out below, the Company proposes to offer, by way of the Prospectus, New Melrose Shares pursuant to the Rights Issue to Qualifying Shareholders on the following basis:

#### **2 New Melrose Shares at 142 pence each for every 1 Existing Melrose Share**

held by Qualifying Shareholders on the Record Date. Holdings of Existing Melrose Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. Fractional entitlements to New Melrose Shares will not be allotted and, where necessary, entitlements will be rounded down to the nearest whole number of New Melrose Shares.

The New Melrose Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Melrose Shares, including the right to receive in full all dividends and other distributions declared, made or paid by reference to a record date after the date of their issue. Melrose Shares including the New Melrose Shares may be held in certificated or uncertificated form.

The Rights Issue is conditional upon, amongst other things:

- the passing without amendment (or with such amendments as the Sponsors and the Company may agree in writing) of the Transaction Resolutions at the Melrose General Meeting;
- the Tender Offer not having been withdrawn or terminated prior to Admission; and
- Admission having occurred by not later than 8.00 a.m. on 17 July 2012 (or such later time and/or date as may be agreed between the Sponsors and the Company in writing).

While the Rights Issue is conditional on the Transaction Resolutions being passed it is not conditional upon the Tender Offer becoming Effective or on the New Facilities Agreement.

The results of the Rights Issue, including the aggregate number of New Melrose Shares issued and the aggregate amount raised, net of expenses, is expected to be announced by Melrose through a Regulatory Information Service by 8.00 a.m. on 1 August 2012.

Melrose Shareholders who hold their Melrose Shares in certificated form and who take up their rights in part or in full will receive definitive share certificates in respect of their New Melrose Shares on 8 August 2012.

Assuming the Tender Offer becomes Effective, the net proceeds of the Rights Issue will be applied to partially satisfy the consideration to be paid to (i) Elster ADS Holders and Elster Shareholders who have

tendered their Elster ADSs and/or Elster Shares (as the case may be) pursuant to the Tender Offer and (ii) Elster ADS Holders and Elster Shareholders pursuant to further purchases of Elster ADSs and/or Elster Shares (as the case may be) made following the Effective Date in connection with the Acquisition.

Having received irrevocable undertakings to tender unconditionally (and not withdraw) Elster ADSs and/or Elster Shares pursuant to the Tender Offer from Rembrandt and Nachtwache, in respect of their entire beneficial holdings, and having received irrevocable undertakings from certain of the Elster Directors and Management Elster ADS Holders to tender (and not withdraw) their entire beneficial holdings unless a Superior Offer is publicly proposed, amounting in aggregate to approximately 64.19 per cent. of the total share capital of Elster as at the day immediately prior to the date of this document, Melrose believes that the Tender Offer will be successful. However, Melrose Shareholders should note that while the Rights Issue is conditional on the passing of the Transaction Resolutions, it is not conditional upon the Tender Offer becoming Effective (or on the New Facilities Agreement) and that, subsequent to the Rights Issue becoming wholly unconditional, the Tender Offer may not become Effective. In the event that the Rights Issue settles but the Tender Offer does not become Effective, the Melrose Directors' current intention is that the net proceeds of the Rights Issue will be invested on a short-term basis while the Melrose Directors evaluate other acquisition opportunities and, if no acquisitions can be found on acceptable terms, the Melrose Directors will consider how best to return surplus capital to Melrose Shareholders in a timely manner. Such a return could carry fiscal costs for certain Melrose Shareholders and will have costs for the Company.

Applications will be made to the UKLA for the New Melrose Shares to be admitted to the premium segment of the Official List and to the London Stock Exchange for the New Melrose Shares to be admitted to trading on the main market for listed securities of the London Stock Exchange. It is expected that Admission will become effective and dealings (for normal settlement) in the New Melrose Shares will commence, nil paid, at 8.00 a.m. on 17 July 2012.

The Underwriters have agreed under the terms of the Underwriting Agreement to procure subscribers for, failing which, the Underwriters shall themselves subscribe for (or their sub-underwriters shall subscribe for), the New Melrose Shares not taken up in the Rights Issue at the Rights Issue Price.

Subject to, among other things, the passing of the Transaction Resolutions, it is expected that the Provisional Allotment Letters will be despatched to Qualifying non-CREST Shareholders (other than those having an address in the United States or any Excluded Territory) on 16 July 2012, after the Melrose General Meeting.

**Any investment decision relating to the Rights Issue should be based upon the consideration of the Prospectus, which Qualifying Shareholders (other than those with registered addresses in, or who are resident in, the United States or any Excluded Jurisdiction) should read in full prior to making any such investment decision.**

## **5. USE OF PROCEEDS**

The total net proceeds of the Rights Issue will be used to fund part of the total cost of the Acquisition and related expenses, the latter of which are expected to be approximately £70 million in aggregate.

## **6. FINANCIAL EFFECTS OF IMPLEMENTING THE ACQUISITION**

On a pro forma basis and assuming that: (i) the Acquisition had become Effective on 31 December 2011 and (ii) that 100 per cent. of Elster ADS Holders and Elster Shareholders had tendered their Elster ADSs and Elster Shares (as the case may be) in full on such date to Melrose Bidco, the Enlarged Group would have had net assets of £1.8 billion at that date (based on the net assets of the Melrose Group as at 31 December 2011 and the net assets of the Elster Group as at 31 March 2012) as more fully described in Part IV (*Financial Information on Elster and the Enlarged Group*) of this document.

The Melrose Board expects that the Acquisition will be dilutive to earnings per share in the first full financial year of ownership (2013), and will start to become accretive thereafter<sup>(5)(6)</sup>. Over the medium term, the Acquisition is not expected to be dilutive to the Melrose headline<sup>(6)</sup> operating margins currently being achieved.

## **7. INFORMATION RELATING TO ELSTER**

Elster is a European public limited liability company (*Societas Europaea, or SE*) with its registered seat in Essen, Germany. Its share capital amounts to EUR 28,220,041.00 and is divided into 28,220,041 Elster Shares. Elster is one of the world's largest providers of gas, electricity and water meters, gas utilisation products and related communications, networking and software solutions. Its products and solutions are used to measure gas, electricity and water consumption as well as enable energy efficiency and conservation and improve safety.

Elster has one of the most extensively installed meter bases in the world, with more than 200 million meters deployed over the course of the last decade. Elster sells its products and solutions in more than 130 countries across gas, electricity, water and multi-utility settings for use in residential, commercial and industrial markets.

It is estimated (as at 2009) that Elster had the largest global market share by revenues in the gas meter market, was one of the three largest global providers in the water meter market by revenues and had the third largest share by revenues in the electricity meter market. Selected financial information relating to Elster and unaudited pro forma financial information the Enlarged Group is set out in Part IV (*Financial Information on Elster and the Enlarged Group*) of this document.

## **8. ELSTER BOARD RECOMMENDATION AND IRREVOCABLE UNDERTAKINGS IN RESPECT OF THE ACQUISITION**

The Elster Board intends to recommend that Elster ADS Holders and Elster Shareholders tender their Elster ADSs and Elster Shares (as the case may be) to Melrose Bidco pursuant to the Tender Offer. The Elster Board has, subject to its fiduciary duties, there being no change in the Melrose Recommendation and no Superior Offer having been commenced, agreed to include in its Schedule 14d-9, among other things, that the Tender Offer is fair to and in the best interests of Elster and its stakeholders and that it approves the Tender Offer and recommends that holders of Elster ADSs (and/or Elster Shares) tender their Elster ADSs (and/or Elster Shares) into the Tender Offer (the “**Elster Recommendation**”).

Melrose Bidco has received irrevocable undertakings to tender unconditionally (and not withdraw) Elster ADSs (or the underlying Elster Shares to which they relate), pursuant to the Tender Offer from Rembrandt and Nachtwache in respect of their entire beneficial holdings (amounting in aggregate to approximately 62.17 per cent. of the total share capital of Elster as at the day immediately prior to the date of this document) and has also received irrevocable undertakings from certain of the Elster Directors and Management Elster ADS Holders to tender (and not withdraw) their entire beneficial holdings (amounting in aggregate to approximately 2.02 per cent. of the total share capital of Elster as at the day immediately prior to the date of this document) unless a Superior Offer is publicly proposed.

## **9. MELROSE GENERAL MEETING**

Given the size of the Acquisition in relation to the current size of Melrose, it will be necessary for Melrose Shareholders to approve the Acquisition and to authorise the allotment of the New Melrose Shares. The Melrose General Meeting has been convened for these purposes and to seek certain authorities with respect to the Enlarged Share Capital following the completion of the Rights Issue.

The notice convening the Melrose General Meeting, at which the Resolutions (summarised below) will be proposed, is set out at the end of this document.

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(5) Nothing in this document is intended to be, or is to be construed as, a profit forecast or to be interpreted to mean that earnings per Melrose Share for the current or future financial years, or those of the Enlarged Group, will necessarily match or exceed the historical earnings per Melrose Share.

(6) Before exceptional costs, exceptional income and intangible asset amortisation.



**The implementation of the Acquisition is conditional upon the passing of the Transaction Resolutions.**

*Resolution 1*

Resolution 1 will be proposed as an ordinary resolution requiring a simple majority of votes in favour. The Tender Offer will not become Effective and the Acquisition may not be implemented if resolution 1 is not passed.

Resolution 1 proposes that the Acquisition be approved and the Melrose Directors be authorised to take all steps and enter all agreements and arrangements necessary or desirable to implement the Acquisition.

*Resolution 2*

Resolution 2 will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Resolution 2 proposes that, subject to and conditional upon the passing of resolution 1, the Melrose Directors be generally and unconditionally authorised to allot New Melrose Shares, up to a maximum aggregate nominal amount of £2,149,427.70 (representing, in aggregate, 844,418,024 Melrose Shares). If granted, this authority will expire 15 months following the passing of resolution 2, or, if earlier, at the conclusion of the Company's annual general meeting in 2013 and will be used to allot the New Melrose Shares pursuant to the Rights Issue.

If resolution 1 or resolution 2 is not passed, the Rights Issue will not proceed.

The Melrose Board has concluded that the Rights Issue (together with the proceeds of loans under the term facility and the revolving credit facility under the New Facilities Agreement) provides the most appropriate method of raising finance in the particular circumstances of the Acquisition. The Rights Issue Price represents a 61.5 per cent. discount to the Closing Price of an Existing Melrose Share of 368.7 pence on 28 June 2012 (being the last trading day prior to the publication of this document) and a 34.7 per cent. discount to the theoretical ex-rights price of 217.6 pence per New Melrose Share calculated by reference to the Closing Price on the same day.

*Resolution 3*

Resolution 3 will be proposed as an ordinary resolution requiring a simple majority of votes in favour. The implementation of the Acquisition is not conditional on the passing of this resolution.

Resolution 3 proposes that, subject to and conditional on Admission, the Melrose Directors be authorised to allot Melrose Shares in addition to the authority described under resolution 2 above, up to an aggregate nominal amount of £1,074,713.85 (representing, in aggregate, 422,209,012 Melrose Shares) (representing approximately 33 per cent. of the Enlarged Share Capital and approximately 100 per cent. of Melrose's issued ordinary share capital as at the Latest Practicable Date) and in the event of a rights issue, up to an aggregate nominal amount of £2,149,427.70 (representing approximately 66 per cent. of the Enlarged Share Capital), pursuant to section 551 of the 2006 Act. If granted, this authority will expire 15 months following the passing of resolution 3, or, if earlier, at the conclusion of the Company's annual general meeting in 2013.

This authority is in addition to the authority granted pursuant to resolution 2 and grants the Melrose Board a standing authority (in substitution for the authority granted at the 2012 Melrose annual general meeting) to allot shares on a similar basis to that granted at the 2012 Melrose annual general meeting but in respect of the Enlarged Share Capital resulting from the Rights Issue.

The Melrose Directors have no present intention to exercise the power sought under resolution 3.

*Resolution 4*

Resolution 4 will be proposed as a special resolution requiring at least 75 per cent. of votes in favour. The implementation of the Acquisition is not conditional on the passing of this resolution.

Resolution 4 proposes that, subject to and conditional on Admission, the Melrose Directors be empowered to disapply pre-emption rights in relation to the allotment of ordinary shares pursuant to the authority conferred by resolution 3, pursuant to section 570 of the 2006 Act. If granted, this power will expire

15 months following the passing of resolution 4, or, if earlier, at the conclusion of the Company's annual general meeting in 2013. The ordinary shares in relation to which pre-emption rights would be disapplied represent approximately 5 per cent. of the Enlarged Share Capital and approximately 15 per cent. of Melrose's issued ordinary share capital as at the Latest Practicable Date.

This is a replacement of the authority granted in respect of Existing Melrose Shares at the 2012 Melrose annual general meeting to reflect the Enlarged Share Capital resulting from the Rights Issue.

The Melrose Directors have no present intention to exercise the power sought under resolution 4.

#### *Resolution 5*

Resolution 5 will be proposed as a special resolution requiring at least 75 per cent. of votes in favour. The implementation of the Acquisition is not conditional on the passing of this resolution.

Resolution 5 proposes, subject to Admission, to authorise the Company to purchase ordinary shares in the market, pursuant to sections 693 and 701 of the 2006 Act. Any purchases made under this authority would be made in one or more tranches and would be limited to such number of ordinary shares as would be equal in aggregate to approximately ten per cent. of the Enlarged Share Capital.

The maximum price to be paid on any exercise of the authority would not exceed 105 per cent. of the average of the Closing Price for ordinary shares for the five Business Days immediately preceding the date of the purchase. The minimum price to be paid per ordinary share on any exercise of the authority would be the nominal value of such share at the time of purchase.

This is a replacement of the authority granted in respect of Existing Melrose Shares at the 2012 Melrose annual general meeting to reflect the Enlarged Share Capital resulting from the Rights Issue.

The Melrose Directors have no present plans to exercise the power which this authority would confer. The Melrose Directors would only exercise such power to purchase shares when satisfied that any purchase would have a beneficial effect on earnings per share and/or on net assets per share and generally that it would be in shareholders' interests to exercise this power. If granted, this authority will expire 15 months following the passing of resolution 5, or, if earlier, at the conclusion of the annual general meeting of the Company in 2013.

If the Company were to purchase any of its own shares pursuant to the authorisation conferred by this resolution, it would consider holding them as treasury shares, provided that the number of shares held in treasury shall not at any one time exceed ten per cent. of the Company's issued share capital held by shareholders other than the Company.

There are no outstanding warrants or options to subscribe for Melrose Shares as at the Latest Practicable Date.

## **10. CURRENT TRADING**

### *(i) Melrose current trading, trends and prospects*

On 26 June 2012, Melrose announced that it had signed and completed the sale of all the issued share capital of MPC for cash consideration of £31 million.

On 9 May 2012, Melrose published its interim management statement for the period from 1 January 2012 to 9 May 2012. The following has been extracted from that statement:

#### *Overview*

The positive momentum experienced in Melrose's businesses on revenue and order intake during 2011 has continued into 2012. Revenue for the Melrose Group in the first four months of 2012, at constant currency, is up 9 per cent. compared to the same period in 2011, and the total value of orders received in the period is 3 per cent. higher than revenue. Whilst the first quarter is historically the slowest quarter of the year, the start to 2012 has been pleasing to the Melrose Board.

The investment phase, referred to in Melrose's annual results statement for 2011, continues in Melrose's businesses with capital expenditure significantly ahead of depreciation. Current trading remains in line with plan.

### *Energy*

Brush Turbogenerators, which accounts for three quarters of Melrose's Energy division by revenue, continues to grow as planned and to perform satisfactorily. Revenue for the first four months of 2012 was up 10 per cent. on the same period in 2011, virtually all of the new build revenue planned for 2012 is now in the order book and early indications from customers are suggesting strong demand into 2013. However, due to the particular reasons noted below, margins, as expected, are slightly lower than in the same period in 2011.

The aftermarket has had a slower start to the year, but the increasing order book points to a satisfactory performance for the year.

As reported in Melrose's annual results statement for 2011, Turbogenerators' operating profit in 2011 benefited from a contract to supply some larger generators to a customer in the Slovak Republic, thereby distorting year-on-year comparisons.

The restructuring project to improve manufacturing efficiencies in the Netherlands facility is continuing to plan and this will improve the performance of the factory. The integration of Hawker Siddeley Switchgear into Turbogenerators is proceeding well and will benefit the results for 2012.

Marelli has had a good start to the year with revenue up 14 per cent. on 2011 and order intake at record levels.

### *Lifting*

Melrose's Lifting division has had a strong start to 2012 with revenue up 11 per cent. on the same period in 2011 and the total value of orders received in the period being 8 per cent. higher than revenue. The benefits of ongoing investment and operational improvement are being reflected in an encouraging performance in margins in this division.

Crosby grew significantly in 2011 and this has continued into 2012 with revenue in the period up 23 per cent. on 2011, and order intake up 17 per cent. The strength of the US onshore oil and gas end market continues to benefit Crosby.

During the period, Melrose appointed a new CEO for the Crosby Group to continue the excellent work of the previous CEO who had been with the company for over 40 years. The new CEO will continue to focus on the international expansion of Crosby.

Bridon has an exciting year ahead. In November the new £20 million factory in Newcastle, UK is due to open. This will supply high specification rope for demanding applications for the deep water offshore oil and gas market and will be a key part of the strategy to position Bridon as the global technology leader in its field. This project remains both on time and within budget.

In addition, it is pleasing to the Melrose Board to see that Bridon continues to see recovery in its key end markets, and most encouragingly, further signs of recovery in offshore oil and gas. Whilst revenue for Bridon in this period is up only 1 per cent. on 2011, the order intake has increased 16 per cent.

The combination of Bridon and Crosby means the Lifting division has had a strong start to the year.

### *Other Industrial*

In the first four months of 2012, revenue was 1 per cent. above the same period last year.

Truth is seeing some pockets of recovery in its end market of US housing, but it is too early to conclude anything meaningful from this.

Harris has had a slower start to 2012 with revenue down 5 per cent.

## *Cashflow and Net Debt*

As reported in Melrose's annual results statement for 2011, restructuring provisions of £15.9 million were charged in 2011, which are being paid in cash in 2012.

Working capital remains efficient and capital expenditure continues to be significant. At the end of April 2012, cash spent on capital projects was almost 2x depreciation which the Melrose Board believes highlights the continuation of the investment phase in the current businesses.

Cash generation remains in line with plan. Net debt is planned to increase by the end of 2012 to approximately 1.5x headline operating profit before depreciation and amortisation, with the main outflows coming in the first half of the year.

## *Outlook*

Further progress is being made during 2012 to improve the quality and performance of Melrose's businesses and this should be particularly evident in the second half of the year.

Since the date of the interim management statement, Melrose continues to trade in line with the Melrose Board's expectations.

### *(ii) Elster current trading, trends and prospects*

Elster's first quarter 2012 revenues were \$446.7 million, up \$2.8 million, or 0.6 per cent., over the first quarter of 2011, and up 3.3 per cent. on a constant currency basis<sup>(7)</sup>. Growth in Elster's water and gas segments outweighed weaker performance in the electricity segment.

Elster recorded adjusted EBITDA<sup>(8)</sup> of \$63.1 million in the first quarter of 2012, up 1.4 per cent. compared to the first quarter of 2011. Adjusted EBITDA margin of 14.1 per cent. was in line with prior year results. First quarter 2012 non-GAAP net income attributable to Elster Group SE was \$27.1 million, or \$0.24 per Elster ADS compared to \$29.0 million, or \$0.26 per Elster ADS, in the first quarter of 2011. The decrease is impacted by the level of unrealised gains on interest rate swap agreements of \$6.4 million in the first quarter of 2011 compared to unrealised gains of \$1.4 million in the first quarter of 2012.

First quarter 2012 gross margin, net of charges related to the reinvestment programme, was 32.4 per cent. compared to 33.0 per cent. in the first quarter of 2011. The decrease was attributable to less favourable product mix in Elster's gas segment and to reduced volumes in Elster's electricity segment.

Total operating expenses, net of charges related to the reinvestment programme, decreased by \$2.2 million, or 2.1 per cent., to \$103.6 million in the first quarter of 2012, down from \$105.8 million in the first quarter of 2011. The decrease was driven by a reduction in both general and administrative expenses and research and development investment.

## *Elster Segment Results*

### *Gas*

Gas revenues in the first quarter of 2012 of \$258.5 million reflect a 1.1 per cent. increase versus the first quarter of 2011. On a constant currency basis, revenues increased by 4.0 per cent. Segment profit<sup>(9)</sup> of \$63.3 million was 2.3 per cent. lower compared to the first quarter of 2011 as segment profit margin<sup>(9)</sup> decreased to 24.5 per cent. from 25.3 per cent. year-over-year.

The increase in gas segment revenues was driven by improved demand across the commercial, industrial and residential sectors for the gas utilisation product portfolio and solid metering demand across

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(7) Constant currency rates: Calculated by translating the results from entities that have functional currencies other than US dollars into dollars using the exchange rates of the prior year.

(8) Adjusted EBITDA is a non-GAAP measure. Adjusted EBITDA margin is consolidated adjusted EBITDA as a percentage of consolidated revenue.

(9) Segment profit margin is segment profit as a percentage of segment revenues. Segment profit is further defined in note 21 to the Elster consolidated financial statements set out on page 170 of the Prospectus as incorporated by reference into this document.

geographies. Both North America and international metering markets contributed to the growth on a constant currency basis. The segment profit decrease mainly was attributable to product mix and currency effects.

#### *Electricity*

First quarter 2012 electricity revenues were \$95.9 million, a decrease of 3.5 per cent. versus the first quarter of 2011. On a constant currency basis, revenues declined by \$1.4 million, or 1.3 per cent. Segment profit of \$2.3 million declined 37.8 per cent. compared to the first quarter of 2011. Segment profit margin declined to 2.4 per cent. from 3.7 per cent. year-over-year.

Solid Latin America and Middle East and North Africa performance was offset by slight decreases in Oceania and Europe. North America produced flat results compared to the first quarter of 2011, as several small- and mid-sized projects, which began in late 2011 and early 2012, have not yet generated significant revenues. First quarter 2012 electricity profitability primarily was impacted by lower sales volume.

#### *Water*

Water revenues in the first quarter of 2012 of \$97.8 million reflect a 1.5 per cent. increase versus the first quarter of 2011. On a constant currency basis, water revenues grew by 4.1 per cent. Water segment profit of \$8.4 million increased by 16.7 per cent. compared to the first quarter of 2011. Water segment profit margin increased to 8.6 per cent. from 7.5 per cent. year-over-year.

The increase in water segment revenues was attributable to ongoing projects in Oceania, solid Latin American results, and a slight improvement in the North American, Middle Eastern and North African markets. This was offset slightly by weakness in specific Western European markets, as utility investments for residential Smart Meter products slowed. The segment profit increase was attributable to higher revenues, favourable product mix, cost controls, and reduced raw materials pricing pressure.

Since March 2012, monthly revenues have been steady and margins slightly below those in the previous quarter. The order book is at a similar level to that at the end of the first quarter and includes the large order from a North American hydro electric customer received in March 2012.

### **11. OVERSEAS SHAREHOLDERS**

The availability of the Nil Paid Rights, Fully Paid Rights, the Provisional Allotment Letters and the New Melrose Shares under the Rights Issue to persons not located in the UK may be affected by the laws of the jurisdiction where they are located. Such persons should inform themselves about and observe any applicable requirements.

### **12. LISTINGS, DEALINGS AND SETTLEMENT**

Application will be made to the UKLA for the New Melrose Shares to be admitted to the premium segment of the Official List and application will be made to the London Stock Exchange for the New Melrose Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings (for normal settlement) in the New Melrose Shares (nil paid) will commence on the London Stock Exchange at 8.00 a.m. on 17 July 2012.

### **13. ACTION TO BE TAKEN**

If you are a Melrose Shareholder, you will find enclosed with this document a form of proxy for use at the Melrose General Meeting (the "**Form of Proxy**"). Whether you intend to be present at the Melrose General Meeting or not, you are asked to complete the Form of Proxy in accordance with the instructions printed thereon and to return it to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA as soon as possible and, in any event, so as to be received by 10 a.m. on 12 July 2012. **If you hold Melrose Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti (CREST participant ID RA19), so that it is received by no later than 10.00 a.m. on**

**12 July 2012.** The completion and return of the Form of Proxy or a CREST Proxy Instruction will not preclude you from attending the Melrose General Meeting and voting in person if you wish to do so.

If the Form of Proxy is not returned or the CREST Proxy Instruction is submitted after 10 a.m. on 12 July 2012, your vote will not count if you do not attend and vote at the Melrose General Meeting.

#### **14. FURTHER INFORMATION**

Your attention is drawn to the further information contained in this document.

#### **15. RECOMMENDATION**

The Melrose Board has received financial advice from J.P. Morgan in relation to the Acquisition. In providing its financial advice to the Melrose Board, J.P. Morgan has taken into account the commercial assessment of the Melrose Board.

The Melrose Board considers that the Acquisition, the Rights Issue and the Resolutions to be proposed at the Melrose General Meeting are in the best interests of Melrose Shareholders as a whole and accordingly unanimously recommends that Melrose Shareholders vote in favour of the Resolutions, as the Melrose Directors intend to do in respect of their own beneficial holdings of 22,746,209 Melrose Shares representing, in aggregate, approximately 5.39 per cent. of the Existing Melrose Shares as at the Latest Practicable Date.

The Melrose Board is fully supportive of the Rights Issue. Each of the directors of Melrose intends, after Admission, to sell such number of Rights (nil paid) as will enable him to take up in full the balance of his entitlement, other than Mr. Dowley, who intends to take up his Rights in full and Mr. Grant and Mr. Templeman, each of whom intend to take up at least such part of his entitlement to New Melrose Shares as may be funded by the sale, after Admission, of such number of Rights (nil paid) as will enable him to take up the balance of his entitlement.

