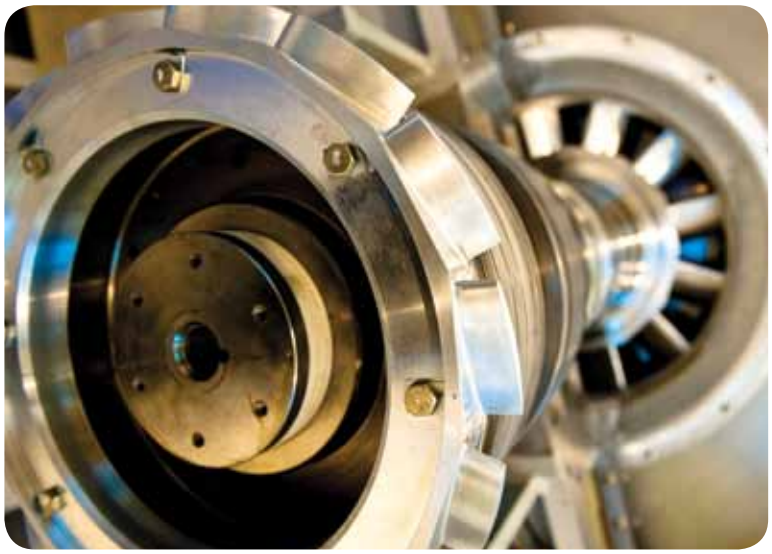
Melrose PLC

Annual Report
for the year ended 31 December 2011



Buy
Improve
Sell

Melrose

Welcome to Melrose PLC

Melrose's strategy is to acquire manufacturing businesses in sectors it understands, enhance their performance and realise significant value often within a 3 to 5 year time frame. The Company is fully committed to investing within the businesses it acquires in order to exploit their operational and strategic strengths.

The Group is made up of three distinct operating divisions: Energy, Lifting and Other Industrial.

Cover pictures: Clockwise (L–R)

- Exciter end of a slip ring generator at Brush Transformers.
- Heat treatment process being carried out on Crosby's forged shackle bows, which are used in overhead lifting applications.
- Bridon Hydra 5500 rope being spooled onto a customer transporter reel prior to delivery.
- Connecting and insulating stator coils at Brush Turbogenerators.
- Ultra sonic welding of plastic parts at McKechnie Plastic Components for use on the Range Rover Evoque.
- Medium voltage outdoor switchgear manufactured by Hawker Siddeley Switchgear.

Pictured above:
Winding process being carried out to a DAX designed stator generator by engineers at the Brush Turbogenerators facility in Loughborough, UK.

"This is another set of excellent results. We continue to be confident that there is more improvement to come driven by the positive momentum of our order books and strong end markets. We also continue to look for our next acquisition and current market circumstances mean that we are, if anything, more certain that a suitable acquisition opportunity will arise."

Christopher Miller
Executive Chairman

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

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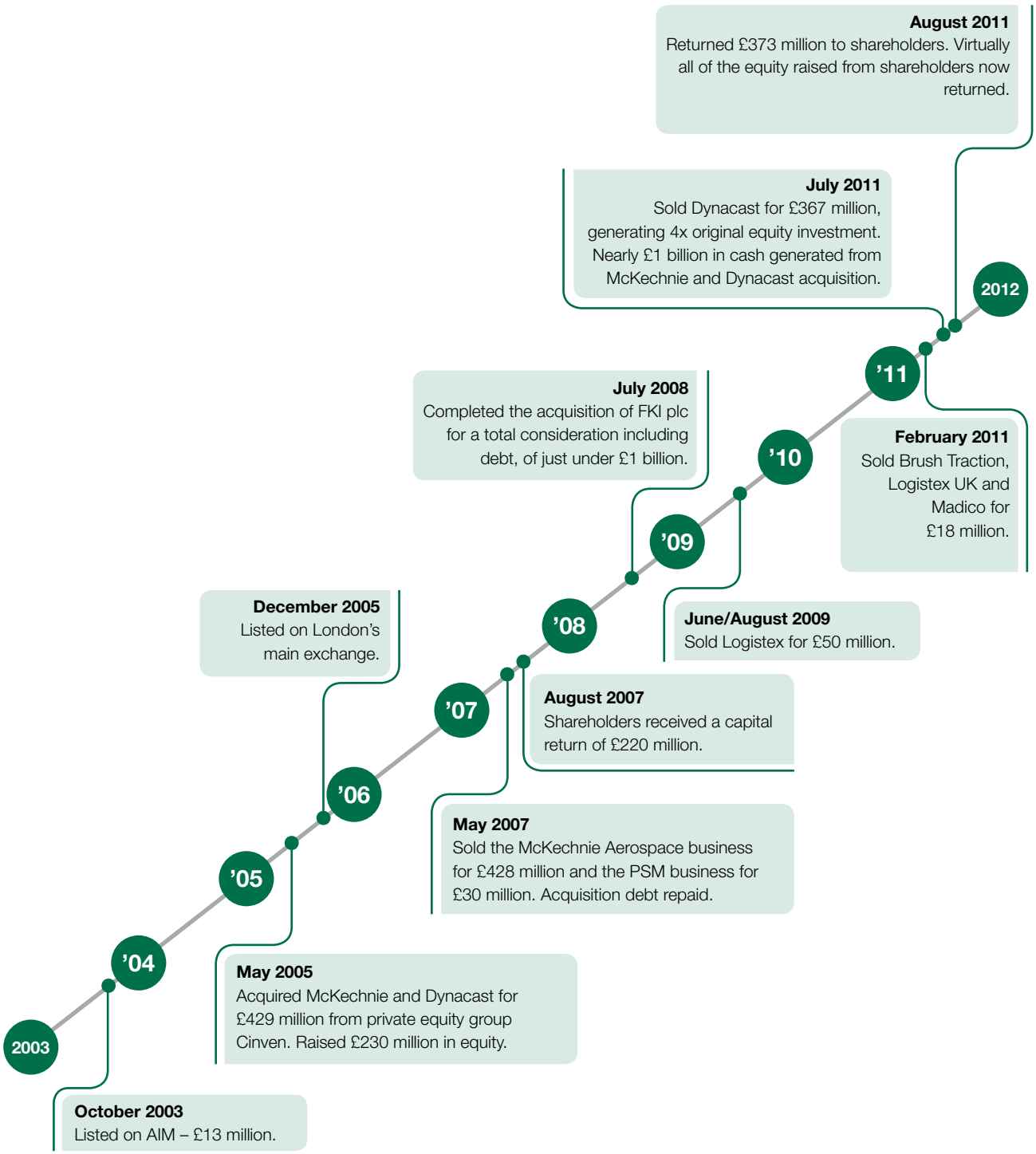
Group performance

Timeline of major events

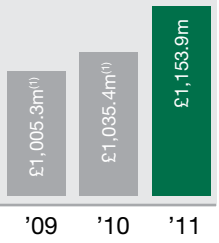
Melrose was listed on AIM in October 2003. The timeline of key strategic events below shows how the Group has gone from strength to strength.



Financial highlights[1]

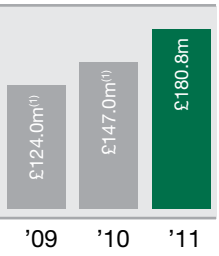
Revenue

£1,153.9m
up 11%



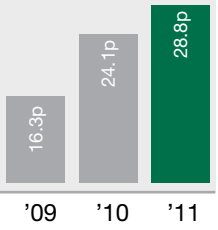
Headline[2] operating profit

£180.8m
up 23%



Headline[2] diluted basic earnings per share-full group[3]

28.8p
up 20%



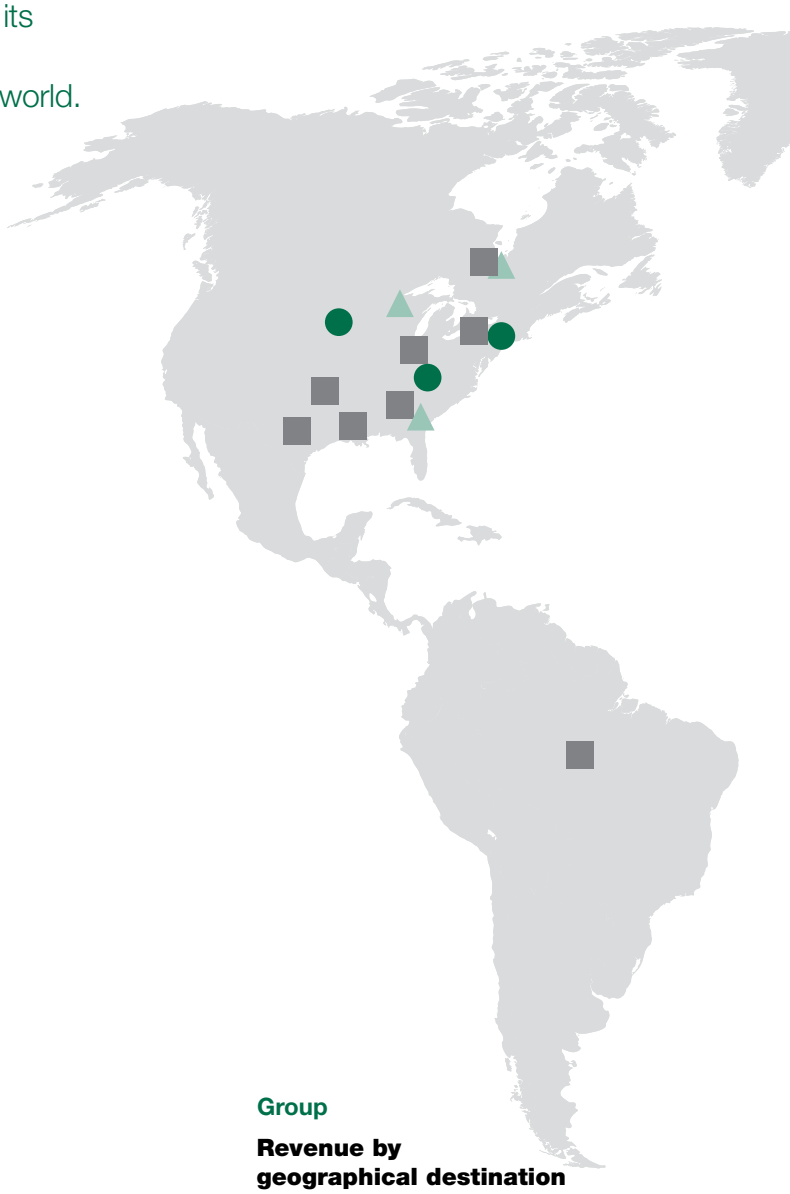
- Headline[2] results:
  - Revenue in the full year £1,153.9 million (2010: £1,035.4 million), an increase of 11% on 2010
  - Revenue in the second half £603.1 million (2010: £531.1 million), an increase of 14% on 2010
  - Order intake of £1,212.6 million (2010: £991.2 million), an increase of 22%
  - Operating profit margin of 15.7% (2010: 14.2%)
  - Profit before tax of £161.2 million (2010: £121.7 million), an increase of 32%
  - Diluted earnings per share[3] (including discontinued businesses) of 28.8p (2010: 24.1p), up 20%
- Results after exceptional items and intangible asset amortisation:
  - Profit after tax of £114.8 million (2010: £103.7 million), an increase of 11%
  - Diluted earnings per share of 23.7p (2010: 19.8p), up 20%
- Net debt of £289.6 million (2010: £287.4 million). Net debt equal to 1.4× EBITDA[4]
- New five-year £600 million committed bank refinancing completed in January 2012
- Final dividend increased by 20% to 8.4p per share (2010: 7.0p)
- Full year dividend increased by 18% to 13.0p per share (2010: 11.0p)
- Completion of the disposal of Dynacast on 19 July 2011 for an enterprise value of £377 million with the equity value increased fourfold
- Since flotation in 2003 approximately £1.5 billion shareholder value created at current market price

(1) Continuing operations only unless otherwise stated.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Calculated using continuing and discontinued operations, before the profit on disposal of businesses, and the diluted weighted average number of shares for the year (including 30.1 million shares assumed to be issued under the Melrose Incentive Scheme).
(4) Headline[2] operating profit before depreciation and amortisation.

Group operations

The Melrose Group operates internationally with its key businesses having manufacturing facilities in Europe, North America, Asia and the rest of the world.

Within several of the Melrose businesses a focus has been placed on developing opportunities for growing demand in territories such as the Far East and South America, especially in the oil & gas and mining sectors.



Areas of operation

Europe

- Brush Turbogenerators have facilities based in the UK, the Netherlands and the Czech Republic. A £15 million investment has recently been approved, designed to increase productivity and capacity in the manufacture of 2-pole generators.
- Bridon's key european manufacturing facilities are based in the UK and Germany. A total of £20 million is being invested in a new state of the art manufacturing facility for Bridon, near Newcastle upon Tyne, UK, which is expected to be operational by the end of 2012.
- Crosby, Marelli, McKechnie Plastic Components, Hawker Siddeley Switchgear ('HSS') and Prelok also have important manufacturing locations in Europe.

North America

- Crosby's US operations are based in Oklahoma, Texas and Arkansas, with a further site in Ontario, Canada.
- Truth's manufacturing is based in Minnesota, US and Ontario, Canada.
- Harris are based in Georgia, US.
- Bridon, Brush and Acco also have key manufacturing locations within other parts of the US.