Yours faithfully



Christopher Miller  
Executive Chairman

## PART II

### RISK FACTORS RELATING TO THE ACQUISITION AND THE RIGHTS ISSUE

*A number of factors affect the operating results, financial condition and prospects of the Melrose Group and, if the Tender Offer becomes Effective, will affect the Elster Group and the Enlarged Group. This section describes the risk factors which are considered by the Melrose Directors to be material in relation to the Acquisition and the Rights Issue. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. If the Tender Offer becomes Effective additional risks and uncertainties that are not presently known to the Melrose Directors, or which they currently deem immaterial, may also have an adverse effect on the Melrose Group's, the Elster Group's and the Enlarged Group's operating results, financial condition and prospects. In particular, if the Tender Offer becomes Effective, the Elster Group will form a significant proportion of the Enlarged Group and, therefore, (assuming the Tender Offer becomes Effective), the risks set out in Part C Risks Relating to the Elster Group and the Enlarged Group will affect the Enlarged Group because the Elster Group will represent 42 per cent. of the pro forma net assets pre-adjustments of the Enlarged Group as set out in Part IV (Financial Information on Elster and the Enlarged Group). The information given is as of the date of this document and, except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law, will not be updated.*

*You should consider carefully the risks and uncertainties described below, together with all other information contained in this document, the information incorporated by reference herein and (other than if you have a registered address in, or are located in, the United States or any of the Excluded Territories) the content of the Prospectus, before deciding whether to vote in favour of the Resolutions.*

#### **PART A: Risks Relating to the Acquisition**

##### **1. The Tender Offer is subject to a number of conditions which may not be satisfied or waived**

The completion of the Tender Offer is subject to the satisfaction (or waiver, where applicable) of a number of conditions, including:

- the passing (without material amendment) of the Transaction Resolutions at the Melrose General Meeting;
- Admission having occurred;
- receipt of anti-trust clearances from the relevant regulatory authorities in the EU, US, Ukraine and Russia (details of which are set out in Part III (*Terms and Conditions of the Acquisition*) of this document);
- there having been validly tendered (and not properly withdrawn) prior to the Tender Offer Expiration Date such number of Elster ADSs (and/or Elster Shares) that represent at least 75 per cent. of the total share capital of Elster as at the Tender Offer Expiration Date;
- the Elster Board having recommended (and not having withdrawn its recommendation for) the Tender Offer;
- there not being any judgment, order, decree or law (in the United States, the United Kingdom or in the Federal Republic of Germany) entered, enacted, promulgated, enforced or issued by any court or other governmental entity of competent jurisdiction or other legal restraint or prohibition in effect enjoining or otherwise preventing or materially delaying the making of the Tender Offer, the acceptance for payment of any Elster ADSs and/or Elster Shares, Melrose's or Melrose Bidco's full rights of ownership and voting of the Elster ADSs and/or Elster Shares or Melrose's or Melrose Bidco's ownership or operation of Elster;
- Elster not having breached or failed to perform certain obligations required to be performed by it under the Investment Agreement at or prior to the Tender Offer Expiration Date;
- the Investment Agreement not having been terminated in accordance with its terms; and

- the satisfaction or waiver of the other conditions of the Tender Offer, which are considered to be customary for a transaction of this nature (details of which are set out in Part III (*Terms and Conditions of the Acquisition*) of this document).

The conditions relating to the approval of the Acquisition by Melrose Shareholders, clearance by the EU and US regulatory authorities, the Admission of the New Melrose Shares and the Investment Agreement not having been terminated will not be waived in whole or in part and the other conditions may be waived by Melrose Bidco.

There is no guarantee that these (or other) conditions will be satisfied (or waived, if applicable), in which case the Tender Offer will not become Effective.

## **2. Failure to acquire 75 per cent. of Elster may affect Melrose’s ability to complete any planned post-closing structural measures**

Melrose Bidco may waive the condition regarding receipt of valid tenders representing 75 per cent. of the total share capital of Elster. However, given the irrevocable agreements to tender from Rembrandt and Nachtwache (amounting to 62.17 per cent. of the total share capital of Elster on the day immediately prior to this document), Melrose Bidco will, in any case, receive valid tenders in respect of such amount.

If the Tender Offer becomes Effective with Melrose Bidco holding less than 75 per cent. of the issued share capital of Elster, Melrose cannot be certain that it, through Melrose Bidco, will control sufficient voting rights to require Elster to undertake certain corporate actions. In particular, if Melrose Bidco holds less than 75 per cent. of the issued share capital of Elster:

- (i) Melrose Bidco may not be able to put in place a domination agreement or it may be more difficult to do so. Without a domination agreement there would be certain restrictions on the ways that Elster could be integrated into the Enlarged Group (although the majority of the Elster Board would be made up of Melrose appointees): the relationship between Melrose Bidco and Elster would have to be on an arm’s length basis, the Elster Board would be required, as is generally the case with any company with a minority shareholding, to have consideration to the interests of the shareholders generally, including the minority shareholders, and Melrose Bidco would have to compensate Elster for any losses incurred if Melrose Bidco exercised its influence to undertake a disadvantageous transaction or act; and
- (ii) Melrose Bidco will not be certain of being able to remove directors from the Elster Board. However, Melrose has received undertakings from the existing Elster Directors to resign on the Tender Offer becoming Effective (but for one director who has undertaken to resign immediately on the Melrose appointee directors being appointed to the Elster Board) so that Melrose nominated directors will obtain control of the Elster Board shortly after the Tender Offer becomes Effective.

These potential restrictions may result in certain of the structural measures identified by Melrose not being obtained or being obtained over a longer period of time.

## **3. If Melrose Bidco fails to acquire 95 per cent. or 90 per cent. of Elster it may not be able to proceed with Squeeze-out or Merger Squeeze-out**

Following the Effective Date, Melrose intends to procure, if Melrose Bidco has acquired 95 per cent. of Elster, the passing of a resolution in relation to Squeeze-out or, if Melrose Bidco has acquired more than 90 per cent. but less than 95 per cent of Elster, entry by Melrose Bidco into a merger agreement in relation to Merger Squeeze-out or passing of a resolution in relation to Squeeze-out (both described in further detail in Part III (*Terms and conditions of the Acquisition*)). If Melrose Bidco fails to acquire 95 per cent. of Elster it may not be able to effect Squeeze-out and if it does not acquire 90 per cent. of Elster it may not be able to effect Merger Squeeze-out or Squeeze-out. Following the Effective Date, Melrose intends (providing it has acquired 75 per cent. of Elster) to procure entry by Melrose Bidco into a domination agreement with Melrose Bidco as the “controlling company” and Elster as the “controlled company” so that Melrose Bidco would control the management of Elster’s business affairs. Such an agreement must ensure a recurrent cash payment as compensation to minority shareholders equal to the amount which, on the basis of past profitability and prospective profits of Elster, could be expected to be distributed to the Elster Shareholders in the future as the average profit per Elster Share if the domination had not been



entered into (described in further detail in Part III (*Terms and conditions of the Acquisition*)). Therefore, if Melrose Bidco is unable to undertake Merger Squeeze-out or Squeeze-out and Elster has minority shareholders, Melrose may incur additional costs in relation to the payment of this sum while such minority shareholders continue to hold Elster Shares/Elster ADSs.

#### **4. The implementation of the Acquisition may require certain structural measures in relation to Elster**

In order to effectively integrate Elster into the Enlarged Group, the adoption of certain structural measures in relation to Elster may be necessary. In particular, Melrose may procure the entry by Melrose Bidco into a domination agreement pursuant to Sec. 291 et seq. of the German Stock Corporation Act with Elster as the dominated company if, following the Tender Offer becoming Effective, Melrose Bidco holds Elster ADSs and/or Elster Shares representing at least 75 per cent. of voting rights in general meetings of Elster. Details of, and the process for entering into, a domination agreement are set out at paragraph 1 of Part III (*Terms and Conditions of the Acquisition*) of this document. If a domination agreement between Melrose Bidco and Elster is entered into, the remaining minority Elster Shareholders would have the right to either (i) receive an annual compensation payment for the share of the profits which could be expected to be distributed to them as the average profit per Elster Share, or (ii) sell their Elster Shares to Melrose Bidco for an adequate consideration. The amounts of the annual compensation payment and the consideration will be set out in the domination agreement and may be subsequently increased by a court decision or settlement in special appraisal proceedings. The implementation of a domination agreement or other structural measures may be delayed by shareholder litigation. If a domination agreement or other structural measures cannot be implemented, there would be certain restrictions on the ways that Elster could be integrated into the Enlarged Group, although the majority of the Elster Board would be made up of Melrose appointees, the relationship between Melrose Bidco and Elster would have to be on an arm's length basis, the Elster Board would be required, as is generally the case with any company with a minority shareholding, to have consideration to the interests of shareholders generally, including the minority shareholders, and Melrose Bidco would have to compensate Elster for any losses incurred if Melrose Bidco exercised its influence to cause Elster to undertake a disadvantageous transaction or act. Any such issues may adversely affect the financial position of the Enlarged Group. However, without a domination agreement being implemented, while Melrose Bidco owns Elster ADSs and/or Elster Shares representing at least 75 per cent. of voting rights, although the Elster Board would remain independent, Melrose Bidco would have *de facto* control of Elster because Melrose Bidco would be able to pass all shareholder resolutions (including those required to appoint and remove directors of Elster) to distribute dividends, to alter the articles of association of Elster, to delist Elster and to increase the capital of Elster. Under a domination agreement, Melrose Bidco would have the additional right to instruct the Elster Board to carry out Melrose Bidco's instructions (even if such instructions are not for the benefit of Elster). However, Melrose Bidco's *de facto* ability to control Elster does not depend on this right to issue binding instructions.

#### **5. The Enlarged Group's success will be dependent upon its ability to integrate the Elster businesses; there will be numerous challenges associated with the integration**

The success of the Enlarged Group is expected in part to be dependent upon its ability to integrate Elster without any significant disruption to the business of Melrose or Elster. The Enlarged Group may encounter numerous integration challenges in connection with the Acquisition, including loss of customers, suppliers and/or employees and other challenges which are not currently foreseeable. In addition, the Enlarged Group's management and resources may be diverted away from its core business activities due to personnel being required to assist in the integration process. This integration process may take longer or prove more costly than expected, or difficulties relating to the integration, of which the Melrose Board is not yet aware, may arise. This could adversely affect the implementation of the Enlarged Group's plans, and the Enlarged Group may not be successful in addressing risks or problems encountered in connection with the integration and failure to do so may adversely affect its business or financial condition.

#### **6. The Melrose Group may not realise the desired operational improvements from the Acquisition**

The Melrose Group is targeting operational improvements from the Acquisition. Achieving the advantages of the Acquisition will depend partly on the rapid and efficient management and co-ordination of the activities of Melrose and Elster, two businesses of considerable size that functioned independently and are

currently located in different countries, with geographically dispersed operations and with different business cultures and compensation structures. There is a risk that operational improvements from the Acquisition may fail to materialise, or they may be materially lower than have been estimated. In addition, the cost of funding these operational improvements may exceed expectations. Such eventualities may have a material adverse effect on the financial condition of the Enlarged Group.

#### **7. Elster may not perform in line with expectations**

If the results and cash flows generated by the combination of the operations of Elster with those of the Melrose Group are not in line with the Melrose Directors' expectations, a write-down may be required against the carrying value of the Melrose Group's investment in Elster. Such a write-down may reduce the Melrose Group's ability to generate distributable reserves and consequently affect its ability to pay dividends or return capital to shareholders.

#### **8. An impairment of goodwill or other intangible assets would adversely affect the Melrose Group's financial condition and results of operation**

Upon completion of the Acquisition, a significant portion of the difference between the purchase price, Elster's net assets at that date and the allocation of costs of the combination to the assets acquired and the liabilities assumed, will be recorded as goodwill. In addition, other intangible assets will be recorded as a result of the purchase price allocation. Under IFRS, goodwill and intangible assets with indefinite lives are not amortised but are tested for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. Other intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives and reviewed for impairment whenever there is an indication of impairment. In particular if the combination of the businesses meets with unexpected difficulties, or if the business of the Melrose Group does not develop as expected, impairment charges may be incurred in the future which could be significant and which could have an adverse effect on the Melrose Group's financial condition.

The Elster Group has significant intangible assets, long-lived assets, goodwill and deferred tax assets that are susceptible to valuation adjustments as a result of changes in various factors or conditions. The Elster Group assesses impairment of amortisable intangible and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, many asset classes are subject to impairment consideration on a periodic basis under applicable accounting rules. Factors that could trigger an impairment of such assets include the following:

- a significant underperformance relative to historical or projected future operating results;
- significant changes in the nature of or use of the acquired assets or the strategy for its overall business;
- significant negative industry or general economic trends;
- changes in the Elster Group's organisation or management reporting structure could result in additional reporting units, which may require;
- alternative methods of estimating fair values or greater aggregation or disaggregation in the Elster Group's analysis by reporting unit;
- a sustained decline in its market capitalisation below net book value; and
- the harmonisation of company trademarks throughout the Elster Group's group.

The Elster Group assesses the potential impairment of goodwill as of 31 December of each year. It also assesses the potential impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Adverse changes in operations or other unforeseeable factors could result in an impairment charge in future periods that would impact results of operations in that period.

The realisation of the Elster Group's deferred tax assets related to net operating loss carry-forwards is supported by projections of future profitability. The Elster Group provides a valuation allowance based on estimates of future taxable income in the respective taxing jurisdiction and the amount of deferred taxes

that are expected to be realisable. If future taxable income is different from what is expected, the Elster Group may not be able to realise some or all of the tax benefit, which may, in turn, have a material and adverse effect on its results of operations, business and financial condition.

**9. The Melrose Group will have foreign exchange risk related to the purchase price for the Acquisition**

The proceeds raised by Melrose pursuant to the Rights Issue will be in pounds sterling, but the payment to selling Elster ADS Holders and/or Elster Shareholders (as the case maybe) pursuant to the Tender Offer will be made in US dollars. There could be a period of several months between Admission and the payment to selling Elster ADS Holders and/or Elster Shareholders (as the case maybe) pursuant to the Tender Offer, during which time the Melrose Group will therefore be exposed to the risk of a significant appreciation in the US dollar against the pound sterling. The Melrose Group has entered, or will enter, before the completion of the Tender Offer, into a currency hedge in respect of all or substantially all of the anticipated net proceeds of the Rights Issue in order to limit its total exposure to adverse currency movements in respect of the Acquisition, although there is no guarantee that such measures will be implemented or fully effective. The Melrose Group will incur additional costs in order to secure hedging for this exchange rate risk.

**10. The financial results of the Melrose Group will, as a result of the Acquisition and the resulting increased portion of assets, liabilities and earnings denominated in Euros and US dollars, be more exposed to fluctuations in the exchange rate between the pound sterling and the Euro and in the United States**

The Melrose Group will present its financial statements in pounds sterling and will have a significant portion of Euro and US dollar denominated assets, liabilities and earnings as a result of the significant assets and revenues of Elster across the Eurozone. The operational and financial results as well as the equity of the Melrose Group will therefore be more sensitive to fluctuations in the exchange rate of the pound sterling against the Euro and against the US dollar than they are currently. There has been a high degree of volatility in exchange rates since the onset of the global financial crisis and this volatility has continued with the recent EU sovereign debt crisis. A depreciation of the Euro and/or the US dollar relative to the pound sterling could have an adverse impact on the consolidated financial condition and results of operation of the Melrose Group.

**PART B: Risks Relating to the Rights Issue**

**1. The Rights Issue is conditional on the passing of the Transaction Resolutions but is not conditional on the Tender Offer becoming Effective**

It is possible that following Admission of the New Melrose Shares, nil paid, and the Rights Issue becoming wholly unconditional, the Tender Offer may not become Effective; in particular, if any of the conditions to the Tender Offer becoming Effective are not satisfied in accordance with their terms. In this case, as the Rights Issue is not conditional upon the Tender Offer becoming Effective, the Rights Issue would still be completed and funds would be raised by the Melrose Group.

In the unlikely event that the Rights Issue proceeds but the Tender Offer does not become Effective, the Melrose Directors' current intention is that the net proceeds of the Rights Issue will be invested on a short-term basis while the Melrose Directors evaluate other acquisition opportunities and, if no acquisitions can be found on acceptable terms, the Melrose Directors will consider how best to return surplus capital to Melrose Shareholders in a timely manner. Such a return could carry fiscal costs for certain Melrose Shareholders. The Underwriters' obligations to underwrite the Rights Issue under the Underwriting Agreement are conditional (although certain of these conditions can be waived) but are unconditional from Admission.

**2. The take up of Nil Paid Rights under the Rights Issue will not be available to any Melrose Shareholders with a registered address in, or who are located in, the United States or any other Excluded Territories in the absence of an available exemption from relevant securities laws**

The take up of Nil Paid Rights under the Rights Issue will not be available to any Melrose Shareholder with a registered address in, or who is located in, the United States or other Excluded Territory in the

absence of an available exemption from relevant securities laws. If a Qualifying Shareholder is not able to take up Rights granted in respect of Existing Melrose Shares under the Rights Issue, then it may not receive the economic benefit of such Rights because there is no assurance that the procedure in respect of Rights not taken up will be successful in either selling the Nil Paid Rights or in respect of the prices obtained.

## **PART C: Risks relating to the Elster Group and the Enlarged Group**

### **1. The sales activity of the Elster Group depends to a significant extent on general economic conditions**

The Elster Group sells and distributes a significant portion of its manual-read meters and Smart Offerings for use in new construction markets and to utilities and utility contractors, and its level of sales activity in these markets depends to a significant extent on general economic conditions. The Elster Group defines its Smart Offerings as automated meter reading, or AMR, meters, advanced metering infrastructure, or AMI, meters, and other meters that are equipped with communications capabilities, communications networks and related software solutions, or Smart Grid Solutions, together with individual products, components and services for use in the Smart Grid. The Elster Group defines smart meters as meters, which are AMR or AMI enabled, are equipped with communication capabilities and may be used as components in the Smart Grid. The Smart Grid is commonly used to refer to any gas, electricity or water network that allows utilities to measure and control production, transmission and distribution more efficiently through the use of communications technology.

### **2. Utilities may delay installing meters and Smart Grid Solutions**

Many utilities have announced plans or intentions to replace older meters with smart meters enabled for AMR or with meters enabled for AMI on a standalone basis or as components of Smart Grid solutions. However, some utilities have delayed their investments due to economic uncertainty, a reduction in the consumption of energy resources as a result of the economic downturn, difficulty in obtaining financing, limitations on their own or public financial resources or for other reasons. Utilities that are owned by municipalities or other public authorities may also face budgetary restrictions and funding constraints. Such uncertainties and funding constraints may lead some utilities to alter their budgeting and procurement priorities to focus on capital expenditures in areas other than metering, which may result in delays in the installation of meters and Smart Grid solutions.

### **3. The continued weakness of new construction markets poses a substantial risk to the business of the Elster Group**

The new construction market in the United States has in particular been in an extended period of contraction, and the Elster Group is unable to predict when this market will return to levels approaching those seen before that weakness began. Similar contractions have occurred in the new construction markets in other countries, including in the United Kingdom and Spain. If countries where the Elster Group has significant operations continue to experience an overall contraction in new construction markets, or if these markets fail to grow, existing orders for its metering products and services may be delayed or cancelled, and new orders may not materialise. This could have a material adverse effect on the Elster Group's results of operations, business and financial condition.

### **4. Economic weakness and uncertainty may slow the rate of “gasification”**

Economic weakness and uncertainty may slow the rate of “gasification” which the Elster Group defines as the expansion of natural gas infrastructure and distribution to include regions and customers, particularly in the Middle East, North Africa and Asia, not previously connected to the gas grid. Similarly, economic weakness has led to and may in the future lead to a decrease in demand for meters and other products that the Elster Group sells for transmission and distribution applications, as well as for gas utilization products, which consists of process-heating equipment, such as burner-control systems for gas-fired industrial heat treatment processes, and heat-control systems for residential and commercial boilers. As a result of these developments, existing orders for products and services may be delayed or cancelled and new orders may not materialise, which could have a material adverse effect on the Elster Group's results of operations, business and financial condition.

**5. Recent uncertainty in worldwide financial markets may lead customers to demand guarantees or bonds covering a larger portion of contracts with the Elster Group or require the Elster Group to maintain larger amounts of inventory**

Some of the Elster Group's customers and potential customers ask it for credit and/or performance guarantees, including payment and advance payment guarantees and performance guarantees, or credit and/or performance bonds, in each case to cover portions of their potential contract volumes. They may also or alternatively ask the Elster Group to maintain a certain level of inventory. The experience of the recent uncertainty in worldwide financial markets may lead customers to demand guarantees or bonds covering a larger portion of these contracts or for the Elster Group to maintain larger amounts of inventory, while at the same time making it may be more difficult for the Elster Group to obtain favourable terms on the credit necessary to fulfil these demands. If it is unable to obtain the necessary guarantees or bonds, or maintain or finance the necessary level of inventory, the Elster Group may fail to win these contracts, which could have a material adverse effect on its business and financial condition.

**6. The Elster Group's results of operations have been, and may continue to be, adversely affected by movements in exchange rates**

The Elster Group's results of operations have been, and may continue to be, adversely affected by movements in exchange rates, especially among the Euro, U.S. dollar and pound sterling, but also with other currencies. Adverse currency exchange rate movements may hinder its ability to procure important materials and services from vendors and suppliers, may affect the value of its level of indebtedness, and may have a significant adverse effect on its revenues and overall financial results. Currency movements affect the Elster Group's financial statements and results of operations in various ways, including:

- As part of its consolidation each period, the Elster Group translates the balance sheet items in the financial statements of those entities in its group that have functional currencies other than the U.S. dollar into U.S. dollars at the period-end exchange rates. The translated values in respect of each entity fluctuate over time with the movement of the exchange rate for the entity's functional currency against the U.S. dollar. The Elster Group refer to this as the currency translation effect. It is not practicable to hedge against this risk and the Elster Group do not do so.
- Most of the Elster Group's entities make their purchases and sales primarily in their respective functional currencies. However, sometimes entities within the group make purchases and sales denominated in currencies other than their functional currencies. To the extent that an entity makes purchases in a currency that appreciates against its functional currency, its cost basis expressed in its functional currency will increase, or decrease, if the other currency depreciates against its functional currency. Similarly, for sales in a currency other than the entity's functional currency, its revenues will increase to the extent that the other currency appreciates against the entity's functional currency and decrease to the extent that currency depreciates against the entity's functional currency. These movements can have a material effect on the gross margin of the entity concerned and on the Elster Group's consolidated gross margin. The Elster Group refer to this as the currency transaction effect.
- After a purchase or sale is completed, the currency transaction effect continues to affect foreign currency accounts payable and accounts receivable on the books of those entities that made purchases or sales in a foreign currency. These entities are required to re-measure these balances at market exchange rates at the end of a period. In 2009, the Elster Group recognised a foreign currency gain of \$2.9 million resulting from these re-measurements; in 2010, it incurred a gain of \$2.3 million and in 2011, it recognised a loss of \$0.4 million. Through the Elster Group's group treasury function, it enters into foreign currency derivative financial products to mitigate exchange rate risks when the appropriate financial products are available on attractive terms. However, it is often economically disadvantageous to pay the costs associated with hedging against every possible currency movement, particularly between currencies that have traditionally been rather stable, and the Elster Group will continue to be subject to this risk.

In addition, inter-company borrowings by one Elster entity to another Elster entity with a different functional currency can cause gains or losses from re-measuring the inter-company financing at changing exchange rates.

In the past, the Elster Group has experienced gains and losses from exchange rate fluctuations, including foreign exchange gains and losses from transaction risks associated with assets and liabilities denominated in foreign currencies, including inter-company financings. In 2011, the Elster Group recognised a foreign exchange gain of \$0.1 million, compared to a foreign exchange gain of \$2.9 million in 2010 and a foreign exchange gain of \$14.4 million in 2009. Although it has introduced measures to improve its ability to respond to currency exchange rate risks, these measures may prove ineffective, and recent exchange rate volatility, particularly between currency pairs that have traditionally been rather stable, may continue at high levels. As a result, the Elster Group may continue to suffer exchange rate losses, which could cause operating results to fluctuate significantly and could have a material adverse effect on its business and financial condition.

**7. The Elster Group's success depends on its continued ability to identify, attract, develop and retain skilled personnel throughout the company**

Competition for highly qualified management and technical personnel is intensifying as the Elster Group's industry becomes more technologically advanced. While the Elster Group has a good relationship with its management and other key employees, and while it has developed a long-term incentive compensation plan that was implemented shortly after its IPO, the Elster Group may not be able to retain key executives or other skilled personnel, or attract and retain replacements for those who may decide to leave the company. In certain strategic focus areas, such as Smart Grid technologies, the Elster Group intends to make significant investments and further develop its product portfolio. The successful development of the Elster Group's business in these strategic areas depends in part on its continued ability to hire and retain qualified and skilled personnel. The Elster Group is also dependent on the remainder of its workforce to respond effectively to customer requests, and industrial actions could negatively impact its ability to respond effectively, especially for larger, more complex rollouts that encompass a broad range of its products and services. Any such industrial actions, along with any inability to attract and retain key personnel could have a material adverse effect on its results of operations, business and financial condition.

**8. The manufacturing processes for all of the Elster Group's products, especially in its gas and water segments, require a wide variety of components, raw materials and energy, including gas and electricity. The prices of components, raw materials and energy fluctuate and could negatively impact profitability**

The Elster Group uses components such as brass castings, aluminium housings, sheet metal, plastics and printed circuit board assemblies and other electronics. Important raw materials include steel, resins, aluminium, brass and bronze. Prices of components, raw materials or energy may increase or become more volatile. The Elster Group recently experienced difficulties in passing on to its customers the full amount of increases in the prices of components, raw materials and energy, which has had an adverse effect on its profit margins, in particular in its water segment, and to a lesser extent, its gas segment. In many cases, especially for brass, steel and aluminium, the Elster Group seeks to manage its exposure to changing prices by executing procurement contracts for periods of up to one year with its suppliers of these materials or of components that include them. The Elster Group may pay higher prices with this approach than it otherwise would have, should market prices decline during the life of the contracts.

**9. Any inability to obtain adequate supplies of component parts, raw materials and energy at favourable prices could decrease the Elster Group's profit margins and negatively impact timely deliveries to its customers**

The loss of, or a substantial decrease in the availability of, products from some of the Elster Group's suppliers, or the loss of key supplier relationships for products including precision and engineered plastics and sealants and the need to find alternative sources on potentially disadvantageous terms, could lead to a reduction in its production and sales volumes and in its profit margins. Any of these events could have a material adverse effect on its business and financial condition.