Asia

- Crosby recently opened its new crane block and sheave facility in Hangzhou, China, which has resulted in shorter lead times for customers.
- Marelli opened its new Malaysian plant during 2011 to manufacture its smaller, more standard generators, to allow their Italian plant to focus on producing larger and more complex machinery.
- In order to free up manufacturing capacity at Truth's Minnesota, US plant they have outsourced lower margin products to China.
- Bridon has manufacturing facilities located in Indonesia and China and distribution service centres in Singapore and Hong Kong.

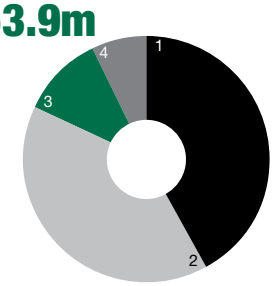
Rest of World

- Crosby and Bridon are currently in the process of setting up respective sales offices, distribution networks and training facilities within South America.
- Bridon has facilities in New Zealand and a distribution service centre in Dubai. HSS has facilities in Australia and Marelli has a warehousing and sales office presence in South Africa.

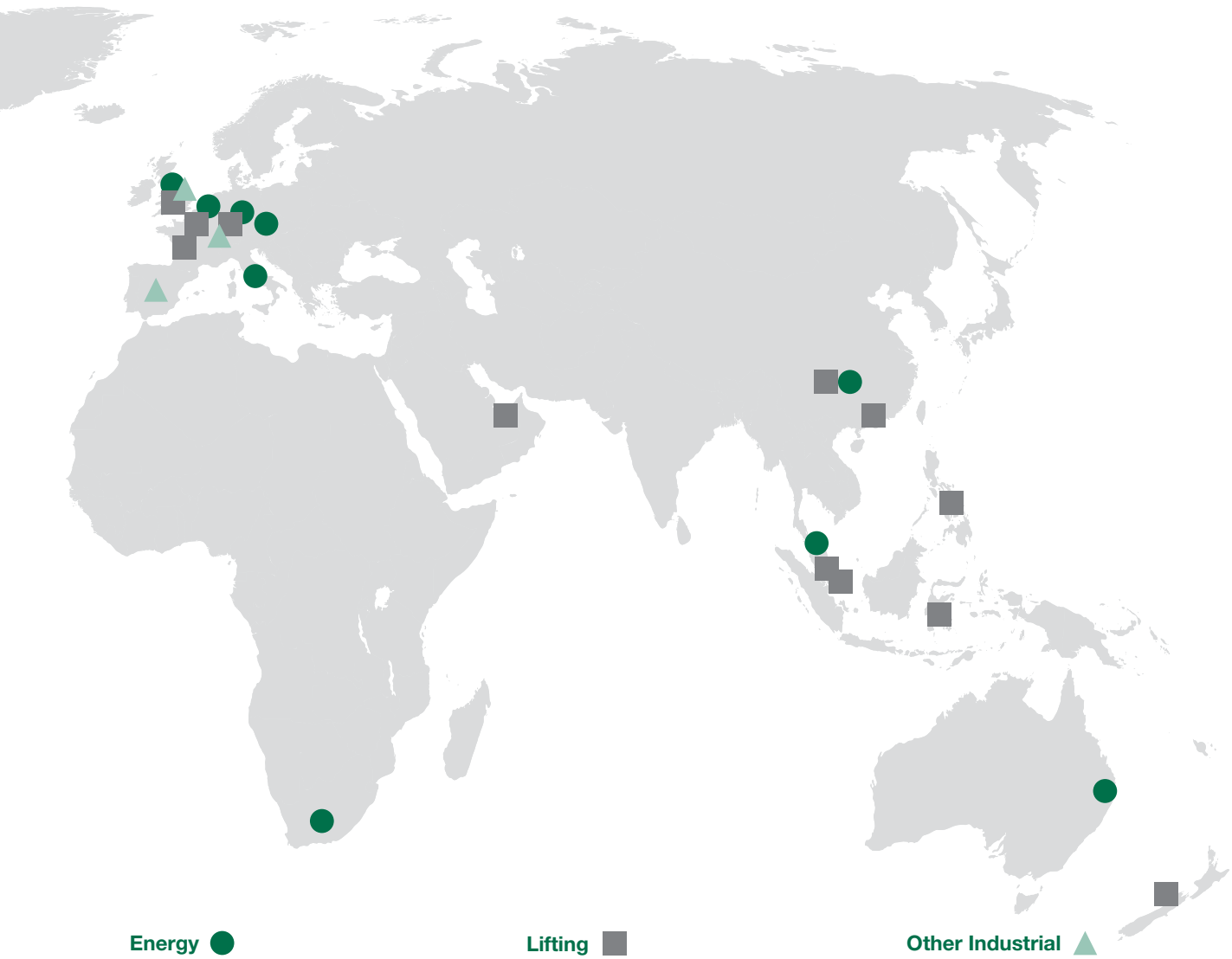
Group

Revenue by geographical destination
(Year ended 31 December 2011)

£1,153.9m



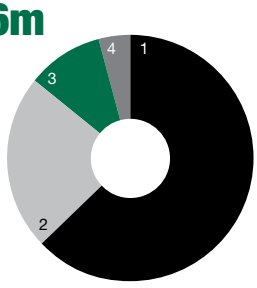
- **1** Europe **42%**
- **2** North America **40%**
- **3** Asia **11%**
- **4** RoW **7%**



Energy

Revenue by geographical destination
(Year ended 31 December 2011)

£461.6m

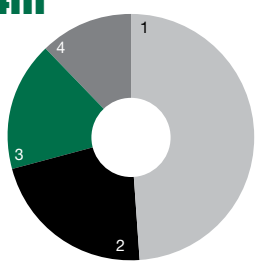


- **1** Europe **63%**
- **2** North America **23%**
- **3** Asia **10%**
- **4** RoW **4%**

Lifting

Revenue by geographical destination
(Year ended 31 December 2011)

£484.4m

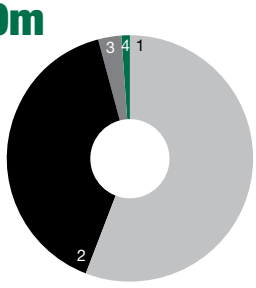


- **1** North America **49%**
- **2** Europe **22%**
- **3** Asia **17%**
- **4** RoW **12%**

Other Industrial

Revenue by geographical destination
(Year ended 31 December 2011)

£207.9m



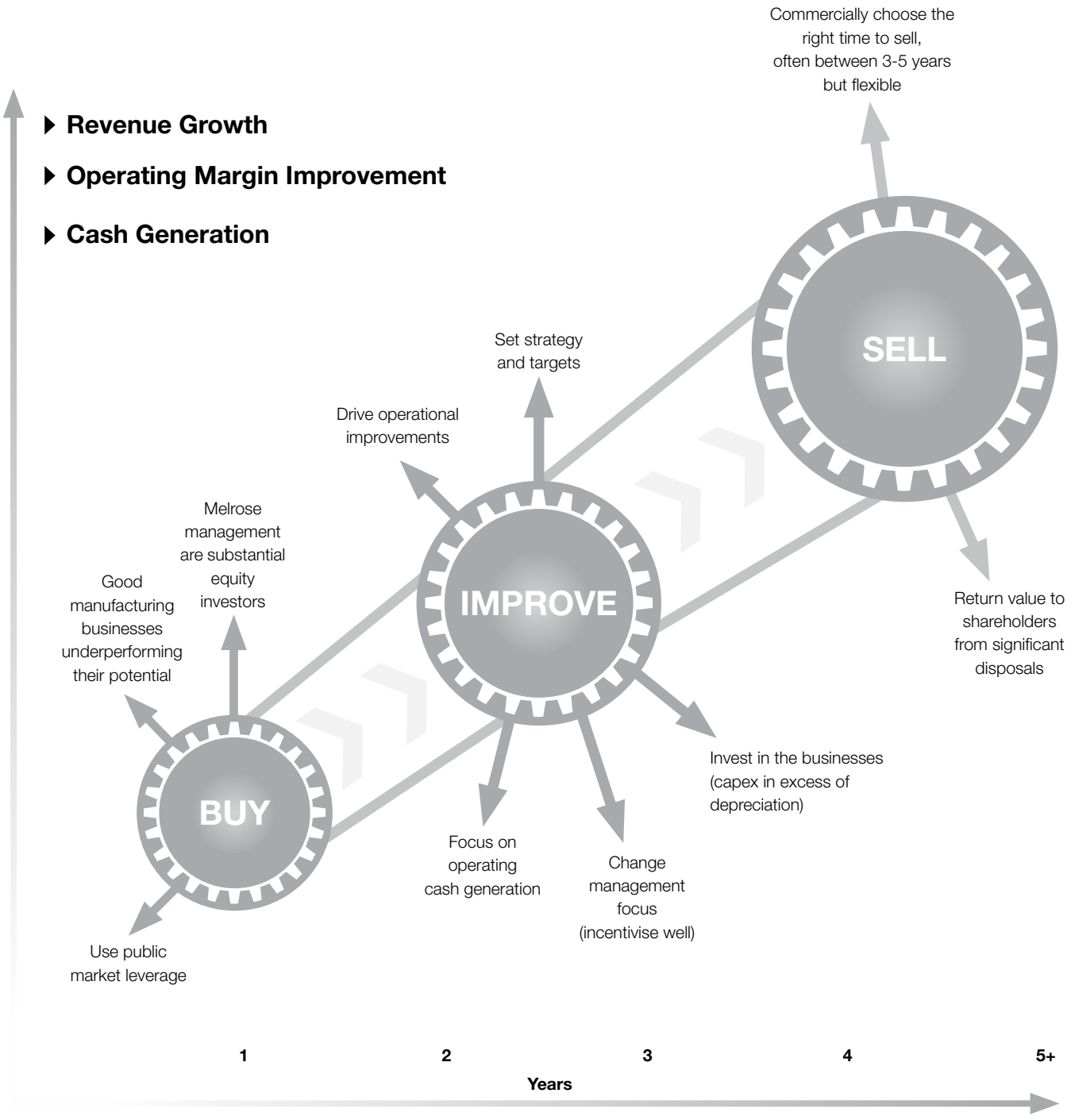
- **1** North America **56%**
- **2** Europe **40%**
- **3** RoW **3%**
- **4** Asia **1%**

Notes: The world map shows the Group's manufacturing, distribution and sales office locations. The pie charts show revenue by geographical destination.

The Melrose strategy

The Melrose strategy is to acquire good manufacturing businesses underperforming their potential, improve them by a mixture of investment, operational improvements and changed management focus, then commercially choose the right time to sell, often within a 3 to 5 year time frame but this is flexible. The value from significant disposals is then returned to shareholders.

Whilst we are ready for the next acquisition, we will be patient to ensure it is the right one.



Strategy in action

ACQUISITION OF FKI

Substantial potential being realised

On 1 July 2008 Melrose completed the acquisition of FKI plc for a total consideration, including debt, of just under £1 billion. FKI was a major international diversified engineering group with four divisions, including some businesses with very good market positions.

However, FKI had a weak Balance Sheet and borrowings due to be refinanced in the near term. The financing terms of Melrose's acquisition enabled the Balance Sheet issues to be resolved and a more appropriate Group borrowing structure with lower overall debt leverage and a maturity date of 2013.

In addition to addressing the pressing financial constraints facing FKI, Melrose identified a number of opportunities to improve the performance of FKI's businesses, principally through an increased focus on cash generation and profitability. Melrose will continue to seek to invest in existing facilities and new capacity, as well as consider acquisitions and organic growth into new markets, where appropriate.

DYNACAST

Buy, Improve, Sell

Dynacast was acquired in May 2005 alongside McKechnie. During the six years of ownership, as a result of the improvement in its performance Melrose quadrupled the shareholders' investment in Dynacast, selling the business for an enterprise value of £377 million in July 2011. Consistent with Melrose's strategy, following the disposal approximately £373 million was returned to shareholders.

The sale of Dynacast means that nearly £1 billion in cash was generated from the original £429 million McKechnie and Dynacast acquisition. Melrose successfully steered Dynacast through the global slowdown, and cost savings made during the downturn were retained as sales recovered. Melrose invested fully in Dynacast to expand capacity, particulary in the Far East, and to improve efficiency.

Dynacast also succesfully completed some bolt on acquisitions. Under Melrose ownership, sales in all three of Dynacast's main geographic regions grew.

MCKECHNIE AEROSPACE

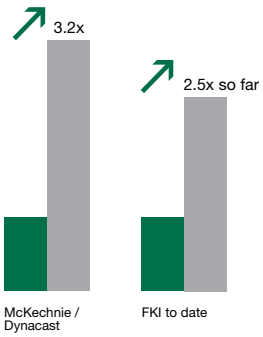
Creating significant value

Melrose acquired McKechnie, along with the Dynacast businesses, in May 2005. At acquisition it could see the benefit of the strong upturn in the aerospace cycle. Moreover, Melrose saw significant scope to improve the operational and financial performance of the business and subsequently:

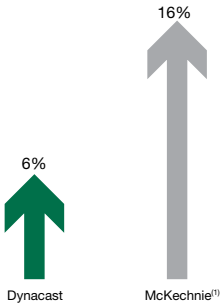
- invested in the business to improve its performance and manufacturing efficiency; and
- supported the business to improve the depth and quality of management.