**10. The Melrose Group, the Elster Group and the Enlarged Group will be subject to the risk of major operational problems**

The Elster Group's sales will be dependent on the continued operation of its various manufacturing facilities and those of third parties that supply it, its warehousing and logistics infrastructure and its information technology systems. In particular, because Elster's sites in Raleigh, U.S., Mainz, Germany and Osnabrück, Germany represent a material proportion of the Elster Group's turnover, an operational failure at any of these sites may adversely affect the Elster Group's business or financial condition. Operational risks include equipment failure, failure to comply with applicable regulations and standards, raw material supply disruptions, labour force shortages or work stoppages, events impeding or increasing the cost of transporting the Elster Group's products, fires and natural disasters. There is no guarantee that the Elster Group's insurance policies and disaster recovery plans will be sufficiently adequate to protect the Elster Group against loss if any of the aforementioned occurs and the occurrence of major operational problems resulting from these or other events may have an adverse effect on the results and financial condition of the Elster Group.

Operational risks will be present in the Elster Group's business. These risks include the risk of failed internal and external processes and systems (including information technology systems), human error and external events such as changes in credit terms offered by suppliers. Such events could have an impact on the results of operations of the Elster Group during the affected period. The Elster Group will actively assess these risks through ongoing processes embedded in its business which identify, evaluate and manage the risks faced by it.

**11. The Elster Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanction programs**

The Council of the European Union has adopted restrictions on trade with entities associated with certain jurisdictions, including Council Regulation (EU) No. 961/2010 of October 25, 2010 on restrictive measures against Iran, most recently updated on January 23, 2012, and Council Decision 2010/413/CFSP concerning restrictive measures against Iran, most recently amended by Council Decision 2012/35/CFSP of January 23, 2012. These sanctions regulations, which vary depending on the jurisdiction in question, apply to EU nationals worldwide, including all EU companies. While these sanctions regulations do not apply to subsidiaries of EU companies that are organised under the laws of countries outside the European Union, EU parent companies are nonetheless expected to encourage their subsidiaries to follow these regulations. The Elster Group has conducted, and continues to conduct, business with entities located in jurisdictions subject to EU sanctions regulations. If the Elster Group is found to have violated any of these restrictions, it could be subject to fines, which could have a material adverse effect on its business and reputation.

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, and the Office of Export Enforcement of the U.S. Department of Commerce, or OEE, administer certain laws and regulations, or U.S. Economic Sanctions Laws, that impose restrictions upon U.S. companies and persons, or U.S. persons, and, in some contexts, foreign entities and persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of U.S. Economic Sanctions Laws, or Sanctions Targets. U.S. persons are also generally prohibited from facilitating such activities or transactions. Most recently the President of the United States signed Executive Order 13590 (effective November 21, 2011). This order further expands the range of conduct that may be sanctioned by U.S. authorities and, among other things, targets exports that directly contribute to Iran's ability to develop domestic petroleum resources.

The Elster Group has engaged in business with counterparties, including government-owned or controlled counterparties, in certain countries that are Sanctions Targets, including Iran, Syria and Cuba, and it may continue to do so. However, in February 2012, the Elster Group decided to not accept any further orders from customers in Iran or with a final destination of Iran. The Elster Group will finalise deliveries under existing contracts with customers in Iran, with a total sales volume of \$8.1 million in strict compliance with applicable law and has scheduled these deliveries to be completed in the third quarter of 2012.

In the years ended 31 December 2011, 31 December 2010 and 31 December 2009, the Elster Group generated revenues from products sold to customers in Iran of \$13.0 million, \$6.8 million and

\$21.8 million, respectively, which represent approximately 0.7 per cent., 0.4 per cent. and 1.3 per cent. respectively, of its total revenues for those periods. In the years ended 31 December 2011, 31 December 2010 and 31 December 2009, the Elster Group generated revenues from products sold to customers in Sanctions Targets other than Iran of \$1.6 million, \$2.9 million and \$2.6 million, respectively. The Elster Group's business with Sanctions Targets consisted mostly of the sale of electricity meters for residential and C&I use until the second quarter of 2010, after which it has ceased selling electricity meters in Iran. The Elster Group also sells gas metering and utilization products and, to a lesser extent, water meters in Sanctions Targets.

In October 2007, the Elster Group implemented enhancements to its compliance and training programmes and procedures designed to ensure that, across all its operations globally, no sales to Sanctions Targets would occur of products containing more than a de minimis level of U.S. content (or any level of U.S. content in circumstances where no U.S. content is permissible) and that U.S. persons among its employees would have no involvement in business with Sanctions Targets. Despite these enhancements and the Elster Group's other efforts designed to ensure compliance with applicable sanctions laws and embargoes, it remains possible that its products could be sold or transferred to countries, governments, entities or persons targeted by EU or U.S. sanctions in a manner that violates such sanctions. For example, despite the Elster Group's procedures, one of its businesses may miscalculate the level of U.S.-origin content in a product or transfer a U.S.-origin product to a customer that it should have known was subject to U.S. or EU sanctions. Should such sales or transfers occur, the Elster Group would bear the costs of any necessary investigative and remedial measures that may be necessary, and could be subject to fines or criminal penalties in respect of such sales or transfers.

In addition to the sanctions administered by OFAC and OEE described above, the U.S. government may impose (and has in the past imposed from time to time) restrictions and sanctions against other countries, including ones in which the Elster Group does business. In addition, the U.S. government may impose new or expanded restrictions and sanctions against existing Sanctions Targets. Any such measures targeting countries in which the Elster Group undertakes business could have a material adverse effect on business and reputation.

Certain U.S. state and municipal governments, universities and institutional investors have proposed or adopted divestment initiatives regarding investments in companies doing business with Iran and other Sanctions Targets. If the Elster Group's business activities regarding Iran or other Sanctions Targets were deemed to fall within the scope of such initiatives, then such investors holding interests in the Elster Group may sell these interests. If significant, these sales could have adverse effects on the Elster Group's business.

## **12. The Elster Group's industry depends substantially on governmental regulation**

Historically, a key driver in its industry has been the replacement cycle of existing meters, especially the length of that cycle. Local or national regulations often determine when meters are to be replaced, and manual-read meter replacement cycles have been between five and 30 years, depending on the specific geographic market and the type and usage of the meter. Likewise, much of the impetus for the growth expected in Elster's industry arises from regulatory initiatives. Today, governments around the world are considering and, in some cases, have already begun to implement new laws and regulations to promote increased energy efficiency, slow or reverse growth in the consumption of scarce resources, reduce carbon dioxide emissions and protect the environment more generally. In particular, intensified regulatory pressure relating to energy and natural resource consumption is being driven by these and a range of additional imperatives in the United States and the European Union and in other countries, including Australia, Brazil, Canada, China and Russia. The European Union, for example, has provided a mandatory framework for the upgrade of all gas and electricity meters to smart meters by 2022. Many of the legislative and regulatory initiatives encourage utilities to develop Smart Grid infrastructure, and some of these initiatives provide for government subsidies, grants or other incentives to utilities and other participants in their industry to promote transition to Smart Grid technologies.

If government regulations regarding the introduction of Smart Grid technologies and the related shortening of the replacement cycles for meters are delayed, revised to permit lower or different



investments in metering infrastructure or terminated altogether, this could have a material adverse effect on its results of operations, business and financial condition.

In many regions, Smart Grid-related legislation or regulation is being considered, drafted or negotiated, or general legislation is in place, but awaiting implementing rules or guidance. Legislatures and governmental agencies may prolong the law- and rule-making process, subject new technology to extensive reviews or fail to implement Smart Grid-related legislation or regulation on a timely basis, if at all. For example, some of the current legislative and regulatory initiatives in the European Union have clauses that may lead to deferral or dilution to the extent the Smart Grid initiatives are deemed economically non-viable. Some of the Elster Group's utility customers have been awaiting greater clarity on the scope and implementation of these laws and regulations and the timing of, and conditions related to, the receipt of related government grants, subsidies and other incentives. This effect has caused the revenues of the Elster Group's electricity segment to decline as utilities in the United States have been deferring their upgrades of installed meter bases and infrastructure expansions. They have accordingly been deferring their commitments for the substantial upgrades of installed meter bases and infrastructure expansions that will be part of their response to Smart Grid related regulation. While awaiting the upgrades on Smart Grids, some customers have also been deferring investments in the existing meter base. These deferrals continued throughout 2011. If a significant number of utilities continue to delay their investments or opt not to participate altogether, this could lead to shortfalls in the Elster Group's sales and results of operations in the short to medium term.

The Elster Group is subject to a range of laws, regulations and ordinances in all of the jurisdictions in which it conducts business, and the Elster Group and its customers are regulated by various bodies at the supranational, national, state and local level. For example, in many U.S. states, public utility commissions regulate utilities in their states separately from other state regulators and federal agencies. The laws, regulations and ordinances to which the Elster Group is subject, and the actions and attitudes of regulators, can change from time to time. Compliance with current or future laws and regulations may increase the Elster Group's expenses if their complexity or inconsistency increases, while failure to comply could result in the imposition of significant fines, suspension of production, alteration of production processes, cessation of operations or other actions in the jurisdictions concerned, all of which could have a material adverse effect on its results of operations, business and financial condition.

The nature, scope or effect of future regulatory requirements to which the Elster Group's operations might be subject or the manner in which existing or future laws will be administered or interpreted cannot be predicted. In particular, governmental agencies and state public utility commissions may promulgate regulations that mandate or encourage the use of a particular type of technology that is not readily compatible with the technology employed in its products or may otherwise establish standards that are more favourable to its competitors. For example, in the United States, the National Institute of Standards and Technology is statutorily required to define uniform interoperability standards for the implementation of Smart Grid solutions, and the U.S. Federal Energy Regulatory Commission is required to engage in a rulemaking process to consider making these interoperability standards mandatory for interstate electricity transmission and wholesale power markets. This process may favour one company's technology over another's. If this were to happen, particularly in the larger markets in which the Elster Group sells its products, it could be forced to withdraw some of its products from the market, make substantial investments in a new technology or lose market share to competitors, all of which could have a material adverse effect on its results of operations, business and financial condition.

### **13. The Elster Group is subject to various governmental certification requirements and similar regulations**

Many of the Elster Group's new products and much of its equipment require certifications, calibrations or regulatory approvals before they may be sold or used. In some areas, each item produced by the Elster Group must be separately calibrated or certified by a governmental agency prior to deployment. There is no certainty that any of the Elster Group's new products and equipment requiring approval will be approved in a timely manner, if at all. If certification, calibration or approval requirements become more

stringent or cumbersome in the future, or differ materially on a regional or national level, the Elster Group's ability to market its products may be impaired.

In some cases, existing calibration requirements currently work to the Elster Group's benefit by driving service opportunities and meter replacement. The Elster Group's water meter products in particular are subject to ongoing calibration requirements in a number of European countries and its gas meters are generally subject to exacting safety tests. In Germany, for example, federal regulations require cold water meters to be recalibrated and repaired every six years, while hot water meters must be recalibrated and repaired every five years. German and certain U.S. state regulations also require that gas meters be tested periodically and serviced when needed. Because of the relative expense involved in repairing water and gas meters, many customers install new meters at the time national regulations call for recalibration and repair. If these national regulations were changed to extend the time for recalibration and repair, the Elster Group's sales of water and gas meters could decrease, which could have a material adverse effect on its results of operations, business and financial condition.

**14. The Elster Group's communications technologies use particular radio frequencies and thus are subject to the regulation of various governmental bodies**

The Elster Group's communications technologies use particular radio frequencies and thus are subject to the regulation of various governmental bodies, such as the U.S. Federal Communications Commission and corresponding regulatory institutions of various U.S. states and European countries. With respect to the United States in particular, currently very few of the Elster Group's products operate using licensed radio frequencies, but additional AMI and AMR products may operate in the United States using licensed radio frequencies in the future. To the extent that the Elster Group's products and solutions use licensed frequencies, there is a risk that there may be insufficient available licensed frequencies in some markets, that neither the Elster Group nor its customers will be able to obtain licenses where required, even if sufficient frequencies are available, and that licenses that are granted to the Elster Group or its customers may not be renewed on acceptable terms, if at all. Also, while unlicensed frequencies may currently be available for a wide variety of uses, including the Elster Group's RF mesh communications technology, the Elster Group and its customers may not be entitled to protection from interference by others who operate on frequencies close to or the same as those on which its products operate. If currently unlicensed frequencies become unacceptably crowded, or subject to restrictive rules governing their use, the Elster Group's business could suffer a material adverse effect.

**15. In Europe the Elster Group is subject to data protection regulation that imposes a general regulatory framework for the collection, processing and use of personal data**

Many of the Elster Group's Smart Grid and other technologies rely on the transfer of data relating to individuals and are accordingly affected by these regulations. Although the European Data Protection Directive (95/46/EC) has been implemented across the European Union, data protection laws across member states vary to a large degree, and authorities do not always apply existing laws in a consistent manner. If Elster fails to comply with such regulations it may incur costs which could have a material adverse effect on its business. While privacy issues in connection with AMR, AMI and Smart Grid solutions have been discussed within the European Union, it is unclear how regulation in connection with privacy requirements will further develop and how and to what extent it may affect technology in its industry relating to Smart Grid solutions. It may also lead to delay in other regulatory initiatives supporting the implementation of Smart Grid solutions. Elster may incur additional expenditure in order to comply with such future regulations.

Some of the Elster Group's business structures, processes or actions may infringe applicable data protection standards and as a consequence it may have to take costly and burdensome measures to change these business structures, processes or actions, and may face administrative fines or other sanctions for such infringement. The Elster Group's business and/or its reputation could suffer a material adverse effect as a result.

**16. The loss of customers could have an adverse effect on the operations, business and financial condition of the Elster Group**

A significant number of the Elster Group's customers purchase products under master agreements with terms ranging from one year in many cases to two to five years for larger projects. As the market moves towards large contracts in connection with Smart Grid solutions, the proportion of such contracts in the Elster Group's business is likely to increase further. Individual orders of products under these master agreements are subject to cancellation or rescheduling due to many factors that may lead the Elster Group's customers to redeploy resources. They may also cease placing orders or cancel these agreements in their entirety, in which case the Elster Group's remedies may be limited. In addition to potential changes in their views regarding the Elster Group's products, they may also take such steps in response to changes in economic conditions generally or in the public procurement or regulatory environments. Cancellation or postponement of a number of these significant contracts, or parts thereof, could have a material adverse effect on the Elster Group's results of operations, business and financial condition.

**17. The Elster Group is subject to pricing pressures from customers**

In an attempt to increase efficiency, some of its customers have informed the Elster Group that they are seeking to reduce the number of vendors from whom they purchase products and services, particularly as vendors, including the Elster Group, increase the breadth of the products and solutions they offer. If the Elster Group is not selected as a preferred provider in a significant number of cases, it may lose access to certain sections of the markets in which it competes or wishes to compete. Failure to maintain access to important sections of the market could have a material adverse effect on results of operations, business and financial condition. Even if the Elster Group is selected as a preferred provider, the possibility exists that increased competition will have an impact on the agreements customers are willing to enter into. As a result, the terms and conditions of agreements regarding testing, contractual penalties, bonding, warranties, performance and indemnities may be substantially more restrictive, or carry a greater risk of liability, than the terms and conditions associated with the Elster Group's standard products and services.

**18. The Elster Group is reliant on the effectiveness and acceptance of its technologies**

The Elster Group is exposed to the risk that new technologies, features and functionalities that it and other industry participants develop and market in connection with its manual-read meters, Smart Grid solutions and other products may not be accepted by the industry, regulators or end-users or may not meet applicable standards. This may occur as a result of technological developments or competing features or functionalities proving superior to the Elster Group's existing products, changes occurring in the regulatory landscape, including with respect to interoperability standards, perceptions that the new technologies are error-prone or present cyber-security risks or otherwise. There is a risk that competing technologies, features or functionalities will be favoured by the industry, regulators or end-users if there is not sufficient awareness of, or interest in, its innovations. For example, the advantages that Smart Grid-enabled products can provide may fail to be effective if utility customers choose not to implement corresponding technology throughout their distribution and transmission networks, or if regulators mandate or encourage the deployment of another technology. Generally, if utilities in the United States or some European countries plan to invest additional amounts for capital improvements, including meters and AMI/AMR upgrades, the utility must present the proposed capital improvement to the relevant utility regulatory commission for approval. Many of the Elster Group's utility customers are required to obtain regulatory approval to pass through the costs of products and services to their customers because of the effect it may have on utility rates for consumers. Utility regulatory commissions have decided in the past, and may decide in the future, not to permit the pass-through of such costs onto consumers and this in turn could affect the products and services that its utility customers ultimately purchase. Any delay or failure to receive this approval, due to regulatory preference for another technology or otherwise, could reduce demand for the products the Elster Group sells to its utility customers, which could adversely affect the Elster Group's business. Market and regulatory acceptance of Smart Grid technologies varies by country and industry based on factors, such as the regulatory and business environment, environmental concerns, labour costs and other economic conditions.

The Elster Group also is exposed to the risk that consumers or other end-users will not welcome these new technologies, or view technologically advanced systems as responsible for higher utility bills, uncertainty in their relationships with their utilities, incursions on privacy or other real or perceived shortcomings. Some utilities and regulators are expressing concerns about the potential for near-term costs to customers of the installation of these new technologies. If the Elster Group's products or those of a competitor fall subject to perceptions of this nature, the resulting negative publicity for the Elster Group or for the industry generally could adversely affect the Elster Group's business.

**19. Some public concern exists over the potential health risks associated with the use of radio frequency, or RF, communications in smart meters used in neighbourhoods**

The Federal Communications Commission, or FCC, establishes guidelines for RF emissions for equipment used in a residence or residential setting and its devices meet the guidelines. However, these guidelines may prove to be inadequate and may change, or even if the guidelines are appropriate, public concern could impact the acceptance of its products. In such a case, the Elster Group's projects may be delayed, interrupted or terminated as a result which may have a material adverse effect on its results of operations, business or financial condition.

**20. The Elster Group's industry is exposed to the risk of, and to public concern about, an increased threat of "cyber attacks" on the power grid as Smart Grid infrastructure becomes more prevalent**

Smart Grid privacy and security risks have attracted attention recently, as media reports have highlighted the dangers of potential instability, blackouts and economic disruption that could result from a Smart Grid cyber attack by hackers. Any cyber attack or other security breach on any component the Elster Group or a competitor have provided, or on other similar technologies, could lead to a reduction in public acceptance of Smart Grid technologies and have a material adverse effect on the Elster Group's results of operations, business and financial condition.

**21. The Elster Group faces competitive pressures from a variety of companies in each of the markets it serves**

Some of the Elster Group's current or future competitors have or may have substantially greater financial, marketing, technical or manufacturing resources, and, in some cases, greater name recognition, market penetration and experience than the Elster Group does. This may also be the case with respect to Smart Grid solutions. These competitors may also be able to devote greater resources to the development, promotion and sale of their products and services.

**22. The competitive environment in which the Elster Group operates has been strongly impacted by the movement towards Smart Grid solutions**

While the Elster Group is increasingly focusing its business plan on the development of Smart Grid product offerings and solutions in an attempt to maintain and expand its activities and market share in this area, current or future competitors may be able to respond more quickly to new or emerging technologies and changes in customer or regulatory requirements. They may also be able to drive technological innovation and develop products that are equal in quality and performance or superior to the Elster Group's products, which could reduce the Elster Group's overall sales, require the Elster Group to invest additional funds in new technology development and put pressure on the Elster Group's market position. The Elster Group's competitors also have made or may make strategic acquisitions or establish alliances or cooperative relationships among themselves or with third parties that enhance their ability to address the needs of customers, potentially giving them a significant increase in market share at the Elster Group's expense. New entrants could include competitors from industries the Elster Group previously viewed as distinct from its, such as the networking, telecommunications and systems integration industries. Should the Elster Group fail to compete successfully with current or future competitors, the Elster Group could experience a material adverse effect on the results of its operations, business and financial condition.

**23. In the Elster Group's industry, competition based on price can be intense, particularly during periods of economic decline or stagnation**

The Elster Group faces varying levels of price erosion in the markets that it serves due to a variety of factors, including existing competitors lowering their prices, competition from manufacturers in low-cost countries and new entrants using off-the-shelf products or other low-priced strategies to gain market share. In addition, the Elster Group may have a competitive cost disadvantage with its competitors who are not subject to the same legal and compliance framework as the parent company of the Elster Group will be a public company. During 2011, the Elster Group saw intense price competition, in the water segment in the Americas and some European markets, leading to price erosion for many of its products. In addition, there is a risk that low-cost providers will enter, or form alliances or cooperative relationships with the Elster Group's competitors, thereby contributing to further price erosion in the market for manual-read meter and Smart Grid solutions. The Elster Group may be unable to reorganise its operations to make them more efficient or reduce the costs of its supplies sufficiently to maintain margins on its sales in the face of intense competition. Some of the Elster Group's products and services may become commoditised and the Elster Group may have to adjust the prices of some of its products to stay competitive.

**24. The Elster Group's future operating results will depend on its ability to develop and manufacture products in a cost-effective manner**

The Elster Group outsources the manufacturing of some of its products and their sub-assemblies and components such as brass castings, aluminium housings, sheet metal, plastics and printed circuit board assemblies and other electronics, especially for solid state meters used by gas, electricity and water utilities to maintain focus on its core competencies and streamline its operations, as well as to minimise its manufacturing costs. Solid state meters measure gas, electricity or water using electronic devices instead of mechanical components.

The outsourcing of manufacturing capabilities reduces the day-to-day control that the Elster Group is able to exercise over the production process and could result in quality problems and increased product warranty costs. In addition, as it outsources additional production capacity, the Elster Group will retain limited internal production capacity and will rely more on third-party manufacturers to fill orders on a timely basis. While the Elster Group's strategy calls for having more than one supplier for each important product and component, it relies on a single source for some key product lines, products and components that it purchases from third-party manufacturers, such as for diaphragms for its North American residential gas meters manufactured at one of its facilities. In some cases, the Elster Group's purchases account for a material portion of some of its suppliers' respective businesses.

**25. The third-party manufacturers with whom the Elster Group works often require it to provide accurate forecasts, sometimes months in advance**

If the Elster Group overestimates its requirements, it may be obligated to purchase quantities of products that exceed customer demand. If the Elster Group underestimates its requirements, particularly in connection with large rollouts, it may have inadequate inventory from which to meet customer demand. From time to time, some of its suppliers may have difficulties keeping pace with the Elster Group's requirements if it increases its orders with little advance notice in response to demand for its products. While the Elster Group is seeking to give its suppliers more advance notice of its peak requirements and holding more of the affected components in inventory where possible, it may fail to do so, or may, for reasons outside its control, not have access to sufficient supplies, which may cause even longer lead times. In any case where the Elster Group must forecast its supply needs, its inability to forecast demand accurately may have a material adverse effect on its results of operations, business and financial condition.

Lead times for the components purchased from third-party manufacturers depend on a variety of factors, including the demand for each component and supplier capacity. If the Elster Group's third-party manufacturers or any of their sub-suppliers fail to deliver quality products and services in a timely manner, or if the Elster Group's ability to source from alternative suppliers cannot be maintained or if a supplier that is dependent on the Elster Group is unable to cope with variations in the Elster Group's ordering

patterns, the ensuing disruptions in its chain of supply could negatively affect its product portfolio, reputation, sales and ability to meet large orders, especially in the context of large rollouts.

In the past, the Elster Group has experienced significantly extended lead times at its suppliers that provide components used in some of its products, in particular for electronic components.

**26. The natural disasters and nuclear power plant emergencies in Japan in 2011, as well as the flooding in Thailand in autumn 2011, may result in additional interruptions or long-term delays in the worldwide supply of components that manufacturers, potentially including the Elster Group's suppliers and their sub-suppliers, use in electronic components for use in many industries, including the Elster Group's.**

As a result of the Thailand flooding, the Elster Group has been forced to find alternative sources for certain of its components, particularly for its North American production of water and electricity meters. The process of finding alternative sources has now been completed but the transition may result in interruptions in the production of some of its products if it is not able to successfully finalise testing of the alternative components in time and/or is not able to find suitable alternative sources of supply. While the Elster Group is not able to predict the effects, if any, on it of a longer term disruption in Japanese industry, these delays could continue well into the future and have a material adverse effect on the ability of its company and others to manufacture and ship their electronic products.

Shortages or interruptions in the supply of components or communications modules could delay shipments of the Elster Group's products or increase its production costs. This in turn could have a material adverse effect on its results of operations, business and financial condition. Any contractual penalties the Elster Group negotiates for the event that a supplier does not meet its obligations with respect to timeliness and quality may fail to mitigate the harm to the Elster Group's business caused by any such contractual breaches.

**27. The utility industry worldwide is often subject to long budgeting, purchasing and regulatory review processes that can take several years to complete and can result in unpredictable capital investment cycles**

The Elster Group derives most of its revenues from customers in the utility industry, either directly or through distributors and the utility industry worldwide is often subject to long budgeting, purchasing and regulatory review processes that can take several years to complete and can result in unpredictable capital investment cycles. Generally, larger contracts with utilities are granted through competitive tender processes that involve large volumes, require lengthy and complex competitive procurement processes and lead to long and unpredictable sales cycles. Utilities are under increasing economic, political and regulatory pressure to seek bids for their higher-volume purchases in as competitive a process as possible, which can further delay the time necessary to complete the tender process. In addition, in the face of increasing economic pressure, the Elster Group's customers in the utility industry may establish alliances or enter into mergers which may enhance their purchasing power and their ability to command lower prices. In some markets, utilities' ability to recover the costs of purchasing the Elster Group's products and services is also subject to lengthy and uncertain regulatory proceedings. In addition, utilities' purchasing decisions are sometimes delayed if they are considering or negotiating major transactions or changes in their businesses or operations that are unrelated to the Elster Group's products. The Elster Group's revenue development may be materially and adversely affected if these sales cycles lead to delays that it did not anticipate, for which it was unable to plan adequately or that are otherwise disadvantageous to it. This could have a material adverse effect on its results of operations, business and financial condition.

**28. The Elster Group relies on its own IT systems and on IT systems provided by third parties**

The Elster Group relies on its own information technology, or IT, systems to manage its business data, communications, computing needs, production and supply chain effectively and efficiently. The Elster Group's IT systems are used to conduct order entry, order fulfilment, inventory replenishment, e-commerce and other business processes. The Elster Group also relies on the IT systems provided by third parties, including, in particular, for much of its Wide Area Network and other IT infrastructure.

The Elster Group currently outsources, and in the future plans to continue to outsource, certain aspects of its technical and communication infrastructure to third parties. Should these systems not operate as intended or any third parties to whom the Elster Group outsources some of its IT services fail to deliver as expected, its ability to transact business across its international company would be significantly impaired. In addition, the Elster Group's IT systems and those it outsources are vulnerable to damage or interruption from circumstances beyond the Elster Group's control, including fire, natural disasters, power loss, hacker attacks, computer systems failure and viruses. The failure of the Elster Group's IT systems to perform as anticipated, could disrupt the Elster Group's business and could result in decreased sales, increased overhead costs, excess inventory and product shortages, causing the Elster Group's business and results of operations to suffer. In addition, unforeseen vulnerabilities in the Elster Group's security systems and policies could result in potential data misuse, resulting in damage to its reputation and an adverse effect on its business.

#### **29. The Elster Group is subject to risks from legal proceedings and arbitrations**

In the ordinary course of the Elster Group's business, it is subject to risks relating to legal proceedings. The outcomes of legal proceedings, including regulatory actions, intellectual property disputes and employee lawsuits, are inherently unpredictable. If claims are asserted against the Elster Group in the future or if it becomes subject to regulatory action or employee litigation, and if the Elster Group's opponents in these proceedings obtain judgments or awards against it or if it determines to settle any of these proceedings, the Elster Group could be required to pay substantial damages, fines and related costs. These payments may have a material adverse effect on its results of operations, business and financial condition.

The nature of the Elster Group's industry, which includes large contracts entered into with public or publicly-regulated utilities in many jurisdictions, presents greater risks of non-compliance with some forms of regulation than is the case in many other industries. These risks are accentuated by the global nature of the Elster Group's operations. The Elster Group is, in particular, exposed to the risk that its employees or agents could engage in anti-competitive behaviour or seek to influence the awarding of contracts in other impermissible ways. The Elster Group maintains a compliance infrastructure including "whistleblower" hotlines, employee education and training programmes, and due diligence on agents. Under this compliance infrastructure, the Elster Group investigates cases of potentially non-compliant behaviour and, if necessary, take specific steps to prevent such non-compliant conduct in the future. However, the Elster Group's compliance infrastructure may be insufficient to deter all misconduct. Moreover, if it becomes aware of allegations of non-compliant conduct, the Elster Group may have difficulty investigating such conduct and gathering evidence. If such cases were to arise, and misconduct were determined to have occurred, the Elster Group could be subject to fines, blacklisting and to litigation, which could have a material adverse effect on the Enlarged Group's results of operations, business and financial condition.

#### **30. The Elster Group's operations are subject to environmental, health and safety laws and regulations and non-compliance with or liability under such laws and regulations could result in substantial costs, fines, sanctions and claims**

The Elster Group operates global manufacturing, product handling and distribution facilities that are subject to a broad array of environmental laws and regulations relating to pollution, the health and safety of employees, protection of the public, protection of the environment and the storage and handling of hazardous substances and waste materials. These laws and regulations are becoming increasingly stringent. It is the policy of the Elster Group to comply with all relevant laws and regulations. The Elster Group actively manages this risk through regular compliance and performance improvement assessments and key performance indicators and the engagement of competent health, safety and environmental coordinators at each of their sites. However, violations of applicable laws and regulations, in particular provisions of environmental and health and safety laws, could result in restrictions on the operations of the facilities of the Elster Group, damages, fines or other sanctions and/or increased costs of compliance, as well as damage to reputation. Due to the proportion of the Enlarged Group represented by the Elster Group, such effects may have a material adverse effect on the business, operations, financial condition and reputation of the Enlarged Group.

As with other companies engaged in similar activities, the Elster Group faces inherent risks of environmental liability in its manufacturing activities. For example, its former Ipsen Group furnace business has been subject to a number of claims relating to alleged asbestos exposure. Pursuant to the agreement under which it sold the Ipsen Group furnace business, the Elster Group is required to indemnify the purchaser against present or future asbestos claims notified to it by 15 August 2015, up to a maximum out-of-pocket amount for it of EUR 15 million. The agreement under which the Elster Group sold the Ipsen Group furnace business further provides that the amount of the indemnity be reduced by payments made to the purchaser under the Ipsen Group's current or pre-existing insurance policies. Claims exceeding EUR 15 million are only the subject of the indemnity if they are covered by an indemnity from the Elster Group's former owner, E.ON Ruhrgas AG. In addition, according to its due diligence conducted at the time of the disposition, Ipsen's current and pre-existing insurance coverage is in excess of the EUR 15 million amount. At the time of the disposition, 14 cases were open, and 155 new claims have been subsequently notified up to the Latest Practicable Date. Of the total claims notified, 78 have been dismissed. Additionally, there are currently three asbestos cases (filed in 1999, 2002 and 2003 by individual plaintiffs) in which Elster American Meter Company has been named as an additional defendant. All three cases have been included in the New York County Asbestos Litigation, or NYCAL, programme and are currently classified as inactive. While on the inactive docket, all discovery in these matters has been stayed until further notice.

Furthermore, the Elster Group's operations and properties are subject to U.S., European and other foreign, state and local environmental laws and regulations governing, among other things, the generation, storage, emission, discharge, transportation, treatment and disposal of hazardous materials and the clean-up of contaminated properties. Many of these environmental laws and regulations impose a form of strict joint and several liability on the current and former owners and operators of land for the presence of any hazardous waste materials on the land and require generators of waste to take remedial actions at off-site disposal locations when necessary. As such, certain parties may be found liable for such cleanup costs regardless of fault and may be required to pay for more than their fair share. For example, the U.S. Environmental Protection Agency ("EPA"), issued to one of Elster's subsidiaries in the US, Hauck Manufacturing Company, ("Hauck"), among many other parties, a notice of potential liability under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, ("CERCLA"), in respect of hazardous substance contamination at the Gowanus Canal Superfund Site in Brooklyn, New York. A Superfund site under CERCLA is a contaminated site targeted for high priority environmental cleanup by EPA. EPA alleges that one or two former Hauck manufacturing sites near the Gowanus Canal may have discharged hazardous substances into the local sewer system that may have led into the canal. Although the EPA has yet to issue a final remedy and such remedy is not anticipated to be issued until the end of 2012, the total cost to remediate the Gowanus Canal is anticipated to be material. In addition to investigation and remediation costs, certain parties may be found liable for costs associated with assessing and restoring any natural resources damaged in connection with the release of hazardous materials, though due to the early stage of this investigation, the quantum of the cost of such remedy, assessment and restoration (if applicable) is unquantifiable. In the ordinary course of its business, the Elster Group has used and may continue to use metals such as mercury and cadmium, solvents and other materials on-site that create waste, which may expose it to liability under these regulations. Any failure to comply could result in the imposition of significant fines, suspension of production, alteration of product processes, cessation of operations or other actions detrimental to the Elster Group's business.

The Elster Group's European operations may become regulated under the European Union Emissions Trading System, or ETS, which aims to reduce greenhouse gas emissions through the issuance to industrial installations of "allowances" to emit. The allowances may be traded among installations or in the open market, thereby creating an incentive for installations to reduce their emissions below their allowances inventory and sell the excess allowances. The ETS is anticipated to become progressively more stringent over time, including by reducing the number of allowances that will be allocated by regulatory authorities to industrial installations free of cost. A number of additional international and national measures to limit industrial greenhouse gas emissions, including the Kyoto Protocol and legislation in Australia and California, are in various phases of discussion or implementation, and legislation in other countries or regions is expected to follow. These measures may result in additional requirements for us to reduce the



Elster Group's direct and indirect greenhouse gas emissions and/or additional costs for it to upgrade facilities or invest in emissions allowances.

These laws and regulations have complicated requirements, which are often changed or modified and could become stricter in the future. As such, the Elster Group may incur increased costs associated with future environmental or climate change compliance, with remediation obligations or with litigation if claims are made with respect to damages resulting from its operations (including those arising under the indemnity agreement relating to our former Ipsen Group furnace business). These and any future costs associated with environmental or climate change issues currently unknown to the Elster Group could have a material adverse effect on its results of operations, business and financial condition.

### **31. The Elster Group is subject to a number of tax regimes**

The Elster Group operates in more than 30 countries and therefore is subject to different tax regulations. Changes in tax law could result in higher tax expense and payments. Furthermore, legislative changes could materially impact tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities. In addition, the uncertain tax environment in some regions could limit the Elster Group's ability to enforce its rights. As a globally operating organization, the Elster Group conducts business in countries subject to complex tax rules, which may be interpreted in different ways. Future interpretations or developments of tax regimes may affect its tax liability, return on investments and business operations. The Elster Group is regularly examined by tax authorities in various jurisdictions. In addition, the tax treatment of certain of its transactions is complex and in some cases may be subject to uncertainties and differing interpretations. If the relevant tax authorities disagree with the positions the Elster Group takes on these tax matters, it could be required to pay additional taxes in connection with these transactions.

Some of the Elster Group's subsidiaries obtained inter-company financing and record interest expense on such financing. While interest expense is generally deductible for tax purposes, the tax laws of Germany and several other countries in which the Elster Group has operations disallow the deduction of interest expenses for tax purposes either in full or in part.

Of particular relevance for the Elster Group, in Germany, for fiscal years up to and including 2007, interest expenses on loans granted, secured or guaranteed by affiliated companies may not be deductible for tax purposes due to the application of the German thin capitalization rules. Furthermore, in 2008 Germany adopted a limitation on the deductibility of interest expenses in excess of interest income, referred to as the "interest barrier rules". Subject to qualifications and exceptions contained in the interest barrier rules, German law limits the deductibility of interest expenses in excess of interest income to an amount equal to 30 per cent. of the taxpayer's earnings before interest, taxes, depreciation and amortization (EBITDA), as this earnings measure is defined in the tax law, in the respective financial year. Non-deductible interest expenses under the interest barrier rules may, subject to conditions, be carried forward to future tax years (at which time their deductibility continues to be limited by the interest barrier rules). Subsequent to the merger of its German subsidiary Elster Holdings GmbH, interest carry forwards of approximately \$27.7 million were forfeited. This did not impact its net income, as a valuation allowance was recorded against these carry forwards in the year 2009. Since 2010 the interest barrier rules apply at the level of Elster Group SE as it is the parent company of the Elster Group's fiscal unity in Germany. The interest carryforward of Elster Group SE amounted to approximately \$16.4 million as of 31 December 2011. This amount, as well as some interest expense the Elster Group may incur in the future, may not be deductible to the extent that the interest barrier rules in Germany, or similar tax rules elsewhere, apply. In Germany, this risk would be higher in periods in which the Elster Group's earnings, on the EBITDA basis described above, are low or negative. Furthermore, any interest carry forward, and certain other losses, may be forfeited on the change of control arising from the Acquisition.

To the extent the Elster Group's interest expenses are not deductible, it may incur a reduction of its existing loss carryforwards and may pay higher taxes. This could have a material adverse effect on its results of operations, business and financial condition.

**32. The Elster Group could be negatively impacted if it fails to adequately protect its intellectual property rights or if third parties claim it is in violation of their intellectual property rights**

The success of the Elster Group depends, in part, on its ability to protect current and future branded products and processes through securing, enforcing and defending its intellectual property rights. The Elster Group relies on a combination of trademarks, copyright, patents, designs, know-how, trade secrets and contractual restrictions to establish and protect proprietary rights in its products, processes and technical data. There can be no assurance that these proprietary rights, rights in know-how and contractual provisions will be adequate to prevent the misappropriation, infringement or other unauthorised use of the intellectual property rights of the Elster Group by third parties which could harm the Elster Group. There can be no guarantees that patents will be granted with respect to patent applications for new products or processes. The Elster Group may be required to defend claims of patent infringement, infringement of third party proprietary rights or breach of confidence or to take action to protect its own proprietary rights. An adverse or uncertain outcome of any dispute with respect to material patents or other material proprietary rights may adversely affect the competitive position of the Elster Group or interrupt or adversely affect the ability of the Elster Group to carry on its business.

The Elster Group's intellectual property rights include patents, utility models, copyrights, trade secrets, trademarks, and designs related to a range of technologies it uses in its business. The Elster Group's intellectual property is a valuable asset that helps to protect its investment in technology and software, and to supports its licensing efforts with third parties. The Elster Group depends in part on its ability to obtain and maintain ownership of and rights of use in the intellectual property related to its product and solution portfolio.

However, some of the countries in which the Elster Group operates, such as China, offer less effective intellectual property protection than is available in Europe or the United States. In jurisdictions where effective intellectual property protection is unavailable or limited, the Elster Group's intellectual property may be vulnerable to disclosure or misappropriation by employees, strategic partners, suppliers, customers and other persons. Patents may not be granted on the Elster Group's currently pending or future applications or may not be of sufficient scope or strength to provide it with meaningful protection or commercial advantage. Policing unauthorised use of its intellectual property is difficult and expensive, and the Elster Group may not be able, or may lack the resources, to prevent infringement of the Elster Group's intellectual property, particularly in countries where the laws may not protect such rights as fully as do the laws of the United States.

Competitors or others may infringe the Elster Group's intellectual property rights or successfully avoid them through alternative innovation. Moreover, patents covering technology substantially identical to that covered by intellectual property rights the Elster Group owns have in the past been, and may in the future be, granted in various jurisdictions around the world, and the Elster Group may not become immediately aware of them, which in turn, could inhibit its ability to challenge them.

To combat infringement or unauthorised use, as well as to protect existing patents from the effects of intervening ones, the Elster Group may need to litigate, which can be expensive and time-consuming. The mere existence of patent disputes can cause us reputational harm among customers and market observers and participants, in particular due to a perception that the Elster Group's ownership of its intellectual property may not be sufficiently secure. In addition, a court may decide in an infringement proceeding that an intellectual property right of the Elster Group's is not valid or is unenforceable, or may refuse to enjoin the other party from using the technology or other intellectual property right at issue on the grounds that it is non-infringing or the legal requirements for an injunction have not been met. From time to time the Elster Group is also subject to assertions that it infringes on the intellectual property rights of others.

The loss or unavailability, or threat of loss, of its intellectual property or the economic exploitation of it could have a material adverse effect on results of operations, business and financial condition. The cost of defending against or settling intellectual property claims can be material and the existence or threat of such claims can damage the Elster Group's reputation and business.

**33. The Elster Group businesses' success and sales are dependent on the strength of their brands and reputation and are subject to customers' perceptions of those businesses and their products**

If an Elster Group business is unable to respond to changing consumer demand, that business's name and image may be impaired and customer demand for a particular category of product offering may decrease in the future. In addition, the public image of an Elster Group business's existing and future product offering may become tarnished and create negative publicity for that business group and damage that business' brands.

The Elster Group's customers increasingly demand access to a broad range of products and technologies and evaluate their suppliers on the basis of a number of factors, including product quality, reliability and timeliness of delivery, accuracy, new product innovation, price competitiveness, technical expertise and development capability, product design capability, manufacturing expertise, operational flexibility, customer service and overall management and so Elster must continue to develop its expertise to design, manufacture and market its products successfully. The Elster Group's success therefore depends, to a significant extent, on its development of new products and technologies and its ability to continue to meet its customers' changing requirements.

**34. The Elster Group may be unable to develop or commercialise technological advances and introduce new products in a manner and to an extent sufficient for it to remain competitive within its industry**

As a result, in addition to enhancing its current product and solutions portfolio, the Elster Group continually strives to offer new products and design new technologies and software solutions. This requires continued investment in product and technology development to help it maintain or increase its current market position and to allow it to respond to changing customer needs. However, the Elster Group may be unable to develop or commercialise technological advances and introduce new products in a manner and to an extent sufficient for it to remain competitive within its industry. For example, the Elster Group may, among other things, lack capacity to invest the required level of human and financial resources necessary to develop these products, commit errors or misjudgments in its planning in these areas or experience difficulties in implementing rollouts. In addition, the Elster Group may not be able to meet its product development and delivery schedules as a consequence of unforeseen problems during the design or development phases of new product and technology introductions. Some of the Elster Group's new products also require certification or regulatory approval and may not be approved in a timely manner or at all. Delays of this type, or failures to obtain regulatory approval, could negatively affect the Elster Group's reputation and relationship with its customers and lead to delayed or reduced revenues for its products.

If the Elster Group fails to enhance existing products, develop new products or keep pace with developing technology, growth opportunities could be lost or it may lose existing customers. This is especially the case for its Smart Offerings, which have experienced a rapid pace of development. In addition, the Elster Group has made commitments within some existing contracts with customers, to develop and deliver new products. If the Elster Group is unable to meet these commitments, it could be subject to contractual penalties or lose the orders altogether. Delays in product development may also lead to a need for greater investments in research, design and development. If the Elster Group encounters increased costs associated with new product development and product enhancements for which it is unable to realise sufficient revenues, the costs of the related new product development may not be recoverable. Either increased costs of or decreased revenues from newly developed products, or both, could have a material adverse effect on the Enlarged Group's results of operations, business and financial condition.

**35. Potential liability for defective products may result in a loss of current customers to competitors and damage to its ability to attract new customers**

Product quality and performance are a priority for the Elster Group since its products are used in various industries where precise control and measurement of gas, electricity and water are essential. The Elster Group also focused on technological platforms and systems to facilitate the proper functioning of many of its Smart Offerings as well as more advanced manual-read meters and services it sells. The Elster Group's products and solutions will not meet performance standards if it fails to produce high-quality products that

perform as their specifications demand or if the technology on which the Elster Group depends for accurate metering, data storage and secure data transmission is defective. Any delivery of substandard products, or any failure of the Elster Group's meters to record accurate data or transmit recorded data in an accurate and secure manner, even if this failure results from a failure to use its meters according to their specifications, may seriously harm the Elster Group's reputation and lead to claims, resulting both in a loss of current customers to competitors and damage to its ability to attract new customers.

As is customary in the Elster Group's industry, the Elster Group's sales agreements typically contain product warranties that generally allow post-shipment obligations and returns over a period of one year or longer, depending on the particular product and market, and may provide for liquidated damages. Some warranties provide that if certain failure rates are exceeded among a production lot of meters, all the meters in the production lot may be returned. In some cases, the length of the Elster Group's warranties and guarantees may even exceed ten years. The Elster Group has recently encountered that customers are requesting longer warranty periods, and it often needs to grant longer warranty periods in order to win business. The Elster Group may be exposed to substantial warranty claims as a result of its warranty undertakings. The Elster Group may be unable to obtain proper back-to-back coverage from its sub-suppliers. The Elster Group has experienced warranty claims in the recent past relating to some of its meters and other products. The Elster Group's accruals for warranty provisions totalled \$29.7 million as of 31 December 2011. Widespread product failures, or perceptions of such failures, may damage its market reputation, reduce its market share and cause its sales to decline. Its reputation and that of its industry may also suffer if a large or high-profile rollout, whether involving its products and solutions or those of a competitor, is impacted by serious technical or other failures.

If any of the Elster Group's products proves to be defective, it may be required to effect or participate in a recall involving those products. The Elster Group may also be the subject of lawsuits seeking damages for products alleged to be defective, including in particular product liability claims in the event that the use of its products is alleged to have resulted in injury, a risk of injury or other adverse effects. Litigation, including litigation resulting from product liability claims, can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome of the litigation with respect to those claims. While the Elster Group currently maintains product liability insurance coverage, such insurance may not provide adequate coverage against potential claims. A successful claim brought against the Elster Group with respect to a defective product or batches of products in excess of available insurance coverage, if the Elster Group's coverage is applicable, or a requirement to participate in a major product recall, could have a material adverse effect on its reputation, results of operations, business and financial condition.

### **36. The Elster Group's future financial performance and success largely depend on its ability to implement its business strategies successfully**

In early 2012, the Elster Board authorised a reinvestment programme, which is intended to position it to take advantage of growth opportunities associated with global gasification trends and Smart Grid deployments in Europe, as well as further optimise operational efficiencies. The Elster Group has initiated measures that began in the first quarter of 2012 to pursue this strategy, which are expected to include adapting its manufacturing footprint to create scalable regional core production centres and driving further efficiency across its segments. Key elements include consolidating operations and sites mainly in the United States and in Europe, relocating product-lines and increasing its mix of production in low-cost countries, which are intended to result in an optimization of its cost structure. Planned actions include the closure of four major facilities and the reduction of the number of its small- and mid-sized facilities.

The expenses and capital expenditures of implementing the Elster Group's reinvestment programme may be greater than it anticipates and the implementation of its reinvestment programme may be delayed as a result of, among other things, consultations with works councils and relations with its employees generally, as well as regulatory requirements.

The Elster Group may not be able to successfully implement its reinvestment programme or its other business strategies or those to be developed by its management, and implementing these strategies may not sustain or improve, and could even harm, its results of operations in targeted sectors. The Elster Group

may be unable to realise the anticipated benefits and cost reductions of its reinvestment programme or its other business strategies. The Elster Group's business strategies are based on assumptions about future demand for its current products and the new products and applications it is developing, as well as on its continuing ability to produce its products profitably.

The Elster Group's ability to implement its business strategies depends on, among other things, its ability to divest businesses or discontinue product lines on favourable terms and with minimal disruptions, finance its operations and product development activities, maintain high quality and efficient manufacturing operations, relocate and close certain manufacturing facilities with minimal disruption to its operations, respond to competitive and regulatory changes, access quality raw materials in a cost-effective and timely manner, and retain and attract highly-skilled technical, managerial, marketing and finance personnel. The details of the actions to be taken and the timing of the reinvestment programme have not yet been finalised and may differ in material ways from the strategy and plans the Elster Group has announced. In addition, the reinvestment programme or the Elster Group's other business strategies could have adverse tax implications. Any failure to develop, revise or implement its business strategies, including its reinvestment programme, in a timely and effective manner could have a material adverse effect on its results of operations, business and financial condition.

#### **PART D: Risks relating to the Melrose Group, the Elster Group and the Enlarged Group**

##### **1. The Enlarged Group's business would be affected by the uncertainties of economic conditions**

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the "EFSF") and the European Financial Stability Mechanism (the "EFSM") to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism (the "ESM"), which will be activated by mutual agreement, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013. Although the macroeconomic environment showed further overall improvement in the first half of 2011, the development of certain economic indicators as well as the recent turbulence in the financial markets in the second half of 2011, primarily as a result of the ongoing sovereign debt crisis in the euro-zone, still indicate a highly volatile macroeconomic environment. Future macroeconomic development is dependent upon the evolution of a number of global and local factors, such as the crisis in the credit markets, economic crises arising from sovereign debt overruns, government budget consolidation measures related thereto, reduced levels of capital expenditures, declining consumer and business confidence, increasing unemployment in certain countries, fluctuating commodity prices, bankruptcies, natural disasters, political crises and other challenges affecting the speed of sustainable macroeconomic growth. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the Euro and the suitability of the Euro as a single currency given the diverse economic and political circumstances in individual member states. These and other concerns could lead to the re-introduction of individual currencies in one or more member states, or, in more extreme circumstances, the possible dissolution of the Euro entirely. Should the Euro dissolve entirely, the legal and contractual consequences for Euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the results of operations, business and financial condition of the Melrose Group, the Elster Group and the Enlarged Group. The Melrose Group (Europe represented 24.9 per cent. of 2011 Melrose Group continuing revenues) and the Elster Group (in the years ended 31 December 2011, 2010 and 2009, the Elster Group generated revenues from products sold to Euro-zone countries of \$604.9 million, \$521.8 million and \$538.0 million respectively, which represent approximately 32.4 per cent., 29.7 per cent. and 31.7 per cent. respectively, of its total revenues for those periods) are each exposed to European markets. In addition, as of 31 December 2011, a majority of Elster's long-term debt obligations, including the Senior Notes and EUR 45 million in drawings under its revolving credit facility, were Euro-denominated. A continued European credit crisis, unresolved concerns over the debt burden of certain Eurozone countries and any adverse developments in relation to the Euro might therefore have a negative impact on the Melrose Group, the Elster Group and the Enlarged Group.

Numerous other factors, such as fluctuations of energy and raw material prices, as well as global political conflicts, including those in the Middle East, North Africa and other regions, continue to impact macroeconomic parameters and the international capital and credit markets. The uncertainty of economic and political conditions could have a material adverse impact on the Melrose Group, the Elster Group and the Enlarged Group's business and financial condition.

**2. If the Melrose Group, the Elster Group and the Enlarged Group are not successful in adapting to conditions in the markets in which they operate, they may suffer adverse effects**

In light of the latest economic developments, the level of public debt in the United States, as well as in Greece, Italy and other European countries, uncertainties with respect to the stability of the Chinese economy, and the potential impact of budget consolidation measures by governments around the world, the bases for the expectations relating to the overall economic situation and specific conditions in markets relevant to the Melrose Group, the Elster Group and the Enlarged Group are subject to considerable uncertainties. If the macroeconomic environment deteriorates and the Melrose Group, the Elster Group and the Enlarged Group are not successful in adapting their production and cost structure to subsequent changes to conditions in the markets in which they operate, they may experience adverse effects that may be material to their business, financial condition, results of operations.

## PART III

### TERMS AND CONDITIONS OF THE ACQUISITION

#### 1. THE TENDER OFFER

Pursuant to the Tender Offer, which will be on the terms and subject to the conditions set out in the Tender Offer Document, Elster ADS Holders/Elster Shareholders, as the case may be, will receive:

<b>for each Elster ADS</b>	<b>\$20.50 in cash</b>
<b>for each Elster Share</b>	<b>\$82 in cash</b>

Melrose Bidco's offer is for the entire issued ordinary share capital of Elster. Each Elster ADS represents one fourth of one Elster Share. The Melrose Board intends to procure the cancellation of the Elster ADSs acquired by Melrose Bidco pursuant to the Tender Offer and to withdraw the underlying Elster Shares from the ADS Depository as soon as possible following the Effective Date. Following the Effective Date, Melrose Bidco will have the ability to take steps to pursue a delisting of Elster ADSs from the NYSE.

If the Tender Offer becomes Effective and Melrose Bidco has received valid tenders representing less than 100 per cent. of the Elster ADSs (and/or the Elster Shares), Melrose Bidco may acquire further Elster ADSs (and/or Elster Shares) by way of (i) further offer(s) which may be required by law in connection with delisting the Elster ADSs from the NYSE, implementing a domination agreement or implementing Squeeze-out or Merger Squeeze-out at such price(s) as may be required by applicable law, and/or (ii) further offer(s) or purchases of Elster ADSs (and/or Elster Shares).