In our two years of ownership revenues grew by 35%, EBITDA grew by approximately 75% with margins increasing by 6 percentage points. On 14 May 2007 McKechnie's aerospace and aftermarket businesses were sold for £428 million in cash, generating an IRR of 65% and a profit (including cash generation during ownership) of approximately £250 million. In total it is estimated that the disposal crystallised an equity value of nearly 2.5 times.

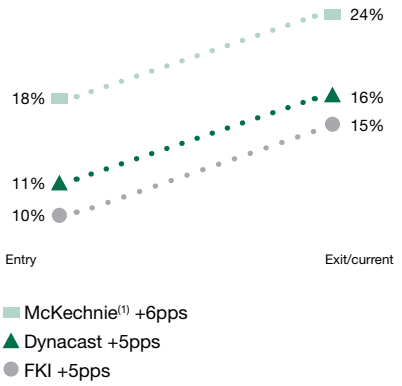
Acquisition equity increase



Revenue growth (compound)



Operating margin(2) improvement



(1) McKechnie Aerospace was owned from May 2005 until May 2007. Calculated using full year 2005 results and forecast full year 2007 results.
(2) Headline operating margin before exceptional costs, exceptional income and intangible asset amortisation.

Group at a glance

Melrose is an international business which has three distinct operating divisions: Energy, Lifting and Other Industrial.

Until July of last year the Group also had a fourth operating division Dynacast, which was sold for a consideration of £366.5 million. Melrose remains committed to investing in its businesses in order to ensure continued development of world leading technologies and products to a wide variety of customers, especially within the Energy, Oil & Gas and Mining sectors.

Revenue from Energy division

Revenue from Lifting division

Revenue from Other Industrial division

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

Energy

World number one independent supplier of turbogenerators and leading supplier of other electricity generating machinery, switchgear, transformers and power infrastructure equipment. Strong aftermarket service capabilities.

Key strengths

- Expertise to design and manufacture an extensive range of high quality, multi-pole low, medium and high voltage generators and electric motors
- Comprehensive and integrated aftermarket support tailored to meet customers' needs throughout operating life
- Switchgear and transformer products in service with all UK energy supply authorities
- Hydropower generators to produce environmentally green energy
- Generators and electric motors for ship power
- Strategically located around the world

Products

- Power generation equipment with 10 kW to 250 MW electric generators
- Synchronous motors, induction motors, submersible and traction motors
- Power management and excitation systems
- Medium voltage AC and DC switchgear
- Power and system transformers
- Aftermarket servicing

Major customers

- General Electric
- Pratt & Whitney
- Wartsila
- Mitsubishi
- L3
- Converteam
- MWM
- Rolls-Royce
- Scottish & Southern Electricity
- Dresser Rand
- UK Power Networks
- Western Power

For more information on our Energy Division go to **pages 14 to 16**

Pictured: Installation of bearings into a slip ring generator at the Brush Turbogenerators facility in Loughborough, UK.

Lifting

Leading supplier worldwide of lifting fittings, blocks and custom engineered material handling products and top three supplier worldwide for wire and wire rope.

Key strengths

- Comprehensive and competitive range of solutions in steel wire, wire and fibre rope and strand
- Technical expertise to support customers demanding applications, training, installation and testing
- World's leading supplier of accessories used in lifting and material handling applications
- Strategically located around the world

Products

- Wire rope, fibre rope and wire
- Hooks, shackles, blocks, sheaves, clamps and links
- Material handling products
- Monorail systems
- Chain hoists
- Industrial carts and trailers

Major customers

- Global crane original equipment manufacturers ('OEMs') and mining OEMs
- Major oil companies
- Global oil field exploration and drilling contractors
- Construction companies
- Lifting products distributors

For more information on our Lifting Division go to **pages 17 to 19**

Pictured: Galvanised wire rod is stored at Bridon's Doncaster, UK factory before the wire-drawing process takes place.

Other Industrial

Market leading manufacturers across the housing, construction, automotive, scrap processing and other industrial sectors.

Key strengths

- Market leading design, development and engineering capabilities
- Leading innovative product development and technology choice for customers
- Trusted long-standing quality brand names
- In-depth aftermarket service supply capabilities

Products

- Window and door hardware
- Balers, shears, waste compactors and auto shredders
- Automotive trims and mouldings
- Widgets for cans
- Sealing products

Major customers

- US hardware industry OEMs
- Waste and scrap processors
- Manufacturers and distributors in various industries and retailers

For more information on our Other Industrial Division go to **page 20 to 22**

Pictured: Production of Marks & Spencer food distribution trays at McKechnie Plastic Components Stamford Bridge facility in Yorkshire, UK.

Chairman's statement

Headline[1] diluted earnings per share

Dividend per share[2]

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Excludes special dividends.

I am pleased to report Melrose's ninth set of annual results since flotation in 2003. In this time Melrose has raised £785 million in capital for acquisitions and has returned £771 million in capital returns and dividends giving a current net investment by shareholders of £14 million. After payment of the final dividend proposed below, Melrose will have repaid all equity raised. At the current share price our market capitalisation means that approximately £1.5 billion of value has been created for shareholders since 2003.

RESULTS FOR THE GROUP

These accounts report the results for the Group for the year to 31 December 2011 and comparatives for the previous year.

Revenue from continuing businesses for the year was £1,153.9 million (2010: £1,035.4 million) and headline profit before tax (before exceptional costs, exceptional income and intangible asset amortisation) was £161.2 million (2010: £121.7 million). Headline diluted earnings per share ('EPS') on continuing and discontinued businesses were 28.8p (2010: 24.1p). Diluted EPS on continuing and discontinued businesses were 59.0p (2010: 27.0p).

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

DIVIDENDS

The Board intends to pay a final dividend of 8.4p per share (2010: 7.0p) on 14 May 2012 to those shareholders on the register at 13 April 2012, subject to approval at the AGM on 9 May 2012. This gives a total for the year of 13.0p per share (2010: 11.0p), which represents an 18% increase.

We continue to pursue a progressive policy even in years such as this where a capital return has been made.

"2011 saw an excellent performance from our businesses. Headline operating profit was up 23% on sales up 11% reflecting another year of increased headline operating margins, which are now at 15.7%. We believe there is more to come from these businesses both in profits and margins."

TRADING

2011 saw an excellent performance from our businesses. Headline operating profit was up 23% on sales up 11% reflecting another year of increased headline operating margins, which are now at 15.7%. We believe there is more to come from these businesses both in profits and margins and, in this context, the most encouraging sign was the increase in order intake throughout the year, with the fourth quarter being the strongest.

We have now fully entered the investment phase with increased capital expenditure across all of our businesses. Nevertheless net debt has remained at £290 million, which means that this investment has been funded out of operational cash generation. We continued to maintain strict controls on working capital and we expect this excellent cash generation to continue.

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

BOARD CHANGES

We have announced today a forthcoming change of roles within the Melrose Board. Simon Peckham, currently our Chief Operating Officer, will take over as Chief Executive from the next Annual General Meeting. David Roper, whom he succeeds, will become Executive Vice-Chairman. As a founder Director, David has been a highly important and fundamental part of Melrose and its success since inception in 2003. Equally Simon, also a founder Director, has made a huge contribution to our progress and has fully earned this appointment. On behalf of shareholders I would like to thank them both for their efforts past and future. This is part of a planned management succession programme, and all your executive Directors remain fully committed and are looking forward to continuing Melrose's development and success.

We were delighted to welcome Justin Dowley to our Board as a non-executive Director last September. He has had a distinguished career in the City and we look forward to his contribution to Melrose.

STRATEGY AND OUTLOOK

The sale of Dynacast in July 2011 for an enterprise value of £377 million and the subsequent return of these proceeds to shareholders was a further demonstration of our strategy. The first and most important part of our strategy of 'buy, improve, sell' is, of course, making good acquisitions. We continue to look for suitable opportunities but, it should go without saying, we will be extremely careful in the application of our criteria, which include price. We are optimistic that we will identify something which will add further to the excellent growth of the Group.

At the interim stage we highlighted the strong end markets which most of our businesses serve and the expected return, in due course, on our increased investment programmes. Since then order books have continued to improve and we feel we are seeing early signs of recovery in the USA. Our businesses in the Rest of the World continue to perform well. While we are naturally cautious about economies in continental Europe, we are encouraged by current trading and the outlook for 2012.

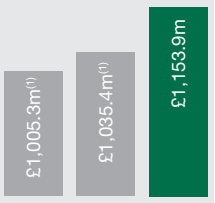
Christopher Miller
Executive Chairman
7 March 2012

Pictured:
Bridon supplied 16 spiral strand 'Stay Cables' with 'Stylite Sockets' for the Media City Footbridge, Salford Quays, Salford, UK, which spans 100 metres across the Manchester Ship Canal.

Chief Executive's review

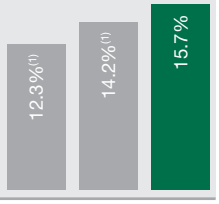
Revenue

£1,153.9m
up 11%



Headline(2) operating profit margin

15.7%
up 1.5 percentage points



I am very pleased with the trading results of the Group in 2011. On all measures of performance, whether it be sales and operating profit growth, profit margins, cash generation or order intake, the result has been very good.

It is gratifying to see the sales growth momentum in the business increasing in the second half of the year, reflecting continuing market improvements and the benefits of the active programme of capital investment, supported by a healthy pipeline of new product introductions.

The Energy division had another excellent year in 2011. Order intake in the year was very good and continued to build through the period as the benefits of the competitiveness and energy efficiency of Brush Turbogenerators' main product, the gas turbogenerator, produced good gains in market share. Significant capital investment continues to be made in both Brush's new build and aftermarket facilities in order to increase capacity to meet projected demand and to achieve productivity gains. The absorption of Hawker Siddeley Switchgear into Brush will produce significant operational savings and in addition will result in a more targeted and focused sales function, given the customer overlap between Hawker Siddeley Switchgear and Brush Transformers. Marelli reported healthy increases in sales, orders and operating profit in the year, with a greater proportion of higher margin, more specialist business feeding through in the second half. The new plant in Malaysia is now operational and is an important step in reconfiguring Marelli's manufacturing footprint.

In the Lifting division, Bridon performed creditably in 2011, underpinned by good demand in its onshore oil & gas and mining markets. In view of the favourable prospects in most of its markets, Bridon invested heavily in 2011, with capital expenditure of

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.

"The visibility and positive momentum of our order books, supported by an aggressive capital investment programme, together with a strong pipeline of new products, give us confidence for another good year in 2012."

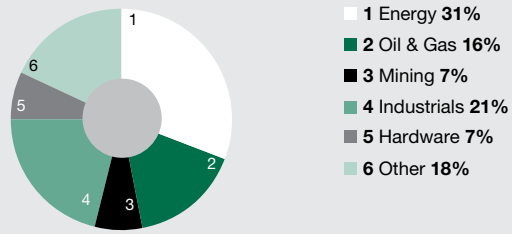
approximately £13 million (2.8 times depreciation). This, together with a strong commitment to new product development, is a key part of Bridon's strategy to be the leading global solutions provider for high specification rope applications.

Crosby reported very strong results in 2011, nearly matching its record year in 2008, with good demand in its core oil & gas and mining markets, supported by its excellent relationships with its distributor base. In addition to its investment programme in the US to increase capacity and efficiency, Crosby continues to invest actively in its European and Chinese operations to enable it to take advantage of its market-leading brand name and the promising opportunities that have been identified in these markets.

In the Other Industrial division, the trading performance overall was satisfactory, reporting increased revenue and operating profit in the year. While Truth struggled in the face of challenging conditions in its markets, Harris performed well as demand for scrap recycling machines recovered in the year. MPC reported a strong trading performance as the results of its investment in the highly successful Range Rover Evoque programme started to come through.

Strong end markets

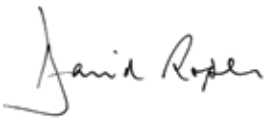
Revenue by end market - year ended 31 December 2011



OUTLOOK

Although conditions in the world economy remain uncertain, albeit with some signs of improvement, a large proportion of Melrose Group companies' sales derive from good market positions in the global power generation, oil & gas and mining sectors which are forecast to remain strong.

The visibility and positive momentum of our order books, supported by an aggressive capital investment programme, together with a strong pipeline of new products, give us confidence for another good year in 2012.



David Roper
Chief Executive
7 March 2012

Pictured:
Slots are machined into a rotor at the Brush facility in Loughborough, UK, in preparation for receiving the rotor coils and air cooling circuit for a DAX designed generator.

Divisional review

Energy review

Revenue
(Year ended 31 December 2011)

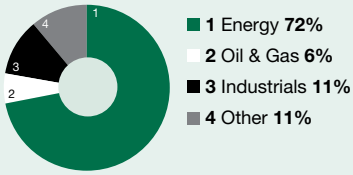
£461.6m
2010: £427.5m

Headline[1] operating profit
(Year ended 31 December 2011)

£91.1m
2010: £73.7m

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

Revenue by end market
(Year ended 31 December 2011)



Market leading manufacturers of electricity generating equipment, switchgear and transformers.

BRUSH — **www.brush.eu**

BRUSH AFTERMARKET GMS — **www.brushgms.com**

HAWKER SIDDELEY SWITCHGEAR your power in safe hands — **www.hss-ltd.com**

HGI GENERATORS — **www.hgigenerators.com**

MarelliMotori — **www.marellimotori.com**

Pictured:
Fabrication of a stator frame for a DAX designed generator at Brush Turbogenerators.