On the terms and subject to the conditions of the Tender Offer, Melrose Bidco will accept for payment and pay for Elster ADSs and/or Elster Shares validly tendered (and not properly withdrawn) at or prior to the Tender Offer Expiration Date. The Tender Offer is conditional on:

- (a) the passing (without material amendment) of the Transaction Resolutions at the Melrose General Meeting;
- (b) Admission having occurred;
- (c) receipt of anti-trust clearances from the relevant regulatory authorities in the EU, US, Ukraine and Russia;
- (d) there having been validly tendered (and not properly withdrawn) prior to the Tender Offer Expiration Date such number of Elster ADSs (and/or Elster Shares) that represent at least 75 per cent. of the total share capital of Elster as at the Tender Offer Expiration Date;
- (e) the Elster Board having recommended (and having not withdrawn its recommendation for) the Tender Offer;
- (f) there not being any judgment, order, decree or law (in the United States, the United Kingdom or in the Federal Republic of Germany) entered, enacted, promulgated, enforced or issued by any court or other governmental entity of competent jurisdiction or other legal restraint or prohibition in effect enjoining or otherwise preventing or materially delaying the making of the Tender Offer, the acceptance for payment of any Elster ADSs and/or Elster Shares, Melrose or Melrose Bidco's full rights of ownership and voting of the Elster ADSs and/or Elster Shares or Melrose or Melrose Bidco's ownership or operation of Elster;
- (g) Elster not having breached or failed to perform certain obligations required to be performed by it under the Investment Agreement at or prior to the Tender Offer Expiration Date;
- (h) the Investment Agreement not having been terminated in accordance with its terms; and
- (i) the satisfaction or waiver of the other conditions of the Tender Offer, which are considered to be customary for a transaction of this nature.

The conditions relating to the approval of the Acquisition by Melrose Shareholders, clearance by the EU and US regulatory authorities, the Admission of the New Melrose Shares and the Investment Agreement

not having been terminated will not be waived in whole or in part and the other conditions may be waived by Melrose Bidco.

The Tender Offer Document will be filed with the SEC promptly after the date of this document with no material changes to the terms and conditions of the Tender Offer described herein.

The EU, US, Russian and Ukrainian competition filings referred to above will be made shortly after the publication of this document. The Phase I review period for the EU filing is 25 business days and starts on the day of filing (assuming the filing is deemed complete). The waiting period for the US filing is 15 calendar days. The Russian Phase I review clearance takes approximately 30 calendar days to be granted/delivered. The Ukrainian Phase I review period is 30 calendar days which starts if, after 15 days from the date of the application, the local authority has not requested additional information (if additional information is requested, the 30 days review period will start once the filing is deemed complete by the local authority). Melrose does not expect any significant regulatory issues to arise as a result of these filings.

In addition to the above, Melrose Bidco shall not be required to accept for payment or, subject to applicable rules and regulations of the SEC, to pay for Elster ADSs and/or Elster Shares tendered pursuant to the Tender Offer, and may terminate the Tender Offer if prior to the acceptance for payment of or payment for the Elster ADSs and/or Elster Shares and at any time on or after the date of the Tender Offer Document certain conditions to the Tender Offer shall have occurred and be continuing.

If, on the Tender Offer becoming Effective, Melrose Bidco holds less than 100 per cent. of all Elster ADSs and Elster Shares, Melrose Bidco has the ability, following the Tender Offer Expiration Date subject to applicable laws, to acquire further Elster ADSs and/or Elster Shares (at the same or at a higher or lower price per Elster ADS or Elster Share (as the case may be) than under the Tender Offer) (i) by way of an on, or off market purchase, (ii) by way of a subsequent tender offer, (iii) pursuant to an offer to minority shareholders in the course of delisting the Elster ADSs from the NYSE or of concluding a domination agreement with Elster (as described below), or (iv) pursuant to an offer to minority shareholders in the course of effecting a squeeze-out (as described below).

Accordingly, even if Elster Shares and/or Elster ADSs representing less than 75 per cent. of the issued share capital of Elster are tendered to Melrose Bidco pursuant to the Tender Offer, Melrose Bidco may still purchase sufficient additional Elster ADSs and/or Elster Shares to give it ownership of 75 per cent. or more of Elster's share capital.

Melrose Bidco has received irrevocable undertakings to tender unconditionally (and not withdraw) Elster ADSs (or the underlying Elster Shares to which they relate) pursuant to the Tender Offer from Rembrandt and Nachtwache in respect of their entire beneficial holdings (amounting in aggregate to approximately 62.17 per cent. of the total share capital of Elster as at the day immediately prior to the date of this document). The undertakings from Rembrandt and Nachtwache will cease to be binding only if the Tender Offer lapses or is withdrawn. Melrose Bidco has also received irrevocable undertakings to tender (and not withdraw) Elster ADSs (or the underlying Elster Shares to which they relate) pursuant to the Tender Offer from certain of the Elster Directors and Management Elster ADS Holders in respect of their entire beneficial holdings (amounting in aggregate to approximately 2.02 per cent. of the total share capital of Elster as at the day immediately prior to the date of this document). The undertakings from the relevant Elster Directors and Management Elster ADS Holders will cease to be binding if the Tender Offer lapses or is withdrawn or if a Superior Offer is publicly proposed. Each Manager has also agreed to sell his Elster ADSs/Elster Shares to Melrose Bidco in certain circumstances prior to 24 October 2012 after the Tender Offer becomes Effective provided that no Superior Offer remains.

Following the Effective Date, if the number of Elster ADSs (and/or Elster Shares) validly tendered (and not withdrawn) is less than the threshold required to implement Merger Squeeze-out or Squeeze-out, as the Directors consider fit, Melrose intends to procure the entry by Melrose Bidco into a domination agreement with Melrose Bidco as the "controlling company" and Elster as the "controlled company." Entering into a domination agreement requires, among other things, the consent of at least 75 per cent. of shareholders voting at a general meeting of Elster. Such agreement would become effective upon registration in the commercial register of the local court in Essen, Germany. Pursuant to a domination



agreement, the controlled company submits itself to the direction of the controlling company. Melrose Bidco would be authorised to issue binding orders to the Elster Board and would thereby control the management of its business affairs. A domination agreement must ensure a recurrent cash payment (“**Guaranteed Dividend**”) as compensation for the minority shareholders. The amount of the Guaranteed Dividend is determined by the parties to the domination agreement and reviewed by a court-appointed expert auditor. The Guaranteed Dividend will be equal to the amount which, on the basis of the past profitability and prospective profits of Elster, could be expected to be distributed to the Elster Shareholders in the future as the average profit per Elster Share if the domination agreement had not been entered into. This calculation will be based on a determination of the value of Elster at the time of the general shareholders’ meeting of Elster adopting the domination agreement. The Guaranteed Dividend would be payable annually if and to the extent the domination agreement remains effective and minority shareholders then exist. In addition, entering into a domination agreement would oblige Melrose Bidco to offer to acquire all outstanding Elster Shares belonging to minority shareholders in exchange for payment of “fair cash compensation”. For the determination of “fair cash compensation,” see below.

Without a domination agreement being implemented, while ever Melrose Bidco owns Elster ADSs and/or Elster Shares representing at least 75 per cent. of voting rights, although the Elster Board would remain independent, Melrose Bidco would have *de facto* control of Elster because Melrose Bidco would be able to pass all shareholder resolutions (including those required to appoint and remove directors of Elster) to distribute dividends, to alter the articles of association of Elster, to delist Elster and to increase the capital of Elster. Under a domination agreement, Melrose Bidco would have the additional right to instruct the Elster Board to carry out Melrose Bidco’s instructions (even if such instructions are not for the benefit of Elster). However, Melrose Bidco’s *de facto* ability to control Elster does not depend on this right to issue binding instructions.

If, following the Effective Date, Melrose Bidco owns 95 per cent. or more of the total share capital of Elster, Melrose intends to procure the passing of a resolution of Elster Shareholders pursuant to Sections 327a et seq. of the German Stock Corporation Act requiring transfer of the Elster Shares held by the minority Elster Shareholders to Melrose Bidco in exchange for fair cash compensation (the “**Squeeze-out**”). The Elster Shares held by the minority Elster Shareholders will be transferred to Melrose Bidco (as the majority Elster Shareholder) upon registration in the commercial register of the local court in Essen, Germany.

In addition, if following the Effective Date, Melrose Bidco owns 90 per cent. or more of the total share capital of Elster, Melrose may procure the entry into a merger agreement between Elster and Melrose Bidco followed by a squeeze-out resolution of Elster Shareholders pursuant to Section 62 para. 5 of the German Transformation Act, to be adopted within a three month period after the entry into the merger agreement between Elster and Melrose Bidco. As a consequence of such squeeze-out resolution, the Elster Shares held by the minority Elster Shareholders will be transferred to Melrose Bidco in exchange for fair cash compensation (the “**Merger Squeeze-out**”). The Elster Shares held by the minority Elster Shareholders will be transferred to Melrose Bidco (as the majority Elster Shareholder) upon registration in the commercial register of the local court in Essen, Germany. The merger of Elster into Melrose Bidco will become effective immediately thereafter.

If fair cash compensation is required to be paid, it will be determined based on the value of Elster as of the date of the Elster shareholder resolution authorising the action and reviewed by an expert auditor appointed by the German court. The expert auditor would determine the value per Elster Share on a discounted earnings method based on the IDW S1 valuation standard as amended on 2 April 2008. If the three-month-average price of the Elster ADSs (reflecting that one Elster ADS represents one-fourth of one Elster Share) for the three month period prior to the shareholders’ meeting deciding on the measure, insofar as such price is representative, exceeds the compensation amount determined with the discounted earnings method, then this value is to be paid as the compensation amount. The amount of fair cash compensation could be equal to the Offer Price (as adjusted to reflect that one Elster ADS represents one-fourth of one Elster Share), but could also be higher or lower.

If Melrose Bidco holds less than 75 per cent. of the total share capital of Elster, Melrose will nevertheless obtain board control of Elster shortly after completion of the Tender Offer because Melrose has entered

into arrangements with Elster and the existing Elster Directors pursuant to which all except one of the existing Elster Directors will resign on the Tender Offer becoming Effective and the remaining existing Elster Director will (subject to applicable law) resign immediately on the Melrose appointee directors being appointed to the Elster Board. Pursuant to these arrangements, an application for the appointment of the Melrose appointee directors to the Elster Board will be filed with the local court of Essen by the sole remaining existing Elster Director on the day on which the Tender Offer becomes Effective (following the resignations of the other existing Elster Directors) (or the next trading day) and it is expected that these appointments will be made within five Business Days of such application. At such time, Melrose will obtain control of the Elster Board.

However, if Melrose Bidco holds less than 75 per cent. of the total share capital of Elster it may not be able to enter into a domination agreement pursuant to Sec. 291 et seq. of the German Stock Corporation Act and there would be certain restrictions on the ways that Elster could be integrated into the Enlarged Group (although the majority of the Elster Board would be made up of Melrose appointees): the relationship between Melrose Bidco and Elster would have to be on an arm's length basis, the Elster Board would be required, as is generally the case with any company with a minority shareholding, to have consideration to the interests of the shareholders generally, including the minority shareholders, and Melrose Bidco would have to compensate Elster for any losses incurred if Melrose Bidco exercised its influence to undertake a disadvantageous transaction or act.

## **2. THE INVESTMENT AGREEMENT**

On 29 June 2012 Melrose, Melrose Bidco and Elster entered into the Investment Agreement pursuant to which Elster has given certain undertakings to cooperate with the Company to implement the Tender Offer and Melrose and Melrose Bidco have given certain undertakings to Elster concerning, among other things, their conduct in connection with the Tender Offer and their commitments and intentions in connection with the continuation of the business of the Elster Group after the Effective Date. The parties have also agreed, so far as is legally practicable, to use all reasonable commercial efforts to effect the Tender Offer and complete the transaction contemplated by the Investment Agreement.

Melrose has agreed that as promptly as reasonably practicable following the date of the Investment Agreement (and in any case by 5.30 p.m. (New York City time) on 13 July 2012) that Melrose Bidco will commence the Tender Offer and file the Tender Offer Document and associated documentation with the SEC (the key terms of which are set out in paragraph 1 of this Part III (*Terms and Conditions of the Acquisition*)) and that the terms and conditions of the Tender Offer will be consistent with the terms and conditions set out in the Investment Agreement, unless otherwise approved by Elster. Melrose may waive any of the Tender Offer conditions, save for antitrust clearances under the Hart-Scott-Rodino Antitrust Improvements Act 1976 and the European Commission.

The Melrose Board has, subject to there being no change in the Elster Recommendation and no intervening events occurring, agreed to include the Melrose Recommendation in the Melrose Circular.

Each party has agreed not to make any public statement which could reasonably be considered to be (i) contrary to the Elster Recommendation or the Melrose Recommendation (as the case may be), the Tender Offer or the Rights Issue or (ii) recommending that its shareholders take or consider taking any action that could prevent, delay or adversely affect the Tender Offer and/or the Rights Issue.

The Elster Recommendation and the filing/dissemination of the Schedule 14D-9 by Elster is subject to the Tender Offer having commenced on the terms and conditions set out in the Investment Agreement, no Superior Offer having been publicly proposed, no intervening event having occurred that prevents the Elster Board from supporting and recommending the Tender Offer (in accordance with fiduciary duties) and there being no change in the Melrose Recommendation. As long as such requirements remain fulfilled, the Elster Board will not withdraw, qualify or adversely modify the Elster Recommendation (or their intention to make it) and shall not recommend (or agree to recommend) a Competing Elster Proposal.

It is confirmed in the Investment Agreement that Elster will be required to accede as a borrower to the New Facilities Agreement as soon as reasonably practicable after the Tender Offer Expiration Date.

Melrose will ensure that funds up to a maximum of EUR 350 million are made available on a certain funds basis to Elster when Elster accedes as a borrower to the New Facilities Agreement and that Elster will have access to a EUR 350 million revolving credit facility. Melrose represents in the Investment Agreement that Elster will not be liable for the payment of any arrangement fees under or in connection with the New Facilities Agreement. It is further confirmed in the Investment Agreement that the New Facilities Agreement will not provide for any guarantees, grant of security, indemnities or other credit support from Elster and/or any other member of the Elster Group for any borrowings of Melrose or any other member of the Melrose Group which would result in a breach of the obligation of Elster to fully comply with Sections 57, 71a of the Stock Corporation Act.

Pursuant to the Investment Agreement the parties have agreed to cooperate and make the necessary filings required by each party to obtain clearances of the Acquisition. The withdrawal of any such filing (other than with the Russian Federal Antimonopoly Service and the Ukrainian Anti-Monopoly Committee) by Melrose or Elster is subject to the prior written consent of the other party.

Elster has confirmed that as of the date of the Investment Agreement neither it nor any member of the Elster Group is under any obligation to enter into or implement a Competing Elster Proposal and that so far as it is aware none of its directors, employees, advisers or agents is in discussions (or has not terminated any discussions) with any third party which could reasonably be expected to result in a Competing Elster Proposal.

Elster has also undertaken, subject to the Elster Board's fiduciary duties, that neither it nor any member of its Group (nor its directors, employees, advisers or agents) will directly or indirectly solicit, encourage, initiate or otherwise seek to procure any Competing Elster Proposal or proposal or approach in relation thereto or to enter into any communications or discussions with a view to soliciting any Competing Elster Proposal or proposal or approach in relation thereto or permit any third party any access to the Elster Group in relation to a Competing Elster Proposal. Subject to any pre-existing confidentiality obligations, Elster has undertaken that it will notify Melrose without undue delay if it or any member of its Group (or its directors, employees, advisers or agents) receives a proposal or approach from a third party (or a revised proposal or renewed contact from a third party that has been party to such a proposal or any approach prior to the date of the Investment Agreement) in relation to any Competing Elster Proposal, will notify Melrose within two calendar days whether it intends to further pursue such proposal or approach and it will keep Melrose informed on a weekly basis as to the progress of such proposal or approach.

Elster has also agreed that, prior to the earlier of the resignation of the current members of the Elster Board and the Investment Agreement terminating, Elster will, and will use reasonable best efforts to procure that the members of the Elster Group will, subject to fiduciary duties, continue to operate their respective businesses in the ordinary and usual course and consistent with past practice in all material respects.

The parties have agreed that as long as a domination agreement is not in place the Elster Board (the majority of which will be made up of Melrose appointees following the Tender Offer becoming Effective) shall continue to independently conduct the business operations of Elster and Melrose will not instruct the Elster Board to take any actions which would not be in the best interests of the Elster Group. Melrose intends to work with the Elster Board to implement the restructuring and reinvestment program previously authorised by the Elster Board. Pursuant to the Investment Agreement, other than those changes already planned by the Elster Board, Melrose and Melrose Bidco shall not cause Elster, for a period of two years from the Tender Offer Expiration Date:

- (i) change the location of the corporate seat and head office of Elster in Essen;
- (ii) change the corporate seats and locations of Elster's significant subsidiaries;
- (iii) change the use of the assets and future obligations;
- (iv) sell or otherwise dispose of substantial assets of the Elster Group, including the research and development facilities;

- (v) break-up the Elster Group by selling or otherwise disposing of Elster's core segments (i.e. gas, electricity, water and Smart grid); or
- (vi) merge or otherwise combine businesses of the Elster Group with businesses of the Melrose Group.

Following a possible delisting of Elster, Melrose may cause the Elster Group to discontinue certain central service functions of the Elster Group and has agreed that:

- (i) if any employees are affected by any discontinuation of central service functions, such employees shall be offered an equivalent position in the Elster Group, to the extent such position is available and the employee is suited for the position;
- (ii) up to EUR 2,000,000 shall be paid in aggregate to current employees who have a base salary of up to EUR 100,000 per annum and who become unemployed as a result of the discontinuation of central service functions (but have not accepted an equivalent position within the Elster Group), each being entitled to their annual gross basic salary plus any statutory entitlements until such monies are exhausted; and
- (iii) Melrose shall compensate the Elster Group for any such payments made to employees who become unemployed as a result of the discontinuation of central service functions.

Melrose intends to support Elster to capitalise on its brand and further enhance brand awareness and has no intention to change the brand strategy of Elster or its corporate name.

Pursuant to the Investment Agreement, each of the Elster Directors will resign from the Elster Board and any other Elster Group companies on or shortly after the Tender Offer Expiration Date.

Elster irrevocably confirms in the Investment Agreement its plans relating to the effect of the implementation of the Tender Offer on the long term incentive plan for certain members of Elster management.

The Investment Agreement has a fixed term of two years but may be terminated in certain circumstances. The Investment Agreement may be terminated by mutual written consent of the parties, by either party if the Effective Date has not occurred on or prior to 25 October 2012, or if the acceptance for payment of the Elster ADSs and/or Elster Shares by Melrose Bidco is prohibited by law.

The Investment Agreement may be terminated by Elster if (i) there is a change to the Melrose Recommendation; (ii) the Transaction Resolutions are not passed on or prior to 9 August 2012 (or such other date as may be agreed by the parties); or (iii) Melrose or Melrose Bidco has not submitted all antitrust and competition filings to the relevant antitrust authorities on or prior to 31 July 2012, or (iv) Melrose or Melrose Bidco becomes insolvent (or suffers an equivalent event), unless in the case of (ii) or (iii) above Melrose is able to demonstrate within ten business days to the satisfaction of Elster that there is a reasonable prospect of a full remedy prior to 25 October 2012.

The Investment Agreement may be terminated by Melrose if (subject to certain exceptions):

- (i) if the Underwriting Agreement is terminated;
- (ii) Elster or any of the Elster Directors fails to file and disseminate its recommendation statement on Schedule 14D-9 in connection with the Tender Offer (including the Elster Recommendation);
- (iii) Elster or any of the Elster Directors withdraws, qualifies or adversely modifies the Elster Recommendation or recommends (or agrees or resolves to recommend) a Competing Elster Proposal;
- (iv) Elster becomes insolvent (or suffers an equivalent event);
- (v) prior to the Tender Offer Expiration Date any change or changes shall have occurred in Elster's or its subsidiaries' business, properties, assets, liabilities, capitalization, shareholders' equity, financial condition, operations, results of operations or prospects that has had or could reasonably be expected to have a material and adverse effect on Elster or its subsidiaries, taken as a whole (an "Elster MAC") and has not been cured by 24 October 2012;

- (vi) prior to the Tender Offer Expiration Date Elster or any member of the Elster Group fails to operate its respective business in the ordinary and usual course and consistent with past practice and such failure (or combination of such failures) result, or would reasonably be expected to result, in (i) a reduction in Elster's EBITDA of at least EUR 75 million or (ii) a material adverse effect in excess of EUR 125 million on Elster's net assets (each a "**Relevant Ordinary Course Breach**" and together the "**Relevant Ordinary Course Breaches**"), and such Relevant Ordinary Course Breach has not been cured by 24 October 2012;
- (vii) Elster or any of its significant subsidiaries takes any of the following actions until the Tender Offer Expiration Date (each a "**Relevant Action**" and together the "**Relevant Actions**") and such Relevant Action has not been cured by 24 October 2012:
  - (a) any acquisition or disposal or grant of any right or option in respect of any assets, in each case (i) not being in the ordinary and usual course of trading on arm's length terms or (ii) not being an immaterial merger/acquisition transaction having a value not exceeding EUR 5 million in the aggregate (provided there is a material adverse effect on the Elster Group as a whole);
  - (b) discontinuing or ceasing to operate all or any material part of its business (provided there is a material adverse effect on the Elster Group as a whole);
  - (c) any proposal or recommendation to Elster's shareholders to declare, authorise, make or pay a dividend (in cash or in specie) or other distribution of a similar nature or taxed in the same way as a dividend or any reduction of capital (other than lawfully made by any member of the Elster Group to another member of the Elster Group, as the case may be);
  - (d) other than pursuant to the exercise of options and/or satisfaction of awards under established employee schemes or plans, any creation, allotment or issue of, or any grant of any option over or other right to subscribe for or otherwise acquire, any share or securities of Elster, or securities convertible or exchangeable into any of the foregoing, or any alteration or amendment to the terms or rules of any share scheme or plan;
  - (e) any acquisition, reduction, redemption or purchase by a member of the Elster Group of Elster Shares other than in the ordinary and usual course of business in connection with the long-term incentive plan in accordance with the existing share buy back program carried out under the stock purchase plan engagement agreement dated 6 March 2012 between Elster and Merrill Lynch, Pierce, Fenner & Smith Incorporated;
  - (f) any proposal or recommendation to Elster's shareholders to alter any of the provisions of the Articles of Association or relevant incorporation documents or adopting or passing or proposal of further regulations or resolutions inconsistent therewith;
  - (g) any amendments to the terms and conditions of employment (including remuneration and benefits) of any member of the Elster Board or the managing directors of Elster (other than as otherwise agreed in the Investment Agreement);
  - (h) any payments of any kind not provided for in the respective employment or service agreements or any applicable incentive program (including the long term incentive plan), in each case as in effect as of the date hereof, to any member of the Elster Board or the managing directors of Elster;
  - (i) any payments of any kind exceeding an aggregate amount of EUR 2 million not provided for in the respective employment or service agreements or any applicable incentive program (including the long term incentive plan), in each case as in effect as of the date hereof, to the employees of any member of the Elster Group other than in the ordinary and usual course of business;
  - (j) any proposal or recommendation to Elster Shareholders to appoint new members of the Elster Board (other than as otherwise agreed in the Investment Agreement);

- (k) any appointment of new managing directors of Elster (other than as otherwise agreed in the Investment Agreement);
- (l) any amendment to the deposit agreement among Elster, Deutsche Bank Trust Company Americas and the holders and beneficial owners of Elster ADSs; and
- (m) entry into of any agreement or the assumption of any obligation (in each case, whether conditional or otherwise) to do any of the foregoing.

Melrose may not terminate the Investment Agreement in respect of a Relevant Action if:

- (i) the Relevant Action is required in relation to the implementation of the restructuring and reinvestment program authorised by the Elster Board on 21 February 2012;
- (ii) the Relevant Action is required to respond to information requests from Elster Group employees regarding the discontinuation of service functions;
- (iii) the Relevant Action has been approved by the Elster Board and was disclosed to Melrose prior to the date of the Investment Agreement;
- (iv) the Relevant Action is required for the completion or performance of any obligations undertaken pursuant to any contract entered into prior to the date of the Investment Agreement without having been approved by the Elster Board;
- (v) the Relevant Action is required to be done by the Investment Agreement or in order to implement the Tender Offer in accordance with the terms of the Investment Agreement;
- (vi) Melrose has either given its prior written consent to the Relevant Action or has unreasonably withheld or delayed such consent or Elster has taken the Relevant Action at the written request of Melrose;
- (vii) the Relevant Action is required by a court order or applicable laws (other than compliance of the Elster Board with its fiduciary duties under German law, in particular the duty of care and loyalty under Section 93 of the Stock Corporation Act).

### 3. THE NEW FACILITIES AGREEMENT

On 29 June 2012 (the “**Signing Date**”), Melrose entered into the New Facilities Agreement pursuant to which a USD 500 million term facility and a £180 million term facility and a EUR 300 million revolving credit facility, £70 million revolving credit facility and a £690 million revolving credit facility will be provided to the Melrose Group (and on the Tender Offer becoming Effective, the Elster Group provided Elster and/or the relevant member of the Elster Group has acceded to the New Facilities Agreement as a borrower) by a group of lenders. Utilisation of the facilities under the New Facilities Agreement is subject to satisfaction of various customary conditions precedent. In particular, it is a condition precedent to utilisation of the facilities under the New Facilities Agreement that Melrose provide a certificate stating that Melrose Bidco has accepted for payment the Elster ADSs and Elster Shares validly tendered to it (and not properly withdrawn) and such Elster ADSs and Elster Shares represent at least 62.0 per cent. of the share capital of Elster in issue at the commencement of the Tender Offer (other than to the extent the arrangers under the New Facilities Agreement have agreed Melrose Bidco can accept a lower percentage). If the Tender Offer does not take place, Melrose’s current intention is to leave the Existing Facilities Agreement in place and continue to utilise the facilities available under that agreement.