BRUSH

Brush Turbogenerators ('Turbogenerators') is the world's largest independent manufacturer of electricity generating equipment for the power generation, industrial, oil & gas and offshore sectors. From its four plants in the UK, the Netherlands, the Czech Republic and the USA, it designs, manufactures and services turbogenerators, principally in the 10 MW to 250 MW range, for both gas and steam turbine applications and supplies a globally diverse customer base. In addition, Brush designs and manufactures systems and power transformers under the brand name Brush Transformers ("Transformers") and also produces a wide range of indoor and outdoor medium voltage AC/DC switchgear under the Hawker Siddeley Switchgear ('HSS') brand name.

Brush performed strongly in 2011, building on the significant progress made since acquisition in 2008. Operating profit for the year was 25 per cent higher than in 2010 on the back of sales which were up by 4 per cent over the same period. Turbogenerator order intake in 2011 was substantially higher than in 2010, including the first orders for the new large air-cooled product, and the trading performance was supported by excellent cash generation during the year.

Turbogenerators' new build revenue increased marginally in 2011 over 2010, as the global power generation market continued its slow recovery. During the year, Turbogenerators increased its share of the market it operates in, particularly in the more efficient and environmentally acceptable gas turbine sector, which continues to grow at the expense of the coal and nuclear sectors, with the latter suffering as a result of the Fukushima incident in Japan.

Turbogenerators' operating profit in 2011 benefited from the contract to supply four 250 MW combined-cooled generators to the nuclear power plant at Mochovce in the Slovak Republic. 2011 was the last full year of this highly successful multi-year €46 million contract.

The productivity benefits of the substantial capital investment programme, which started in the first half of the year, have been most encouraging. During the year £15 million of capital expenditure was approved. The majority of this relates to capacity increases and productivity improvements of the 2-pole generator production facilities in Brush in the UK and Czech Republic, the benefits of which will continue to flow through 2012 and into 2013.

In order to further the productivity gains in Turbogenerators, a restructuring of the manufacturing facility in the Netherlands has been announced. The objective is to streamline the operation in order to focus exclusively on the manufacture of 4-pole generators. This should be completed by mid-2012 and will generate significant savings.

Brush's aftermarket business saw sales increase marginally in 2011 compared to 2010, as end-users sought to conserve cash by deferring maintenance expenditure. With aftermarket sales at 29 per cent of Brush's total revenue in 2011, a major effort is continuing to be directed at this business to deliver growth and margin progression, and to benefit from the very promising market opportunities that exist as a result of the large installed base of turbogenerators.

Transformers saw revenue beginning to recover in the second half of 2011 as UK demand for transformers increased, as we enter year two of the current five-year OFGEM cycle. There was a substantial improvement in order input in 2011, with orders more than double that of the previous year.

On the back of the successful integration of Transformers into Brush in 2010, HSS was also absorbed into Brush in late 2011. The customer overlap and efficiency gains should benefit the enlarged Group going forward.

HSS revenue increased by 16 per cent in 2011 compared to 2010. The 'Eclipse' AC switchgear indoor product was the stand-out performer in the year, recording a 34 per cent increase, and this product now accounts for approximately 50 per cent of HSS's sales. Strong growth was also experienced in the company's Australian operation.

Order intake at HSS increased by 8 per cent over 2010 with almost all product lines being ahead of internal forecasts. The exception was the High Speed DC 'Lightning' product, which is primarily used for major projects within the rail industry, which suffered from delays in a number of major rail infrastructure projects.

As part of Brush, HSS will not only benefit from sales and marketing synergies, but also from the implementation of the Brush manufacturing strategy. We expect the latter to positively impact on the operating margin in 2012.

Harrington, the specialist small generator manufacturer based in the UK, recorded a 30 per cent increase in revenue in 2011 and a 23 per cent increase in orders as a result of winning a number of large contracts.

Outlook

Record order intake in 2011 has left Brush in an excellent position for 2012.

Turbogenerators and Transformers entered 2012 with approximately 70 per cent of their budgeted 2012 new build sales covered by orders, whilst HSS has about half.

This positive order momentum, coupled with further operational improvements and the continued drive to increase the contribution from higher margin aftermarket business, gives us confidence that Brush will have another good year in 2012.

Divisional review

Energy review continued

Marelli

Marelli supplied and installed two MJT 630 Series Hydro Generators to the City of Agordo, Northern Italy, for use within a hydroelectric power plant, located near the River Liera. The equipment provides a maximum power of 550 kW and a rated speed of 500 rpm. The generators weigh 7.6 tonnes each and are able to satisfy the electric power requirements of over 370 households.

More information about Marelli is available online at **www.marellimotori.com**

MARELLI MOTORI ('MARELLI')

Marelli, based in Italy, is one of the world's leading manufacturers of industrial generators and electric motors with a product portfolio ranging from 0.12 KW to 7.2 MW. With five overseas offices in Germany, UK, Malaysia, USA and South Africa, it serves worldwide markets for power generation, marine, oil & gas and industrial manufacturing.

Marelli reported healthy increases in revenue, order intake, and operating profit in 2011 of 22 per cent, 19 per cent and 15 per cent respectively. As reported in the Interim Statement, trading in the first half of the year was affected by an adverse sales mix, which, as expected, was reversed in the second half as sales of higher margin, larger specialist machines recovered. Cash generation and control of working capital continued to be well managed.

2011 was a productive year for Marelli in terms of new product introductions. A number of new products were successfully launched, including a synchronous 400 Hz generator for use in the aviation industry, a special generator for use with tidal power and new motors to meet European efficiency regulations.

Over £1 million has been invested in the last two years in Marelli's new Malaysian factory to manufacture the smaller, more standard generators. This site has been operational since the last quarter of 2011 and currently employs around 100 people. Although, unsurprisingly, there still remain a few teething issues, relating to the finessing of the supply chain and the completion of the training programme, it is nevertheless an important step in the rebalancing of Marelli's manufacturing capacity.

Other than the investment in the Malaysian facility, additional capital expenditure was made in the year to further improve existing manufacturing and testing procedures — these include a new notching press for generators, development of CAD systems and a large machinery test room. Further capital investment has been earmarked for 2012.

Outlook

The trend reported in the Interim Statement of a recovery in Marelli's higher margin marine, oil & gas and hydroelectric business looks set to continue. The positive momentum in the order intake gives us confidence that 2012 will be another year of progress for Marelli.

Lifting review

Revenue
(Year ended 31 December 2011)

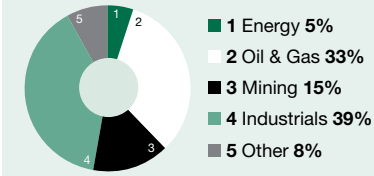
£484.4m
2010: £422.7m

Headline[1] operating profit
(Year ended 31 December 2011)

£82.6m
2010: £66.7m

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

Revenue by end market
(Year ended 31 December 2011)



World leading suppliers of wire, wire rope products, lifting fittings and blocks.