The term facilities will be available: (i) to Melrose, to partially finance the Acquisition, refinance amounts outstanding under the Existing Facilities Agreement and to refinance other indebtedness of the Melrose Group; (ii) after the Effective Date and provided Elster and/or the relevant member of the Elster Group has acceded to the New Facilities Agreement as a borrower to borrowers who are members of the Elster Group to refinance amounts outstanding under the Elster RCF; and (iii) for the general corporate purposes of Melrose and the Melrose Group and to pay (or refinance amounts used to pay) associated costs and expenses associated with the Acquisition (and the balance of the cost of acquiring any Elster Shares and/or Elster ADSs (after applying the net proceeds of the Rights Issue) not financed by loans drawn under the term facilities will be financed by loans drawn under the revolving credit facilities which

are described below). The first drawdown under the term facility must be made within eight months of the Signing Date. The term facility ceases to be available on the earlier of eight months after the Signing Date and the date that is four months after the date of first drawdown. The aggregate outstanding amount under the term facilities are required to be reduced to (i) on the third anniversary of the Signing Date, 95 per cent. of the total term loans drawn at the end of the availability period applicable to the term facilities; (ii) on the fourth anniversary of the Signing Date, 90 per cent. of the total term loans drawn at the end of the availability period applicable to the term facilities; and (iii) on the date falling 6 months after the fourth anniversary of the Signing Date, 85 per cent. of the total term loans drawn at the end of the availability period applicable to the term facilities. The balance of the aggregate outstanding amounts under the term facility are required to be repaid on the date that is five years after the Signing Date.

The revolving credit facility under the New Facilities Agreement will be available from the Signing Date until the date that is one month before the date that is five years after the Signing Date. The revolving credit facilities will be used by: (i) Melrose, to partially finance the Acquisition (including the cost of acquiring any Elster Shares pursuant to any “squeeze-out” procedure, further tender offers or market purchases) and to pay any costs and expenses in connection with the Acquisition or entry into the New Facilities Agreement; (ii) Melrose, to finance the Melrose Group’s working capital requirements and for general corporate purposes (including refinancing existing indebtedness, whether under the Existing Facilities Agreement or otherwise, and for financing acquisitions); and (iii) after the Effective Date, the Elster Group, provided Elster and/or the relevant member of the Elster Group has acceded to the New Facilities Agreement as a borrower, to finance its working capital requirements and for general corporate purposes (including, if required, refinancing existing indebtedness, whether under the Senior Notes, the Elster RCF or otherwise, and for financing future acquisitions). Elster Holdings US Inc. has a separate revolving credit facility of £70 million available to it for its working capital needs after it accedes to the New Facilities Agreement as a borrower.

Prior to the EGSE Guarantee Date (as defined below), Melrose is required to ensure that the aggregate of any outstanding loans under the euro denominated tranche of the revolving credit facilities do not exceed an agreed threshold (the “**RCF Drawing Limit**”) provided that the RCF Drawing Limit may be exceeded prior to the EGSE Guarantee Date as a result of the euro denominated tranche of the revolving credit facility being utilised to fund, directly or indirectly, any change of control offer, any full redemption, repurchase, retirement or other acquisition of the Senior Notes or to pay associated costs and expenses or any costs and expenses incurred in connection with a waiver request or consent solicitation approved by the lenders under the New Facilities Agreement in relation to the Senior Notes.

The New Facilities Agreement contains representations and warranties, financial covenants, undertakings and events of default customary for a facilities agreement of this nature. The undertakings include (i) an undertaking to not acquire interests in companies, businesses or undertakings if (A) the aggregate consideration for all such acquisitions during the life of the New Facilities Agreement would exceed (x) £300 million (this limit will not apply if the leverage ratio at the time of a proposed acquisition (pro forma for such acquisition) is 1.50:1 or less) or (y) £150 million for such time that 75 per cent. of Elster Shares are not held by Melrose Bidco, and in all cases (B) such acquisition is not a Class 1 Transaction under the Listing Rules); (ii) an undertaking to ensure that financial indebtedness of members of the Melrose Group (and after the Effective Date, the Enlarged Group) who are not obligors under the New Facilities Agreement, subject to certain exceptions, does not exceed £75 million at any time; (iii) if Melrose Bidco does not acquire sufficient Elster ADSs and/or Elster Shares pursuant to the Tender Offer to commence “squeeze-out” proceedings under German law in respect of minority shareholders, an undertaking to exercise reasonable endeavours (taking into consideration any limitations on exercise of its influence on Elster under German law) to put in place a German law domination agreement with Elster within 18 months of the date of initial utilisation of the term facility; (iv) an undertaking that Melrose will ensure that Elster accedes to the New Facilities Agreement as a borrower as soon as reasonably practicable after the Effective Date and in any event no later than 25 Business Days from the date of initial drawdown and repays all amounts it has drawn under the Elster RCF and cancels the Elster RCF; and (v) a requirement to ensure that refinancing of the Senior Notes will be with either (A) the proceeds of loans under the New Facilities Agreement or (B) pari passu debt borrowed by Melrose. The financial covenants require that interest cover for the Enlarged Group remains equal to or greater than 4.0:1 and the leverage ratio for the

Enlarged Group remains equal to or less than (depending on the testing period) 3.50:1 to 3.0:1 and that, until such time as Melrose Bidco acquires 75 per cent. of the total share capital of Elster, the interest cover for the Elster Group remains equal to or greater than 4.0:1 and the leverage ratio for the Elster Group remains equal to or less than (depending on the testing period) 3.25:1 or 3.0:1. Prior to the EGSE Guarantee Date, certain further restrictions apply to incurrence of financial indebtedness by the Elster Group outside of the New Facilities Agreement, the Elster RCF and the Senior Notes. Melrose has to redeem the Senior Notes by 30 April 2014, if it has not acquired 75 per cent. of the Elster Shares on or prior to that date.

Melrose and various other entities in the Melrose Group will, subject to applicable local law limitations, guarantee all amounts due under the New Facilities Agreement. After the Effective Date, the Elster Group will initially (and subject to the limitations under the Senior Notes covenants) guarantee only its own borrowings. When permitted to do so under German law, the Elster Group will, subject to limitations under the Senior Notes covenants that are applicable at such time and applicable local law limitations, guarantee the liabilities of the Melrose Group (the date on which such guarantees are granted being the “**EGSE Guarantee Date**”).

Melrose will procure that Melrose Bidco grants a pledge over the Elster ADSs and Elster Shares that it acquires pursuant to the Tender Offer in favour of the lenders under the New Facilities Agreement. The New Facilities Agreement allows for the pledge to be released to allow Elster ADSs acquired by Melrose Bidco to be withdrawn from the ADS programme provided that the Elster Shares it acquires in exchange for such Elster ADSs are pledged in favour of the lenders under the New Facilities Agreement. Upon the occurrence of the EGSE Guarantee Date, any such pledge then in existence (whether over the Elster ADSs or the Elster Shares) will immediately be released.

Melrose intends to, on the date of initial utilisation under the New Facilities Agreement, repay in full all amounts then outstanding under the Existing Facilities Agreement and cancel all undrawn commitments. For further information on the Existing Facilities Agreement please refer to the Finance Director’s review in Melrose’s Annual Report and Accounts for the financial year ended 31 December 2011 which is incorporated by reference into this document.

#### **4. THE UNDERWRITING AGREEMENT**

On 29 June 2012, Melrose entered into the Underwriting Agreement with the Underwriters pursuant to which the Underwriters have agreed to fully underwrite the Rights Issue. Pursuant to the Underwriting Agreement, the Underwriters will (severally) use all reasonable endeavours to procure subscribers in the market for any New Melrose Shares not validly accepted (or not treated as validly accepted) under the Rights Issue at a price not less than the Rights Issue Price plus the Underwriters’ expenses in procuring such subscribers and, failing this, the Underwriters have agreed to subscribe themselves (or procure subscribers) for any outstanding New Melrose Shares at the Rights Issue Price.

In consideration of such underwriting, Melrose has agreed to pay (together with any VAT): (i) to the Underwriters a commission of 2.0342 per cent. of the aggregate value at the Rights Issue Price of the New Melrose Shares; plus (ii) to the Sponsors, a distribution fee of 0.25 per cent. of the aggregate value at the Rights Issue Price of the New Melrose Shares; plus (iii) to the Sponsors, a commission of 0.375 per cent. of the aggregate value at the Rights Issue Price of the number of New Melrose Shares for which sub-underwriters (prior to the Announcement) have provided firm written commitments to the Underwriters to sub-underwrite and which exceed 50 per cent. of the total number of New Melrose Shares.

Melrose has given representations, warranties and undertakings to the Underwriters customary for such agreements regarding, amongst other things, the accuracy of the information contained in this document. Melrose has also provided an indemnity to the Underwriters and each person acting for and on behalf of the Underwriters in connection with the services rendered or duties performed by any such indemnified person in connection with the Rights Issue, the Tender Offer, Admission or the arrangements contemplated by this document, the Announcement and the Melrose Circular. In addition, Melrose has agreed to perform certain obligations relating to the implementation of the Rights Issue.



The obligations of the Underwriters under the Underwriting Agreement are subject to certain conditions, including Admission having occurred by not later than 8.00 a.m. on 17 July 2012 (or such later time and/or date as may be agreed between the Sponsors and the Company in writing) and the Tender Offer not having been withdrawn or terminated prior to Admission.

The Underwriting Agreement provides that if a condition is not fulfilled before 8:00 a.m. on the date of Admission, or the parties agree in writing that a condition has become incapable of being fulfilled before 8:00 a.m. on the date of Admission, the Underwriting Agreement will terminate immediately.

The Sponsors (acting jointly but not severally) may by notice to Melrose (to be received prior to Admission) terminate the Underwriting Agreement in limited circumstances.

## PART IV

### FINANCIAL INFORMATION ON ELSTER AND THE ENLARGED GROUP

#### 1. SELECTED FINANCIAL INFORMATION ON ELSTER

The summary financial information set out below has, unless otherwise stated, been extracted without material adjustment from (i) the audited consolidated financial statements of the Elster Group for the financial years ended 31 December 2011, 31 December 2010 and 31 December 2009 and (ii) the Elster unaudited quarterly report for the first quarter ended 31 March 2012 published on 4 May 2012 as referred to in Part VII (*Historical Financial Information Relating to Elster*) of the Prospectus and which is incorporated by reference into this document, each of which has been prepared in accordance with US GAAP.

#### CONDENSED CONSOLIDATED INCOME STATEMENT (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended 31 March 2012	Year ended 31 December		
		2011	2010	2009
	\$ (unaudited)	\$ (audited)	\$ (audited)	\$ (audited)
<b>Revenue</b> . . . . .	<b>446,707</b>	<b>1,868,975</b>	<b>1,759,339</b>	<b>1,695,122</b>
Gross profit . . . . .	131,042	606,018	550,784	503,825
<b>Operating income</b> . . . . .	<b>21,226</b>	<b>189,778</b>	<b>175,991</b>	<b>143,839</b>
Income from continuing operations before income tax . .	13,672	140,468	118,870	91,693
Net income . . . . .	9,340	105,381	92,038	52,344
Basic income per share . . . . .	0.29	3.57	3.53	1.42
Diluted income per share . . . . .	0.29	3.57	3.53	1.42

#### SUMMARY CONDENSED CONSOLIDATED BALANCE SHEET (IN THOUSANDS)

	As at 31 March 2012	As at 31 December		
		2011	2010	2009
	\$ (unaudited)	\$ (audited)	\$ (audited)	\$ (audited)
Total current assets . . . . .	638,468	613,257	767,765	616,407
Total non-current assets . . . . .	1,384,278	1,358,092	1,396,492	1,525,035
<b>Total assets</b> . . . . .	<b>2,022,746</b>	<b>1,971,349</b>	<b>2,164,257</b>	<b>2,141,442</b>
Total current liabilities . . . . .	500,464	453,529	420,160	431,952
Total non-current liabilities . . . . .	780,553	799,571	1,087,868	1,286,786
<b>Total liabilities</b> . . . . .	<b>1,281,017</b>	<b>1,253,100</b>	<b>1,508,028</b>	<b>1,718,738</b>
<b>Total equity</b> . . . . .	<b>741,729</b>	<b>718,249</b>	<b>656,229</b>	<b>422,704</b>

#### 2. UNAUDITED PRO FORMA INFORMATION ON THE ENLARGED GROUP

This unaudited pro forma statement of net assets of the Enlarged Group in this Part IV (*Financial Information on Elster and the Enlarged Group*) has been based on the net assets of Melrose Group as at 31 December 2011 and the net assets of Elster Group as at 31 March 2012 and has been prepared in accordance with Annex II of the Prospective Directive Regulation and on the basis of the notes set out below. The unaudited pro forma statement of net assets has been prepared to illustrate the effect on the consolidated net assets of the Melrose Group of the Acquisition as if the Acquisition had become Effective on 31 December 2011 and assuming that 100 per cent. of Elster ADS Holders and Elster Shareholders had tendered their Elster ADSs and Elster Shares (as the case may be) in full on such date to Melrose Bidco. As indicated above, the unaudited pro forma statement of the net assets has been prepared for illustrative

purposes only and, because of its nature, the pro forma statement addresses a hypothetical situation and does not, therefore, represent the Enlarged Group's actual financial position or results following the Tender Offer becoming Effective or the Acquisition being completed.

	Adjustments						Pro forma £ millions
	Historical	Historical					
	As reported Melrose Group Consolidated Net Assets as at 31/12/2011 (notes 1 and 7) £ millions	Elster Group Net Assets as at 31/03/2012 (notes 2 and 7) £ millions	Equity Issue (note 3) £ millions	Acquisition (note 4) £ millions	Elster Debt repayment (note 5) £ millions	Acquisition finance facilities (note 6) £ millions	
<b>Non-current assets</b>							
Goodwill and other intangible assets . . . . .	906.1	691.3		967.6			2,565.0
Property, plant and equipment . . . . .	215.3	127.4					342.7
Trade and other receivables . .	0.3	47.0					47.3
Deferred tax assets . . . . .	40.4	22.8					63.2
	<u>1,162.1</u>	<u>888.5</u>	<u>0.0</u>	<u>967.6</u>	<u>0.0</u>	<u>0.0</u>	<u>3,018.2</u>
<b>Current assets</b>							
Inventories . . . . .	205.8	112.5					318.3
Trade and other receivables . .	216.3	216.7					433.0
Derivative financial asset . . .	1.7	0.5					2.2
Current tax asset . . . . .	0.0	4.6					4.6
Cash and short term deposits .	195.6	51.8	1,171.2	(1,468.4)	(126.6)	376.4	200.0
	<u>619.4</u>	<u>386.1</u>	<u>1,171.2</u>	<u>(1,468.4)</u>	<u>(126.6)</u>	<u>376.4</u>	<u>958.1</u>
<b>Total assets</b> . . . . .	<b>1,781.5</b>	<b>1,274.6</b>	<b>1,171.2</b>	<b>(500.8)</b>	<b>(126.6)</b>	<b>376.4</b>	<b>3,976.3</b>
<b>Current liabilities</b>							
Trade and other payables . . .	276.0	263.1					539.1
Interest-bearing loans and borrowings . . . . .	28.8	4.6			(4.6)		28.8
Current tax liabilities . . . . .	16.9	17.1					34.0
Derivative financial instruments . . . . .	14.1	1.1					15.2
Provisions . . . . .	58.2	13.9					72.1
	<u>394.0</u>	<u>299.8</u>	<u>0.0</u>	<u>0.0</u>	<u>(4.6)</u>	<u>0.0</u>	<u>689.2</u>
<b>Net current assets</b> . . . . .	<b>225.4</b>	<b>86.3</b>	<b>1,171.2</b>	<b>(1,468.4)</b>	<b>(122.0)</b>	<b>376.4</b>	<b>268.9</b>
<b>Non-current liabilities</b>							
Interest-bearing loans and borrowings . . . . .	457.5	330.3			(122.0)	376.4	1,042.2
Trade and other payables . . .	1.6	4.7					6.3
Non-current tax liabilities . . .	0.0	11.4					11.4
Deferred tax liabilities . . . . .	98.3	45.2					143.5
Retirement benefit obligations	117.7	103.9					221.6
Derivative financial liabilities.	1.6	—					1.6
Provisions . . . . .	62.4	0.6					63.0
	<u>739.1</u>	<u>496.1</u>	<u>0.0</u>	<u>0.0</u>	<u>(122.0)</u>	<u>376.4</u>	<u>1,489.6</u>
<b>Total liabilities</b> . . . . .	<b>1,133.1</b>	<b>795.9</b>	<b>0.0</b>	<b>0.0</b>	<b>(126.6)</b>	<b>376.4</b>	<b>2,178.8</b>
<b>Net assets</b> . . . . .	<b>648.4</b>	<b>478.7</b>	<b>1,171.2</b>	<b>(500.8)</b>	<b>0.0</b>	<b>0.0</b>	<b>1,797.5</b>

- (1) The consolidated net assets of the Melrose Group have been extracted without material adjustment, from the consolidated audited financial statements of the Melrose Group for the year ended 31 December 2011 which were prepared in accordance with IFRS.
- (2) The net assets of Elster are extracted from Elster's 2012 unaudited first quarter results ended 31 March 2012 and restated under Melrose's accounting policies and are set out in the table immediately below.
- (3) Adjustments reflect funds to be raised from the Rights Issue of £1,171.2 million (gross proceeds of £1,199.1 million less expenses of £27.9 million).
- (4) The adjustment of £1,468.4m to cash represents gross cash consideration of £1,446.3m (\$2,314.0m) based on the assumption that 100 per cent. of Elster ADSs and Elster Shares are acquired for consideration per Elster ADS of \$20.50 (\$82 per Elster Share), plus estimated acquisition expenses of £22.1m. IFRS 3 (revised) requires that acquisition expenses are written off and therefore the amount of goodwill recognised has been calculated as the difference between gross cash consideration of £1,446.3m and the net assets acquired of £478.7m.  
  
The acquisition accounting adjustments do not reflect any fair value adjustments which may ultimately be required since these cannot be accurately determined as at the date of this document. In addition, the excess of consideration over the net book value of the Elster Group's net assets has not yet been allocated between goodwill and other identifiable intangible assets.
- (5) Adjustments reflect repayment of existing Elster bank facilities as drawn down on 31 March 2012.
- (6) Adjustments reflect the drawdown of a portion of the facilities available under the New Facilities Agreement inclusive of banking fees.
- (7) No adjustment has been made to reflect the trading results of the Melrose Group since 31 December 2011 or the Elster Group since 31 March 2012.

	Historical		IFRS accounting policy adjustments		Melrose's IFRS classification	
	As reported Elster Group Consolidated	Research and development	Balance sheet reclassifications	Elster group IFRS		Elster group IFRS
	Net Assets as at 31/03/2012					
	(note 1) \$ millions— US GAAP	(note 2) \$ millions	(note 3) \$ millions	\$ millions	(note 4) £ millions	
<b>Non-current assets</b>						
Goodwill . . . . .	936.7			936.7	585.4	Goodwill and other intangible assets
Other intangible assets . . . . .	169.5			169.5	105.9	Goodwill and other intangible assets
Property, plant and equipment. . . . .	203.9			203.9	127.4	Property, plant and equipment
Other non current receivables . . . . .	58.8	33.6	(17.2)	75.2	47.0	Trade and other receivables—non current
Deferred tax assets . . . . .	15.4		21.1	36.5	22.8	Deferred tax assets
	1,384.3	33.6	3.9	1,421.8	888.5	
<b>Current assets</b>						
Inventories . . . . .	180.0			180.0	112.5	Inventories
Accounts receivable . . . . .	283.0			283.0	176.9	Trade and other receivables—current
Receivable from related parties . . . . .	7.0			7.0	4.4	Trade and other receivables—current
Prepaid expenses . . . . .	9.2			9.2	5.8	Trade and other receivables—current
Other current assets . . . . .	48.1		(0.7)	47.4	29.6	Trade and other receivables—current
Derivative financial instruments . . . . .			0.7	0.7	0.5	Derivative financial instruments
Income tax refunds . . . . .	7.3			7.3	4.6	Current tax assets
Deferred tax assets . . . . .	21.1		(21.1)	0.0	0.0	
Cash and short term deposits . . . . .	82.8			82.8	51.8	Cash and cash equivalents
	638.5	0.0	(21.1)	617.4	386.1	
<b>Total assets . . . . .</b>	<b>2,022.8</b>	<b>33.6</b>	<b>(17.2)</b>	<b>2,039.2</b>	<b>1,274.6</b>	
<b>Current liabilities</b>						
Accounts payable . . . . .	213.4			213.4	133.4	Trade and other payables
Warranties . . . . .	24.5			24.5	15.3	Trade and other payables
Payroll, bonuses and related accruals . . . . .	60.4			60.4	37.8	Trade and other payables
Other current liabilities . . . . .	140.6		(23.9)	116.7	72.9	Trade and other payables
Deferred revenue . . . . .	5.9			5.9	3.7	Trade and other payables
Short term debt . . . . .	7.3			7.3	4.6	Interest bearing loans and borrowings
Current tax liabilities . . . . .	27.3			27.3	17.1	Current tax liabilities
Pension and other employee benefits . . . . .	13.4		(13.4)	0.0	0.0	
Deferred tax liabilities . . . . .	7.6		(7.6)	0.0	0.0	
Derivative financial instruments . . . . .			1.7	1.7	1.1	Derivative financial instruments
Provisions . . . . .			22.2	22.2	13.9	Provisions
	500.4	0.0	(21.0)	479.4	299.8	
<b>Net current assets . . . . .</b>	<b>138.1</b>	<b>0.0</b>	<b>(0.1)</b>	<b>138.0</b>	<b>86.3</b>	
<b>Non-current liabilities</b>						
Long term debt . . . . .	545.7		(17.2)	528.5	330.3	Interest bearing loans and borrowings
Payroll, bonuses and related accruals . . . . .	1.5			1.5	0.9	Trade and other payables
Warranties . . . . .	5.1			5.1	3.2	Trade and other payables
Other non current liabilities . . . . .	2.0		(1.0)	1.0	0.6	Trade and other payables
Income tax liabilities . . . . .	18.3			18.3	11.4	Non current tax liabilities
Deferred tax liabilities . . . . .	55.2	9.5	7.6	72.3	45.2	Deferred tax liabilities
Pension and other employee benefits . . . . .	152.9		13.4	166.3	103.9	Retirement benefit obligations
Provisions . . . . .			1.0	1.0	0.6	Provisions
	780.7	9.5	3.8	794.0	496.1	
<b>Total liabilities . . . . .</b>	<b>1,281.1</b>	<b>9.5</b>	<b>(17.2)</b>	<b>1,273.4</b>	<b>795.9</b>	
<b>Net assets . . . . .</b>	<b>741.7</b>	<b>24.1</b>	<b>0.0</b>	<b>765.8</b>	<b>478.7</b>	

- (1) The balance sheet of Elster as at 31 March 2012 has been extracted, without material adjustment, from Elster's 2012 unaudited first quarter results prepared in accordance with US GAAP included in its Form 6-K furnished with the United States Securities and Exchange Commission.
- (2) The US GAAP to IFRS adjustment in respect of the treatment of research and development expenditure and taxation are explained within Part V (*Unaudited Reconciliation of Elster Financial Information to IFRS as applied by Melrose*) of this document.
- (3) A number of balance sheet reclassifications have been made in order to align the balance sheet presentation of Elster under US GAAP to the balance sheet presentation of Melrose under IFRS. Specifically, Melrose does not classify any component of 'deferred taxation' or 'pension and other employee benefits' as current. Accordingly, an adjustment has been made to reclassify all current assets and current liabilities associated with these balance sheet items as non-current. Also, a \$17.2m reclassification has been made in respect of deferred banking facility fees. Under US GAAP these are recognised by Elster as an asset whereas under IFRS these deferred fees are offset against loans and other borrowings. In addition, certain balances classified by Elster as "other current liabilities", "other non current liabilities" and "other current assets" would be classified as "provisions" or "derivative financial instruments" under Melrose's accounting policies. \$22.2m of current liabilities and \$1.0m of non-current liabilities balances have therefore been reclassified to provisions and \$1.7m of current liabilities and \$0.7m of current assets have been reclassified as derivative financial instruments.
- (4) Converted at exchange rate on 31 March 2012 of 1.60US\$/1GBP

## Report on Pro forma financial information



The Board of Directors  
on behalf of Melrose PLC  
Leconfield House  
Curzon Street  
London W1J 5JA

Investec Bank plc  
2 Gresham Street  
London EC2V 7QP

J.P. Morgan Securities Ltd.  
125 London Wall  
London EC2Y 5AJ

29 June 2012

2 New Street Square  
London EC4A 3BZ

Dear Sirs,

### **Melrose PLC (the “Company”)**

We report on the pro forma financial information (the “**Pro forma financial information**”) set out in Part IV of the Class 1 shareholder circular (the “**Circular**”), published by the Company on 29 June 2012, which has been prepared on the basis described in that Part IV for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the year ended 31 December 2011. This report is required by Annex I item 20.2 of Commission Regulation (EC) No 809/2004 (the “**Prospectus Directive Regulation**”) as applied by Listing Rule 13.3.3R and is given for the purpose of complying with that requirement and for no other purpose.

### Responsibilities

It is the responsibility of the directors of the Company (the “**Directors**”) to prepare the Pro forma financial information in accordance with Annex I item 20.2 and Annex II items 1 to 6 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

It is our responsibility to form an opinion, in accordance with Annex I item 20.2 of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

## Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

## Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

Deloitte LLP  
Chartered Accountants

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**Member of Deloitte Touche Tohmatsu Limited**

## PART V

### UNAUDITED RECONCILIATION OF ELSTER FINANCIAL INFORMATION TO IFRS AS APPLIED BY MELROSE

The financial information of Elster has been prepared in accordance with US GAAP, which differs in certain material respects from the IFRS accounting policies applied by Melrose in the preparation of its financial statements for the year ended 31 December 2011.

Elster has not previously prepared financial statements under IFRS as issued by the International Accounting Standards Board and as adopted by the European Union (EU), and accordingly in preparing the reconciliation from US GAAP to IFRS, the principles of IFRS 1 (2008), *First-time Adoption of International Financial Reporting Standards*, (“**IFRS 1**”) have been applied with a date of transition of 1 January 2009 (“**the Transition Date**”). IFRS 1 generally requires that first-time adopters consistently apply all effective IFRS standards retrospectively from the date of transition.

IFRS 1 provides for certain optional exemptions and mandatory exceptions to this general principle. The following optional exemption under IFRS 1 has been applied to Elster:

- Business combinations—Elected not to apply IFRS 3 (2008), Business Combinations, retrospectively to business combinations that occurred prior to the Transition Date. Consequently, business combinations that were recognised before the Transition Date have not been restated. Any goodwill arising on such business combinations before the Transition Date was not adjusted from the carrying value previously determined under US GAAP as a result of applying this exemption.

The estimates previously made by Elster under US GAAP were not revised on transition to IFRS except where necessary to reflect any difference in accounting policies.

The impact on net income and equity of the differences between US GAAP and the IFRS accounting policies applied by Melrose are quantified and described below.

	<u>Q1</u> <u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
	\$'m	\$'m	\$'m	\$'m
Net income under US GAAP . . . . .	9.3	105.4	92.0	52.3
<i>Adjustments</i>				
A Research and development . . . . .	(0.2)	8.3	7.7	8.1
B Pension and other employee benefits . . . . .	(0.3)	(2.1)	(1.8)	(2.3)
Tax effect of above adjustments . . . . .	<u>0.1</u>	<u>(0.9)</u>	<u>(1.1)</u>	<u>(1.9)</u>
<b>Net income under IFRS . . . . .</b>	<b>8.9</b>	<b>110.7</b>	<b>96.8</b>	<b>56.2</b>
	<u>Q1</u> <u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
	\$'m	\$'m	\$'m	\$'m
Equity under US GAAP . . . . .	741.7	718.2	656.2	422.7
<i>Adjustments</i>				
A Research and development . . . . .	34.0	34.1	26.8	18.9
Tax effect of above adjustment . . . . .	(9.5)	(9.5)	(7.8)	(6.0)
Foreign currency translation adjustment . . . . .	<u>(0.4)</u>	<u>(1.3)</u>	<u>(0.9)</u>	<u>0.3</u>
<b>Total equity under IFRS . . . . .</b>	<b>765.8</b>	<b>741.5</b>	<b>674.3</b>	<b>435.9</b>

A. Research and development

i. Capitalisation of development costs

Under US GAAP, Elster expenses all costs related to research and development activities as incurred.

Under IFRS, Melrose expenses research as incurred. Costs relating to clearly defined and identifiable development projects are capitalised when there is a technical degree of

exploitation, adequacy of resources and a potential market or development possibility in the undertaking that are recognisable; and whether it is the intention to produce, market or execute the project. A correlation must also exist between the costs incurred and future benefits and those costs can be measured reliably. Capitalised expenses are expensed on a straight-line basis over their useful lives. Costs not meeting such criteria are expensed as incurred.

As of the Transition Date an amount of \$6.5 million, net of tax would have been capitalised in respect of development projects under Melrose's accounting policies. Adjustments have been made to capitalise, and subsequently amortise, this amount and further amounts subsequent to the Transition Date, pursuant to Melrose's accounting policies.

ii. Taxation

Under US GAAP, no deferred tax was provided for development costs because they were expensed as incurred.

Under IFRS, a taxable temporary difference arises on these capitalized development costs for which a deferred liability is recognised.

iii. Foreign currency translation

Under IFRS, a foreign currency adjustment arises in respect of development costs capitalised in respect of entities that do not use the US dollar as their functional currency.

B. Pension and other employee benefits—actuarial gains and losses and past service costs

i. Treatment of actuarial gains and losses and past service costs

Under US GAAP, Elster recognises all actuarial gains and losses in other comprehensive income (OCI) and amortises these through the income statement over future periods using the corridor method.

Under IFRS, Melrose recognises all actuarial gains and losses and past service costs in full in the period in which they occur in OCI. Such amounts are not recycled through to the income statement in future periods.

ii. Taxation

Under US GAAP, Elster has recognised the taxation effect of the amortisation of actuarial gains and losses in the income statement.

Under IFRS, Melrose has eliminated the tax effect of the amortisation of actuarial gains and losses in the income statement.

In addition to the above adjustments impacting net income, two further reclassifications representing the alignment of accounting policies, which affect line items within the income statement but do not impact overall net income, are set out below.

Finance costs associated with pension and other long term employee benefits are classified as an operating expense under Elster accounting policies. Under Melrose accounting policies, these cost items are classified as a finance expense. These expenses totalled \$1.4 million in the first quarter of 2012, \$6.8 million in the year ended 31 December 2011, \$7.1 million in the year ended 31 December 2010 and \$8.3 million in the year ended 31 December 2009.

The amortisation of purchase price allocation intangible assets are classified as an operating expense under Elster accounting policies. Under Melrose accounting policies, these cost items are classified as a non-headline operating expense. These expenses totalled \$6.7 million in the first quarter of 2012, \$30.6 million in the year ended 31 December 2011, \$33.1 million in the year ended 31 December 2010 and \$33.7 million in the year ended 31 December 2009.





The Board of Directors  
on behalf of Melrose PLC  
Leconfield House  
Curzon Street  
London W1J 5JA

Investec Bank plc  
2 Gresham Street  
London EC2V 7QP

J.P. Morgan Securities Ltd.  
125 London Wall  
London EC2Y 5AJ

29 June 2012

2 New Street Square  
London EC4A 3BZ

Dear Sirs

**Melrose PLC (the “Company”): proposed acquisition of Elster Group SE (the “Target”)**

We report on the unaudited reconciliation of net income and total equity for each of the years in the three-year period ended 31 December 2011 and the interim period ended 31 March 2012, together the “**Financial Information**”, as previously reported in the financial statements of the Target prepared under United States Generally Accepted Accounting Principles, showing the adjustments necessary to restate it on the basis of the Company’s accounting policies used in preparing the Company’s last annual financial statements (the “**Reconciliation**”), set out in Part V of the Class 1 circular of the Company dated 29 June 2012 (the “**Circular**”) and Part VII of the Prospectus relating to new Company shares dated 29 June 2012 (the “**Prospectus**”).

This report is required by Listing Rules 13.5.27R(2)(b) and 13.5.30R(2) of the UKLA and by Commission Regulation (EC) No. 211/2007 as applied by the UKLA in relation to the acquisition is given for the purpose of complying with those Rules and Regulation and for no other purpose.

**Responsibilities**

It is the responsibility of the directors of the Company (the “**Directors**”) to prepare the Reconciliation in accordance with Listing Rules 13.5.27R(2)(a) and 13.5.30R(2).

It is our responsibility to form an opinion, as required by Listing Rules 13.5.27R(2)(b) and 13.5.30R(2), as to whether:

- (a) the Reconciliation has been properly compiled on the basis stated; and
- (b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company’s accounting policies,

and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed, and which we may have to Company shareholders as a result of inclusion of the report in the Circular and incorporation by reference in the Prospectus, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purpose of complying with Listing Rule 13.4.1(b) and Annex 1 item 23.1 of the Prospectus Directive Regulation consenting to its inclusion in the Circular and its incorporation by reference into the Prospectus.

The Reconciliation is based on the audited balance sheets as at 31 December 2009, 31 December 2010, 31 December 2011, the unaudited balance sheet as at 31 March 2012 and income statements for each of the years/periods then ended of the Target which were the responsibility of the directors of the Target and were audited by another firm of accountants. We do not accept any responsibility for any of the historical financial statements of the Target, nor do we express any opinion on those financial statements.

### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying Financial Information, consisted primarily of checking whether the unadjusted Financial Information of the Target has been accurately extracted from an appropriate source, assessing whether all adjustments necessary for the purpose of presenting the Financial Information on a basis consistent in all material respects with the Company's accounting policies have been made, examination of evidence supporting the adjustments in the Reconciliation and checking the arithmetical accuracy of the calculations within the Reconciliation.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Reconciliation has been properly compiled on the basis stated and that the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted outside the United Kingdom, including the United States of America and accordingly should not be relied upon as if it has been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion:

- (a) the Reconciliation has been properly compiled on the basis stated; and
- (b) the adjustments are appropriate for the purpose of presenting the Financial Information (as adjusted) on a basis consistent in all material respects with the Company's accounting policies.

Yours faithfully

Deloitte LLP  
Chartered Accountants

*Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see [www.deloitte.co.uk/about](http://www.deloitte.co.uk/about) for a detailed description of the legal structure of DTTL and its member firms.*

**Member of Deloitte Touche Tohmatsu Limited**

## PART VI

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY AND PROVISION OF ACCURATE INFORMATION

- 1.1 The Melrose Directors, whose names appear on page 75, accept responsibility for the information contained in this document. To the best of the knowledge of the Melrose Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 Deloitte, whose registered address is at 2 New Street Square, London EC4A 3BZ, accepts responsibility for: (i) its report on pro forma financial information set out in Part IV (*Financial information on Elster and the Enlarged Group*) of this document; and (ii) its report on financial reconciliation set out in Part V (*Unaudited Reconciliation of Elster Financial Information to IFRS as applied by Melrose*) of this document. To the best of the knowledge of Deloitte (having taken all reasonable care to ensure that such is the case) the information contained in such reports is in accordance with the facts and contains no omissions likely to affect its import.

#### 2. WORKING CAPITAL STATEMENT

The Company is of the opinion that, taking into account the New Facilities Agreement, available bank facilities and the net proceeds of the Rights Issue, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this document.

#### 3. SIGNIFICANT CHANGE

- 3.1 There has been no significant change in the financial or trading position of the Melrose Group since 31 December 2011, being the date to which the last audited consolidated annual accounts of the Melrose Group were prepared.
- 3.2 There has been no significant change in the financial or trading position of the Elster Group since 31 March 2012, being the date to which the last unaudited interim results for the Elster Group were prepared.

#### 4. FORECASTS AND PROJECTIONS

##### *Elster's outstanding earnings per ADS guidance*

Financial projections for Elster's 2012 earnings per ADS have been disclosed by Elster management in the press release announcing its unaudited 2011 fourth quarter and full year results (the "**Financial Projections**"). The Financial Projections do not reflect the Melrose Directors' view of Elster's prospects and financial performance nor the prospects and financial performance of the Enlarged Group.

The Melrose Directors do not believe that the Financial Projections need to be included in this document, as the Financial Projections would no longer be valid under Melrose's ownership, as the earnings of Elster would differ as a result of: (i) changes of strategic direction and changes to the financial and operational management of Elster under Melrose's ownership, such as cost efficiencies as a result of its ability to delist Elster, investment in operations and technology (in particular smart metering), further emphasis on product development and new business development opportunities; (ii) change to the functional currency of Elster to Euros from US\$; and (iii) the fact that Melrose reports under IFRS and Elster reports under US GAAP which is specifically expected to affect research and development cost recognition and pension accounting.

Neither Melrose nor any Melrose Director was involved in the preparation and review of the Financial Projections. The Melrose Directors believe that the assumptions underpinning the 2012 earnings per ADS would differ materially under Melrose's ownership. None of Melrose, the Melrose Directors or their respective advisers accept responsibility for the accuracy, reasonableness, validity or completeness of the Financial Projections or the estimates and assumptions that underlie them.

The Financial Projections were not intended for publication by Melrose and should not be regarded as forecasts of profits by Melrose or any of the Melrose Directors and accordingly have not been prepared to the standard required in producing a profit forecast in the context of the Acquisition. Melrose Shareholders should not rely upon any of the Financial Projections in making any decision about New Melrose Shares or in deciding whether or not to approve the Acquisition.

#### *Disclosure in the Tender Offer Document*

Melrose is required to file a Tender Offer Statement on Schedule TO upon the commencement of the Tender Offer, the contents of which are governed by the U.S. federal securities laws, including the SEC's rules and regulations promulgated thereunder, which require that material information about the tender offer be included in such Tender Offer Statement on Schedule TO.

Melrose has been informed by Elster that their Recommendation Statement on Schedule 14d-9 in response to the Tender Offer which is expected to be filed with the SEC at the same time as the Tender Offer Statement on Schedule TO is filed with the SEC will contain the financial projections provided to Melrose and financial projections provided to three institutions giving fairness opinions on the transaction. Elster's Recommendation Statement on Schedule 14d-9 will therefore contain certain financial projections of Elster for the years ending 31 December 2012, 2013, 2014, 2015, 2016 and 2017 (the "5 Year Plan"). Melrose understands that Elster will be disclaiming the 5 Year Plan in their Recommendation Statement on Schedule 14d-9 and ask its shareholders not to rely on such 5 Year Plan.

The SEC has often taken the position that financial projections provided by a seller to a buyer during due diligence is material information that should be disclosed to the seller's shareholders. As a result of these rules and regulations and the SEC's position on these matters, most issuers and their counsel have determined that summary disclosure of projections received during diligence should be included in the Tender Offer Statement on Schedule TO to ensure compliance with the U.S. federal securities laws and regulations and the SEC's position with respect to such laws and regulations.

For the reasons set out above and to comply with U.S securities laws and regulations, the Tender Offer Statement on Schedule TO will include financial projections provided by Elster to Melrose for 2012 and 2013 additional financial projections and provided by Elster to the three institutions giving fairness opinions on the transaction and which will be set out in the Recommendation Statement on Schedule 14d-9 and which were therefore subsequently disclosed to Melrose which contain certain profit forecasts for the purposes of the Listing Rules.

The 5 Year Plan does not reflect the Melrose Directors' view of Elster's prospects and financial performance, nor the prospects and financial performance of the Enlarged Group and Melrose has not relied on them. The Melrose Directors do not believe that the financial projections included in the 5 Year Plan need to be included in this document, as the 5 Year Plan would no longer be valid under Melrose's ownership as the financial position of Elster would differ as a result of (i) changes of strategic direction and changes to the financial and operational management of Elster under Melrose's ownership such as cost efficiencies as a result of its ability to delist Elster, investment in operations and technology (in particular smart metering), further emphasis on product development and new business development opportunities; (ii) change to the functional currency of Elster to Euros from US\$; and (iii) the fact that Melrose reports under IFRS and Elster reports under US GAAP which is specifically expected to affect research and development cost recognition and pension accounting.

The 5 Year Plan, which was prepared by Elster for internal management purposes only, was not prepared with a view to public disclosure or compliance with the published guidelines of the SEC regarding projections or forecasts. The 5 Year Plan was not intended for publication in the UK and should not be regarded as a forecast of profits by Elster or Melrose and accordingly have not been prepared or reviewed to a standard to which published projections would be prepared and reviewed in the UK.

The 5 Year Plan is a medium term forecast which can only be seen as high level guidance, as it is not possible to forecast the business' performance over such a period with accuracy. The 5 Year Plan of Elster is not current, and has not been prepared using assumptions that have been approved by Melrose. Melrose intends to review the 5 Year Plan with Elster management following the Acquisition, in particular the

assumptions underlying the business plan and Melrose expects that the business plan will change as a result of such review.

Accordingly, Elster's 5 year Financial Projections have not been included in this document and none of Melrose, the Melrose Directors or their respective advisers or any other party accepts responsibility for accuracy, reasonableness, validity or completeness of these projections or the estimates and assumptions that underlie them. Melrose Shareholders should not rely on any of the Elster financial projections in making any decision about investment in Melrose or Elster or in deciding whether or not to approve the Acquisition.

## **5. NEW MELROSE SHARES**

The New Melrose Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Melrose Shares, including the right to receive in full all dividends and other distributions (if any) declared, made or paid after, or by reference to a record date after their date of issue. The New Melrose Shares will be registered and may be held in either certificated or uncertificated form.

Other than in connection with the Rights Issue, the Melrose Board has no present intention of issuing any new Melrose Shares. No Melrose Shares are currently held in treasury.

## **6. RELATED PARTY TRANSACTIONS**

### **6.1 *Melrose Group***

6.1.1 Save as disclosed below and in the financial information set out in the related party transactions note 28 to the financial statements of Melrose for the financial years ended 31 December 2011, 31 December 2010 and 31 December 2009, which are incorporated by reference into this document, neither Melrose nor the Melrose Group entered into any material transactions with related parties during the financial years ended 31 December 2011, 31 December 2010 and 31 December 2009 or during the period between 1 January 2012 and the Latest Practicable Date.

6.1.2 On 12 April 2012, Melrose sub-divided and re-designated each of the 50,000 2009 Incentive Shares (held by certain directors and other key managers of Melrose) into 392 Melrose Shares and simultaneously capitalised £29,649.38 standing to the credit of its capital redemption reserve and applied such sum to paying up in full 11,647,969 Melrose Shares which were allotted and issued to those persons who had been holders of 2009 Incentive Shares, *pro rata* to their holding of such shares (the "**Incentive Share Reset**"). Certain amendments to Melrose's Articles were implemented to give effect to the Incentive Share Reset and to set out the rights of the 2012 Incentive Shares. On 22 March 2012, the Melrose Board conditionally granted 47,500 options in respect of the 2012 Incentive Shares to certain Melrose Directors and other key personnel, and on 12 April 2012 this grant became unconditional in all respects. At a general meeting of Melrose dated 11 April 2012, Melrose Shareholders approved by way of special resolution the Incentive Share Reset (including, amongst other things, the amendments to Melrose's Articles referred to above). As at the Latest Practicable Date the Melrose Board has granted 47,875 options in respect of 2012 Incentive Shares.

## 7. DOCUMENTS INCORPORATED BY REFERENCE

Your attention is drawn to the following disclosures relating to Melrose and Elster which are incorporated by reference into this document:

<i>Information</i>	<i>Information incorporated by reference into this document</i>	<i>Page number(s) in reference document</i>
<b>Information on Melrose</b>		
Risk Factors relating to Melrose’s business	Part A of the section of the Prospectus headed “Risk Factors”	8–13
Financial Information relating to Melrose	Melrose’s annual report and accounts for 2011 including Melrose’s financial statements for the year ended 31 December 2011, the notes and the auditors’ report thereon and the Finance Director’s review.	62–108 and 23–30
	Melrose’s annual report and accounts for 2010 including Melrose’s financial statements for the year ended 31 December 2010, the notes and the auditors’ report thereon.	46–87
	Melrose’s annual report and accounts for 2009 including Melrose’s financial statements for the year ended 31 December 2009, the notes and the auditors’ report thereon.	46–89
Details of service contracts and letters of appointment of the Melrose Directors	Paragraph 2 of Part X ( <i>Directors, Corporate Governance and Employees</i> ) of the Prospectus	189–191
Details of the Melrose Directors’ interests in Melrose Shares	Paragraph 1.2 of Part X ( <i>Directors, Corporate Governance and Employees</i> ) of the Prospectus	188–189
Major Melrose Shareholders	Paragraph 5 of Part XIII ( <i>Additional Information</i> ) of the Prospectus	248–249
Details of material contracts	Paragraph 11.1 of Part XIII ( <i>Additional Information</i> ) of the Prospectus	253–264
Details of material litigation	Paragraph 10.1 of Part XIII ( <i>Additional Information</i> ) of the Prospectus	252
<b>Information on Elster</b>		
Financial information relating to Elster	Part VII ( <i>Historical Financial Information Relating to Elster</i> ) of the Prospectus	85–175
Details of material contracts	Paragraph 11.2 of Part XIII ( <i>Additional Information</i> ) of the Prospectus	264–265

<i>Information</i>	<i>Information incorporated by reference into this document</i>	<i>Page number(s) in reference document</i>
Details of material litigation	Paragraph 10.2 of Part XIII ( <i>Additional Information</i> ) of the Prospectus	252–253
Details of key individuals in Elster’s business	Paragraph 4.2 of Part III ( <i>Information on Elster</i> ) of the Prospectus	61–63
<b>Information on the Enlarged Group</b>		
Undertakings that will become part of the Enlarged Group	Paragraph 4.1 of Part III ( <i>Information on Elster</i> ) of the Prospectus	61
Trend information relating to the Enlarged Group	Paragraph 5 of Part II ( <i>Information on Melrose</i> ) and paragraph 7 of Part III ( <i>Information on Elster</i> ) of the Prospectus	57–59 72–73
<b>Other information</b>		
Sources and bases of selected financial information	Paragraph 14 of Part XIII ( <i>Additional Information</i> ) of the Prospectus	266

Where certain parts only of a document have been incorporated by reference into this document, the other parts of those documents which have not been expressly stated to be incorporated are either not relevant to Melrose Shareholders in deciding whether to vote in favour of the Resolutions or are covered elsewhere in this document.

## 8. CONSENTS

- (a) J.P. Morgan has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.
- (b) JPMSL has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.
- (c) Investec has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.
- (d) Barclays has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.
- (e) HSBC has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.
- (f) RBC has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.
- (g) Deloitte has given and has not withdrawn its written consent to the inclusion of (i) its report on pro forma financial information set out in Part IV (*Financial Information on Elster and the Enlarged Group*) of this document; and (ii) its report on reconciliation set out in Part V (*Unaudited Reconciliation of Elster Financial Information to IFRS as Applied by Melrose*) of this document and the references to its reports and its name in the form and context in which they are included for the purposes of Listing Rule 13.4.1(6).

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at: (i) the registered office of Melrose at Precision House, Arden Road, Alcester, Warwickshire, B49 6HN and (ii) the offices of Simpson Thacher &

Bartlett LLP, Citypoint, One Ropemaker Street, London EC2Y 9HU during normal business hours on each Business Day from the date of this document (other than the Tender Offer Document, which shall be available for inspection from the date that it is filed with the SEC (which will be promptly after the date of this document (and in any event within 10 New York City business days of the date of this document with no material changes to the terms and conditions of the Tender Offer set out in Part III (*Terms and Conditions of the Acquisition*) of this document) up to and including the date of Admission:

- (a) the Articles;
- (b) the reports by Deloitte set out in Part IV (*Financial Information on Elster and the Enlarged Group*) and Part V (*Unaudited Reconciliation of Elster Financial Information to IFRS as Applied by Melrose*) of this document;
- (c) the audited consolidated accounts of the Melrose Group for the three financial years ended 31 December 2011, 31 December 2010 and 31 December 2009;
- (d) the audited consolidated accounts of the Elster Group for the three financial years ended 31 December 2011, 31 December 2010 and 31 December 2009 and the unaudited financial information of the Elster Group for the three month period ended 31 March 2012;
- (e) this document and the Form of Proxy;
- (f) the consent letters referred to at paragraph 8 above;
- (g) the Cost Cover Agreement;
- (h) the Investment Agreement;
- (i) the Indemnity Agreement;
- (j) the Non-Solicitation Agreement;
- (k) the Rembrandt Lock-Out Agreement;
- (l) the irrevocable agreement to tender Elster ADSs and Elster Shares pursuant to the Tender Offer from Rembrandt and Nachtwache in favour of Melrose Bidco dated 29 June;
- (m) the irrevocable agreements to tender Elster ADSs and Elster Shares pursuant to the Tender Offer from certain of the Elster Directors and Management Elster ADS Holders in favour of Melrose Bidco each dated 29 June 2012;
- (n) the New Facilities Agreement;
- (o) the Tender Offer Document; and
- (p) the Prospectus.

These documents will also be available for inspection at the offices of Investec, 2 Gresham Street, London EC2V 7QP from at least 15 minutes prior to the Melrose General Meeting until the conclusion of that meeting. The Prospectus and this document and the information incorporated by reference into both may also be viewed via the National Storage Mechanism.

Dated 29 June 2012



## PART VII

### DEFINITIONS/GLOSSARY

The following definitions apply throughout this document, unless the context requires otherwise:

<b>2006 Act</b>	the Companies Act 2006, as amended and for the time being in force
<b>2009 Incentive Shares</b>	2009 incentive shares of £1 each in the capital of the Company which were subdivided and redesignated as Melrose Shares on 12 April 2012
<b>2012 Incentive Shares</b>	the unissued 2012 incentive shares of £1 each in the capital of the Company the rights of which are set out in the Articles
<b>5 Year Plan</b>	has the meaning given to such term at paragraph 4 of Part VI ( <i>Additional Information</i> ) of this document
<b>Acquisition</b>	the acquisition of the Elster Shares and/or Elster ADSs by way of (i) the Tender Offer, and, following the Effective Date, (ii) any further offer or offers required to be made by applicable law, arising from or in connection with steps taken by the Company to delist the Elster ADSs from the NYSE, to implement a domination agreement with Elster or to implement a Squeeze-out or a Merger Squeeze-out; and/or (iii) any further tender offer or purchases of Elster ADSs and/or Elster Shares by Melrose Bidco
<b>Admission</b>	the proposed admission of the New Melrose Shares by the FSA (in its capacity as the UKLA) to listing on the premium segment of the Official List and by the London Stock Exchange to trading nil paid on the main market for listed securities of the London Stock Exchange
<b>ADS</b>	an American Depository Share
<b>ADS Depository</b>	the depository established pursuant to a deposit agreement dated 29 September 2010 between, amongst others, Elster and Deutsche Trust Company Americas
<b>Announcement</b>	the announcement made by Melrose on 29 June 2012 in relation to the Acquisition
<b>Articles</b>	the articles of association of Melrose as amended from time to time
<b>Australia</b>	the Commonwealth of Australia and its dependent territories
<b>Barclays</b>	Barclays Bank PLC
<b>Board(s)</b>	the Melrose Board and/or the Elster Board (as the case may be)
<b>Business Day</b>	a day (other than a Saturday or Sunday or public holiday) on which banks are open for business in London
<b>Canada</b>	Canada, its provinces and territories and all areas subject to its jurisdiction or any political subdivision thereof
<b>CERCLA</b>	has the meaning given to such term at risk factor C31 of the section of this document headed “Risk Factors”

<b>certificated or in certificated form</b>	in relation to a share or other security, a share or other security title to which is recorded in the relevant register of the share or other security as being held in certificated form (that is, not in CREST)
<b>Closing Price</b>	the closing middle market price of a relevant share as derived from SEDOL on any particular day
<b>Company or Melrose</b>	Melrose PLC
<b>Competing Elster Proposal</b>	means any inquiry, proposal or offer relating to, or that could reasonably be expected to lead to, a merger or business combination, liquidation or other transaction involving any third party: (i) in respect of or for all or a significant proportion (being 30 per cent. or more when aggregated with shares already held by such third party and any person acting in concert with that third party) of the share capital or voting rights of Elster; or (ii) in respect of or for all or a significant proportion (being 25 per cent. or more) of the Elster Group's undertaking, business, revenues, profits; or (iii) the consideration for which exceeds 25 per cent. of Elster's market capitalisation, in each case howsoever it is proposed that such transaction be implemented (and whether or not subject to any (pre-) conditions)
<b>Cost Cover Agreement</b>	the agreement entered into by Melrose and Elster on 31 May 2012, a summary of which is set out at paragraph 11.1.4 of Part XIII ( <i>Additional Information</i> ) of the Prospectus and incorporated into this document by reference
<b>CREST</b>	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations)
<b>CREST Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended
<b>Deloitte</b>	Deloitte LLP, auditors to Melrose and reporting accountants
<b>Disclosure and Transparency Rules</b>	the Disclosure and Transparency Rules as published by the FSA
<b>EBITDA</b>	earnings before interest, tax, depreciation and amortisation
<b>EEA</b>	the European Economic Area
<b>EEA States</b>	the member states of the European Economic Area
<b>Effective</b>	acceptance and payment by Melrose Bidco in respect of the Elster ADSs and Elster Shares tendered pursuant to the Tender Offer (and not properly withdrawn) following the satisfaction or waiver of the conditions to the Tender Offer
<b>Effective Date</b>	the date on which the Tender Offer becomes Effective
<b>EGSE Guarantee Date</b>	has the meaning given to such term at paragraph 3 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>Elster</b>	Elster Group SE, a German <i>Societas Europaea</i> registered in the commercial register of the local court of Essen, Germany, under HRB number 22030
<b>Elster ADS</b>	an ADS representing one fourth of one Elster Share

<b>Elster ADS Holder</b>	a holder of Elster ADSs
<b>Elster Board</b>	the administrative board of Elster
<b>Elster Directors</b>	the members of the Elster Board
<b>Elster Group</b>	Elster, its subsidiaries and subsidiary undertakings
<b>Elster MAC</b>	has the meaning given to such term at paragraph 2 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>Elster Recommendation</b>	has the meaning given to such term at paragraph 8 of Part I ( <i>Letter from the Chairman of Melrose</i> ) of this document
<b>Elster Share(s)</b>	the ordinary registered shares with a nominal value of EUR 1 each in the share capital of Elster
<b>Elster Shareholder(s)</b>	holders of Elster Shares
<b>Enlarged Group</b>	the Melrose Group following the acquisition of the Elster Group
<b>Enlarged Share Capital</b>	the issued ordinary share capital of Melrose as it is expected to be immediately following the issue of the New Melrose Shares
<b>EPA</b>	has the meaning given to such term at risk factor C31 of the section of this document headed “Risk Factors”
<b>EU</b>	the European Union
<b>Euroclear</b>	Euroclear UK & Ireland Limited, the operator of CREST
<b>Exchange Act</b>	the United States Securities Exchange Act of 1934, as amended
<b>Excluded Territories</b>	Australia, Canada, Japan and South Africa and any other jurisdictions where the extension and availability of the Rights Issue would breach any applicable law
<b>Existing Facilities Agreement</b>	the multicurrency revolving credit facility entered into by Melrose on 22 December 2011 pursuant to which such facility of £600 million was made available to Melrose by a consortium of banks
<b>Existing Melrose Shares</b>	the ordinary shares of $\frac{1}{55}$ pence each in the capital of Melrose in issue immediately prior to the Rights Issue
<b>Financial Adviser</b>	J.P. Morgan
<b>Financial Projections</b>	has the meaning given to such term at paragraph 4 of Part VI ( <i>Additional Information</i> ) of this document
<b>Form of Proxy</b>	the form of proxy for use at the Melrose General Meeting which accompanies this document
<b>FSA</b>	the United Kingdom Financial Services Authority
<b>FSMA</b>	the Financial Services and Markets Act 2000, as amended from time to time
<b>Fully Paid Rights</b>	rights to acquire the New Melrose Shares, fully paid
<b>Guaranteed Dividend</b>	has the meaning given to such term at paragraph 1 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>Hauck</b>	has the meaning given to such term at risk factor C31 of the section of this document headed “Risk Factors”
<b>HSBC</b>	HSBC Bank PLC

<b>IFRS 1</b>	has the meaning given to such term at Part V ( <i>Unaudited Reconciliation of Elster Financial Information to IFRS as Applied by Melrose</i> ) of this document
<b>Incentive Share Reset</b>	has the meaning given to such term at paragraph 6.1.2 of Part VI ( <i>Additional Information</i> ) of this document
<b>Indemnity Agreement</b>	the agreement dated 29 June 2012 between Melrose and Elster, a summary of which is contained in paragraph 11.1.5 of Part XIII ( <i>Additional Information</i> ) of the Prospectus which is incorporated by reference into this document
<b>Investec</b>	Investec Bank plc
<b>Investment Agreement</b>	the investment agreement between Melrose, Melrose Bidco and Elster dated 29 June 2012 as more fully described at paragraph 2 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>Japan</b>	Japan, its cities, prefectures, territories and possessions
<b>J.P. Morgan</b>	J.P. Morgan Limited
<b>J.P. Morgan Cazenove</b>	both J.P. Morgan and JPMSL
<b>JPMSL</b>	J.P. Morgan Securities Ltd.
<b>KPMG</b>	KPMG AG Wirtschaftsprüfungsgesellschaft, The Squaire Am Flughafen 60549 Frankfurt am Main
<b>Latest Practicable Date</b>	27 June 2012 (being the latest practicable date prior to the publication of this document)
<b>Listing Rules</b>	the listing rules made by the FSA under section 73A of FSMA
<b>London Gazette</b>	the official newspaper of the Crown
<b>London Stock Exchange</b>	the London Stock Exchange plc or its successor
<b>Management Elster ADS Holders</b>	certain members of Elster's management (other than the Elster Directors) who hold Elster ADSs (and/or Shares)
<b>Melrose Bidco</b>	Mintford AG, an indirectly wholly owned Melrose subsidiary
<b>Melrose Board</b>	the board of directors of Melrose
<b>Melrose Circular or this document</b>	this shareholder circular dated 29 June 2012
<b>Melrose Directors</b>	the directors of Melrose
<b>Melrose General Meeting</b>	the general meeting of Melrose to be held on 16 June 2012 to vote on the Resolutions
<b>Melrose Group</b>	Melrose, its subsidiaries and subsidiary undertakings
<b>Melrose Recommendation</b>	has the meaning given to such term at paragraph 2 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>Melrose Share(s) or Ordinary Shares</b>	ordinary shares of <sup>14</sup> / <sub>55</sub> pence each in the capital of Melrose
<b>Melrose Shareholders</b>	holders of Melrose Shares

<b>Merger Squeeze-out</b>	has the meaning given to such term at paragraph 1 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>MPC</b>	McKechnie Plastic Components
<b>Nachtwache</b>	Nachtwache Reserve GmbH
<b>National Storage Mechanism</b>	the document publication facility made available by the FSA at ( <a href="http://www.hemscott.com/nsm.do">www.hemscott.com/nsm.do</a> )
<b>New Facilities Agreement</b>	the facilities agreement dated 29 June 2012 between the Company and its lending banks as described at paragraph 3 of Part III ( <i>Terms and Conditions of the Offer</i> ) of this document
<b>New Melrose Shares</b>	the ordinary shares of <sup>14</sup> / <sub>55</sub> pence each proposed to be issued by Melrose pursuant to the Rights Issue
<b>Nil Paid Rights</b>	New Melrose Shares in nil paid form provisionally allotted to Qualifying Shareholders pursuant to the Rights Issue
<b>Non-Solicitation Agreement</b>	the agreement between Melrose and Elster dated 6 June 2012 between Melrose and Elster as described at paragraph 11.1.6 of Part XIII ( <i>Additional Information</i> ) of the Prospectus as incorporated into this document by reference
<b>Notice of General Meeting</b>	the notice of Melrose General Meeting contained in the this document
<b>NYSE</b>	The New York Stock Exchange
<b>Official List</b>	the official list of the UKLA
<b>Overseas Shareholders</b>	Qualifying Shareholders who have a registered address in or are located in jurisdictions other than the United Kingdom
<b>Pence, £ and pounds sterling</b>	the lawful currency of the United Kingdom
<b>Prospectus</b>	the document comprising a prospectus relating to the Company and the listing of the New Melrose Shares on the premium segment of the Official List (together with any supplements or amendments thereto)
<b>Prospectus Directive</b>	Directive 2003/71/EC (as amended from time to time, including by Directive 2010/73/EC to the extent implemented in the relevant EEA State) and includes any relevant implementing measures in each EEA State that has implemented Directive 2003/71/EC
<b>Prospectus Directive Regulation</b>	the Prospectus Directive Regulation (No 2004/809/EC)
<b>Prospectus Rules</b>	the rules for the purposes of Part VI of FSMA in relation to offers of securities to the public and the admission of securities to trading on a regulated market
<b>Provisional Allotment Letter(s) or PAL(s)</b>	the renounceable provisional allotment letters relating to the Rights Issue to be issued to Qualifying non-CREST Shareholders other than certain Overseas Shareholders
<b>Qualifying CREST Shareholders</b>	Qualifying Shareholders whose Melrose Shares are in uncertificated form
<b>Qualifying non-CREST Shareholders</b>	Qualifying Shareholders whose Melrose Shares are in certificated form

<b>Qualifying Shareholders</b>	Melrose Shareholders on the Register at the Record Date
<b>RBC</b>	RBC Europe Limited (operating under the name RBC Capital Markets)
<b>RCF Drawing Limit</b>	has the meaning given to such term at paragraph 3 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>Receiving Agent or Equiniti</b>	Equiniti Limited
<b>Record Date</b>	close of business on 12 July 2012
<b>Register</b>	the Company's statutory register of members
<b>Registrar</b>	Equiniti, or any other registrar appointed by the Company from time to time
<b>Regulatory Information Service</b>	one of the regulatory information services authorised by the UKLA to receive, process, and disseminate regulatory information from listed companies
<b>Relevant Action and Relevant Actions</b>	have the meanings given to such terms at paragraph 2 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>Relevant Ordinary Course Breach and Relevant Ordinary Course Breaches</b>	have the meanings given to such terms at paragraph 2 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>Rembrandt</b>	Rembrandt Holdings S.A.
<b>Rembrandt Lock-Out Agreement</b>	the agreement between Melrose and Rembrandt dated 14 June 2012 as described at paragraph 11.1.7 of Part XIII ( <i>Additional Information</i> ) of the Prospectus as incorporated into this document by reference
<b>Resolutions</b>	the resolutions numbered 1 to 5 set out in the Notice of General Meeting
<b>Rights</b>	the Nil Paid Rights and/or the Fully Paid Rights
<b>Rights Issue</b>	the proposed issue of the New Melrose Shares to Qualifying Shareholders by way of Rights on the terms and subject to the conditions described in this document and, in the case of Qualifying non-CREST Shareholders only, the Provisional Allotment Letters
<b>Rights Issue Price</b>	142 pence per New Melrose Share
<b>SEC</b>	the US Securities and Exchange Commission
<b>Senior Notes</b>	the senior unsecured notes due 2018 with a coupon of 6.25% issued by Elster
<b>Shareholder Helpline</b>	the helpline set up for Melrose Shareholders which will advise Melrose Shareholders how to complete the Provisional Allotment Letter (if they are Qualifying non-CREST Shareholders) and answer certain questions about the Rights Issue: 0871 384 2778 (from inside the United Kingdom) or +44 121 415 0128 (from outside the United Kingdom) between 8.30 a.m. and 5.30 p.m. on any Business Day
<b>Signing Date</b>	has the meaning given to such term at paragraph 3 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document

<b>Sponsors</b>	JPMSL and Investec
<b>Squeeze-out</b>	has the meaning given to such term at paragraph 1 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document
<b>Superior Offer</b>	means a competing tender offer commenced (within the meaning of Rule 14d-2 under the Exchange Act) for all Elster ADSs of Elster which the Elster Board, acting reasonably and in good faith, determines in reliance on outside legal and financial advice is more favourable to Elster and all stakeholders, including the shareholders, employees and customers of Elster than the Tender Offer, taking into account, without limitation, the matters in relation to the Tender Offer referred to in paragraph 2 of Part III ( <i>Terms and Conditions of the Acquisition</i> ) of this document, any post-completion consequences, and all of the terms and conditions of the competing tender offer including its conditionality, the likelihood of its completion in accordance with its terms and the likely timing of the transaction
<b>Tender Offer</b>	the offer by Melrose Bidco to purchase all of the issued and outstanding Elster ADSs (and the underlying Elster Shares to which they relate), at a purchase price of \$20.50 per Elster ADS (\$82 per Elster Share) in cash on the terms and subject to the conditions to be set out in the Tender Offer Document
<b>Tender Offer Commencement Date</b>	the date the Tender Offer Document is filed with the SEC and mailed to Elster ADS Holders and Elster Shareholders, expected to be on or about 6 July 2012
<b>Tender Offer Document</b>	a Tender Offer Statement on Schedule TO (including the Offer to Purchase contained therein) and the related Letter of Transmittal, which will be filed with the SEC and mailed to Elster ADS Holders and Elster Shareholders on the Tender Offer Commencement Date containing and setting out the terms and conditions of the Tender Offer
<b>Tender Offer Expiration Date</b>	the 20 <sup>th</sup> business day (calculated as set forth in Rule 14d-1(g) under the Exchange Act) from the Tender Offer Commencement Date or such subsequent date to which the expiration of the Tender Offer is extended pursuant to and in accordance with the terms of the Tender Offer Document
<b>Transaction Resolutions</b>	the resolutions numbered 1 and 2 set out in the Notice of General Meeting
<b>Transition Date</b>	has the meaning given to such term at Part V ( <i>Unaudited Reconciliation of Elster Financial Information to IFRS as Applied by Melrose</i> ) of this document
<b>UK or United Kingdom</b>	United Kingdom of Great Britain and Northern Ireland
<b>UKLA</b>	the FSA in its capacity as the competent authority for the purposes of Part VI of FSMA
<b>uncertificated or in uncertificated form</b>	a share or other security title to which is recorded in the relevant register of the share or security as being held in uncertificated form, in CREST, and title to which, by virtue of the Regulations may be transferred by means of CREST
<b>Underwriters</b>	JPMSL, Investec, Barclays, HSBC and RBC

<b>Underwriting Agreement</b>	the agreement dated 29 June 2012 between Melrose and the Underwriters pursuant to which the Underwriters have conditionally agreed to fully underwrite the Rights Issue, a summary of which is contained in paragraph 11.1.1 of Part XIII ( <i>Additional Information</i> ) of the Prospectus which is incorporated by reference into this document
<b>US or United States</b>	the United States of America (including the states of the United States and the District of Columbia), its possessions and territories and all areas subject to its jurisdiction
<b>US Securities Act</b>	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
<b>US\$, US dollars or \$</b>	the lawful currency of the United States
<b>VAT</b>	(i) within the EU, any tax imposed by any member state in conformity with the directive of the council of the European Union on the common system of value added tax (2006/112/EC), and (ii) outside the EU, any tax corresponding to, or substantially similar to, the common system of value added tax referred to in paragraph (i) of this definition

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

For the purpose of this document, “**subsidiary**” and “**subsidiary undertaking**” have the meanings given by the 2006 Act.

Words importing the singular shall include the plural and *vice versa*, and words importing the masculine gender shall include the feminine or neutral gender.



## **DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS**

### **DIRECTORS**

Christopher Miller (*Executive Chairman*)  
David Roper (*Executive Vice-Chairman*)  
Simon Peckham (*Chief Executive*)  
Geoffrey Martin (*Group Finance Director*)  
Miles Templeman (*Senior Non-Executive Director*)  
Perry Crosthwaite (*Non-Executive Director*)  
John Grant (*Non-Executive Director*)  
Justin Dowley (*Non-Executive Director*)

### **COMPANY SECRETARY REGISTERED OFFICE**

Garry Barnes  
Precision House  
Arden Road  
Alcester  
Warwickshire  
B49 6HN

### **FINANCIAL ADVISER TO MELROSE**

J.P. Morgan Limited  
125 London Wall  
London EC2Y 5AJ

### **JOINT SPONSOR, JOINT BOOKRUNNER AND JOINT UNDERWRITER TO MELROSE**

Investec Bank plc  
2 Gresham Street  
London EC2V 7QP

### **JOINT SPONSOR, JOINT BOOKRUNNER AND JOINT UNDERWRITER TO MELROSE**

J.P. Morgan Securities Ltd.  
125 London Wall  
London EC2Y 5AJ

### **JOINT UNDERWRITER AND CO-BOOKRUNNER TO MELROSE**

Barclays Bank PLC  
5 The North Colonnade  
London E14 4BB

### **JOINT UNDERWRITER AND CO-BOOKRUNNER TO MELROSE**

HSBC Bank PLC  
8 Canada Square  
Canary Wharf  
London E14 5HQ

### **JOINT UNDERWRITER AND CO-BOOKRUNNER TO MELROSE**

RBC Europe Limited  
Riverbank House  
2 Swan Lane  
London EC4R 3BF

### **LEGAL ADVISER TO MELROSE**

Simpson Thacher & Bartlett LLP  
Citypoint  
One Ropemaker Street  
London  
EC2Y 9HU

### **LEGAL ADVISER TO THE JOINT SPONSORS, JOINT UNDERWRITERS AND FINANCIAL ADVISER**

Linklaters LLP  
One Silk Street  
London EC2Y 8HQ

### **REGISTRARS TO MELROSE**

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

### **AUDITORS TO MELROSE AND REPORTING ACCOUNTANTS**

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

# MELROSE PLC

*(registered in England and Wales with registered number 4763064)*

## NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of Melrose PLC (“**Melrose**” or the “**Company**”) will be held at the offices of Investec Bank plc, 2 Gresham Street, London EC2V 7QP at 10.00 a.m. on 16 July 2012 for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed, in the case of resolutions 1, 2 and 3, as ordinary resolutions and, in the case of resolutions 4 and 5, as special resolutions:

### ORDINARY RESOLUTIONS

1. **THAT** the proposed acquisition by the Company (or a wholly owned subsidiary of the Company) of all or any part of the issued share capital of Elster Group SE (“**Elster**”) (the “**Acquisition**”) by way of (i) a tender offer for all of the issued American Depository Shares registered by Elster on the New York Stock Exchange (the “**NYSE**”) (each an “**Elster ADS**”) and all of the issued ordinary shares in the capital of Elster (each an “**Elster Share**”), on the terms and subject to the conditions set out in the circular sent to shareholders of the Company (the “**Circular**”) dated 29 June 2012 and, following the completion of such tender offer, (ii) any further offer or offers required to be made by applicable law, arising from or in connection with steps taken by the Company to delist the Elster ADSs from the NYSE, to implement a domination agreement with Elster or to implement a squeeze-out or a merger squeeze-out under German corporate law (at such price or prices as may be necessary to comply with any applicable law) and/or (iii) any further tender offer or purchases of Elster ADSs and/or Elster Shares, in the case of each of (ii) and (iii), on terms not materially different from those set out in the Circular (including the aggregate increase in the consideration payable for the Acquisition of all of the Elster ADSs and Elster Shares as a result of acquisitions of Elster ADSs or Elster Shares pursuant to (ii) and (iii) not being material in the context of the Acquisition taken as a whole), be and is approved and the Directors of the Company (the “**Directors**”) (or any duly constituted committee thereof) be authorised, as they may in their absolute discretion think fit: (1) to take all such steps as may be necessary or desirable in connection with, or to implement, the Acquisition, including for the avoidance of doubt, the waiver of any condition to such tender offer or any subsequent tender offer or offers; and (2) to agree such modifications, variations, revisions, extensions, waivers or amendments to the terms and conditions of the Acquisition, and to any documents relating thereto provided such modifications, variations, revisions, extensions, waivers or amendments are not material.
2. **THAT** subject to and conditional on the passing of Resolution 1, and in accordance with Article 10 of the Company’s articles of association, in addition and without prejudice to all existing authorities conferred on the Directors, the Directors be and are generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the “**2006 Act**”) to exercise all the powers of the Company to allot ordinary shares in the Company (“**Ordinary Shares**”) or grant rights to subscribe for or to convert any securities into Ordinary Shares up to an aggregate nominal amount of £2,149,427.70, provided that:
  - (i) such authority will expire (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company following the passing of this resolution; and
  - (ii) the Company may before the expiry of this authority make an offer or agreement which would or might require shares in the Company to be allotted or rights to subscribe for or to convert any security into shares in the Company to be granted after such expiry and the Directors may allot such shares or grant such rights in pursuance of that offer or agreement as if the authority conferred hereby had not expired.

3. **THAT** subject to and conditional on the up to 844,418,024 Ordinary Shares to be issued pursuant to the rights issue described in the Circular being admitted (nil paid) to the premium segment of the Official List of the UK Listing Authority and admitted to trading on the main market for listed securities of the London Stock Exchange (“**Admission**”), in addition to the authorities granted pursuant to resolution 2 but in substitution for the authority granted pursuant to resolution 13 passed at the Melrose annual general meeting held on 9 May 2011 (the “**2012 AGM**”), the Directors be and are generally and unconditionally authorised pursuant to section 551 of the 2006 Act to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for, or to convert any security into, shares in the Company:
- A. up to an aggregate nominal amount of £1,074,713.85; and
  - B. comprising equity securities (as defined in section 560(1) of the 2006 Act) up to an aggregate nominal amount of £2,149,427.70 (such amount to be reduced by the aggregate nominal amount of any allotments or grants made under paragraph (A) of this resolution 3) in connection with an offer by way of a rights issue:
    - (i) to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings; and
    - (ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

provided that such authorities will expire (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company following the passing of this resolution but in each case, the Company may before the expiry of this authority make offers or agreements which would or might require shares of the Company to be allotted, or rights to subscribe for or to convert securities into shares in the Company to be granted, after such expiry and the Directors of the Company may allot such shares or grant such rights in pursuance of any such offer or agreement as if the authority conferred hereby had not expired.

#### **SPECIAL RESOLUTIONS**

4. **THAT**, in substitution for the authority granted pursuant to resolution 14 passed at the 2012 AGM and subject to and conditional on Admission and the passing of resolution 3, the Directors be and are generally empowered to allot equity securities (as defined in the 2006 Act) for cash pursuant to the authority conferred by resolution 3 and/or to sell Ordinary Shares held by the Company as treasury shares for cash, in each case free of the restriction in section 561(1) of the 2006 Act, such power to be limited:
- A. to the allotment of equity securities and sale of treasury shares for cash in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted by paragraph (B) of resolution 3, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only):
    - (i) to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings; and
    - (ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

- B. to the allotment (otherwise than in the circumstances set out in paragraph (A) of this resolution 4) of equity securities pursuant to the authority granted by paragraph (A) of resolution 3 and/or the sale of treasury shares for cash up to a nominal amount of £161,207.08, provided that such power will expire (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company following the passing of this resolution, provided that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted (and/or treasury shares to be sold) after such expiry and the Directors may allot equity securities (and/or sell treasury shares) in pursuance of such offer or agreement as if the power conferred hereby had not expired.
5. **THAT**, in substitution for the authority granted pursuant to resolution 15 passed at the 2012 AGM and subject to and conditional on Admission, the Company be and is generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693 of the 2006 Act) of Ordinary Shares provided that:
- A. the maximum aggregate number of Ordinary Shares authorised to be purchased is 162,662,703 (representing 10 per cent. of the issued ordinary share capital immediately following Admission);
- B. the minimum price which may be paid for an Ordinary Share shall not be less than the nominal value of an Ordinary Share at the time of such purchase;
- C. the maximum price which may be paid for an Ordinary Share is not more than the higher of:
- (i) 105 per cent. of the average of the middle market quotation for an Ordinary Share as derived from the London Stock Exchange plc's Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased; and
- (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out,
- in each case, exclusive of expenses;
- D. this authority will expire (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company following the passing of this resolution;
- E. the Company may make a contract to purchase Ordinary Shares under this authority before expiry of the authority which will or may be executed wholly or partly after the expiry of that authority, and may make a purchase of Ordinary Shares in pursuance of any such contract; and
- F. any Ordinary Shares purchased pursuant to this authority may either be held as treasury shares or cancelled by the Company, depending on which course of action is considered by the Directors to be in the best interests of shareholders at the time.

29 June 2012

Registered office:  
Precision House  
Arden Road  
Alcester  
Warwickshire  
B49 6HN

By Order of the Board

Garry Barnes  
*Secretary*

## NOTES

### Notes:

1. The holders of Ordinary Shares are entitled to attend and vote at the General Meeting. A member entitled to attend and vote may appoint a proxy to exercise all or any of its rights to attend, speak and vote at a general meeting of the Company. Such a member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. A form of proxy is enclosed with this notice. To be effective, a form of proxy must be completed and returned, together with any power of attorney or authority under which it is completed or a certified copy of such power or authority, so that it is received by the Company's registrars at the address specified on the form of proxy not less than 48 hours (excluding any part of a day that is not a working day) before the time for holding the meeting. Returning a completed form of proxy will not preclude a member from attending the meeting and voting in person.
3. Any person to whom this notice is sent who is a person nominated under section 146 of the 2006 Act to enjoy information rights (a "Nominated Person") may, under an agreement between him and the shareholder by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in paragraphs 1 and 2 can only be exercised by shareholders of the Company.
4. To be entitled to attend and vote at the General Meeting (and for the purposes of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members by 6.00 p.m. on 12 July 2012 (or, in the event of an adjournment, on the date which is two days before the time of the adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. As at 28 June 2012 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 422,209,012 Ordinary Shares, carrying one vote each.
6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available at [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 10.00 a.m. on 12 July 2012. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
8. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
9. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.
10. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
11. Any member holding Ordinary Shares attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
12. A copy of this notice, and other information required by section 311A of the 2006 Act, can be found at ([www.melroseplc.net](http://www.melroseplc.net)).
13. You may not use an electronic address provided in either this Notice of General Meeting or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
14. You may register your vote online by visiting Equiniti's website at ([www.sharevote.co.uk](http://www.sharevote.co.uk)). In order to register your vote online, you will need to enter the Voting ID, Task ID and your Shareholder Reference Number which are set out on the enclosed form of proxy. The return of the form of proxy by post or registering your vote online will not prevent you from attending the General Meeting and voting in person, should you so wish. Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at ([www.shareview.co.uk](http://www.shareview.co.uk)) and then clicking on the link to vote under their Melrose PLC holding details. The on-screen instructions give details on how to complete the appointment process. A proxy appointment made electronically will not be valid if sent to any address other than those provided or if received after 10.00 a.m. on 12 July 2012.

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