BRIDON www.bridon.com

the Crosby group www.thecrosbygroup.com

ACCO www.accomhs.com

Pictured:
Bridon supplied 312 tonnes of steel wire rope for use on the 'Oleg Strashnov,' owned by Seaway Heavy Lifting and used as a fast transit crane vessel, designed to lift loads of up to 5,000 metric tonnes.

Divisional review

Lifting review continued

BRIDON

Bridon designs and manufactures a comprehensive range of lifting and stabilising solutions for applications in wire rope, fibre rope, steel wire and strand. The company services global customers in the oil & gas, mining, industrial, marine and infrastructure sectors.

Bridon's trading results improved in 2011 compared to 2010, with sales and operating profit ahead of the previous year and operating margins increased over the second half of 2010. This reflected an overall recovery in Bridon's markets, the exiting of the lower margin structures business and operational improvements. Orders received in 2011 were approximately 20 per cent higher than in 2010. Working capital control remained strong with greater than 100 per cent profit conversion to cash before capital expenditure. Although steel prices rose by some 20 per cent in the year, Bridon was largely able to pass this on, reflecting the underlying strength of the business.

Demand for onshore oil & gas remained solid through the year. In the offshore sector, there was some recovery compared to 2010 and this continues to build going into 2012. Demand improved in the North Sea, Brazil and parts of Asia and Africa, whilst exploration and drilling activities in the Gulf of Mexico have continued to be impacted by the aftermath of the Horizon oil spill, reflected in the time taken to obtain or renew licences and permits. Bridon has established a trading company in Brazil to service this important market.

Bridon

Cross section through Bridon's new 'Tiger 24LS Dyform Hoist Rope', a new product that was launched in early 2012 and will typically be used by deep shaft mining customers for hoisting applications. This product offers both heavy duty performance and a high level of safety due to the fact that its design ensures wires are not allowed to cross inside the rope, thus reducing the amount of internal nicking.

More information about Bridon is available online at **www.bridon.com**

The mining market has continued to see solid activity levels with the demand for commodities largely unaffected so far by the global financial downturn. Orders have improved in most markets for both deep shaft and surface mining on the back of stronger demand in Russia, China and South Africa, where Bridon is expanding its presence.

The commercial construction markets in Europe and the Middle East remained subdued through 2011, although there were some tentative signs of improvement in North America. Many industrial crane companies remain very cautious and are reluctant to commit to orders. Demand for crane ropes has continued to be solid in China, but the volatile industrial production levels in Asia have led to variable demand for industrial ropes.

Bridon's strategy is to be the global technology leader for demanding rope applications and the leading solutions provider. In order to support this strategy, Bridon is investing £20 million in building a new factory on Neptune Quay in Newcastle upon Tyne to produce the largest ropes in the world. This new factory, which will initially employ around 40 people, should be operational by December 2012.

In addition, a new technology centre is being built in Doncaster, which will provide state of the art laboratory and testing facilities.

Bridon continues to invest in the upgrading of its manufacturing facilities. The programme to improve the wire mill in Doncaster was substantially completed in the year, which will increase manufacturing efficiencies and reduce carbon emissions and other environmental waste. The major investment in new capacity in the German factory is also complete, significantly improving manufacturing capability for complex multi-strand ropes.

As part of its ongoing commitment to innovation, Bridon launched eight new products in 2011 and developed some promising enhancements to existing products. For the mining market, new products include extended and sheathed round balance ropes with increased corrosion resistance and flexibility. New products for the oil & gas sector include a new 'Bristar' rope, which provides industry-leading technology for enhanced rope fatigue performance, and the 'Bristar with hyrtel' system, with greater temperature resistance when compared to conventional polymer rope structures.

Outlook

The financial issues in the Eurozone have created uncertainty in markets, and as a result a number of companies are cautious in terms of making financial commitments. In spite of this, Bridon expects demand for oil & gas and commodities to remain solid in 2012. The high oil price and the continuing requirement for commodities to support economic development, particularly in the emerging markets, should support activity levels in these sectors.

Although the outlook for construction and manufacturing in general remains uncertain, continued growth in the emerging markets should underpin these sectors.

Substantial capital is being invested in Bridon to enable it to compete at the highest level in markets with favourable longer term growth prospects. With an order book at the start of this year approximately 20 per cent higher than a year previously, we are confident of a good outcome in the year ahead.

CROSBY

Crosby is a world leader in the design, manufacture and marketing of lifting fittings, blocks and sheaves to the oil & gas, construction and mining industries, serviced primarily through a global network of value-added specialty distributors.

Crosby has had an excellent year, continuing its strong recovery from the difficult year in 2009. With revenues and operating profit up by over 20 per cent and 40 per cent respectively, its performance in 2011 was close to its record year in 2008. Whilst construction markets in North America and Europe remained slow in 2011, oil & gas and mining remained strong worldwide.

During 2011, Crosby continued its focus on supporting and working closely with its traditional worldwide distributor base, with less dependence on OEMs. Through additional training programmes and close support, relationships have broadened and deepened and are resulting in Crosby growing its market share with these distributors.

2011 saw the completion of several large capital investment programmes in Crosby's main US manufacturing plants, designed to both increase production capacity and efficiency. This has been linked to an investment programme in Europe to rationalise Crosby's manufacturing base to make it more efficient and at the same time to make it less dependent on Crosby US. This will have the additional benefit of further freeing up production capacity in the US to enable it to meet the increasing demand from emerging markets such as China, Brazil and India.

It is expected that the demand for offshore oil & gas will continue to grow worldwide for the foreseeable future. In response to this, Crosby will continue to invest in large forging hammers and larger machining equipment.

The expansion of Crosby's presence in emerging markets remains a high priority. During 2011, considerable investments were made in recruiting additional sales and engineering personnel and this will remain an area of focus for 2012. Progress was made in 2011 at Crosby's crane block and sheave centre in Hangzhou, China, to produce sheaves and blocks for the Chinese market and to sell additional standard product lines into the Chinese marketplace.

Crosby

Crosby's 'Wide Body' shackles were used to lift a 1,250 metric tonne tower into place as part of the eastern span replacement of the San Francisco-Oakland Bay Bridge in the US, which is scheduled to open in 2013.

More information about Crosby is available online at **www.thecrosbygroup.com**

During 2011, one of the key new product introductions developed by Crosby was a new tubing clamp, called the 'McKissick Tubing Grab', which provides a quick, easy and efficient attachment for the lifting of tubing to and from the rig floor within 'well servicing' applications. Although early days, this application has been well received in the market place.

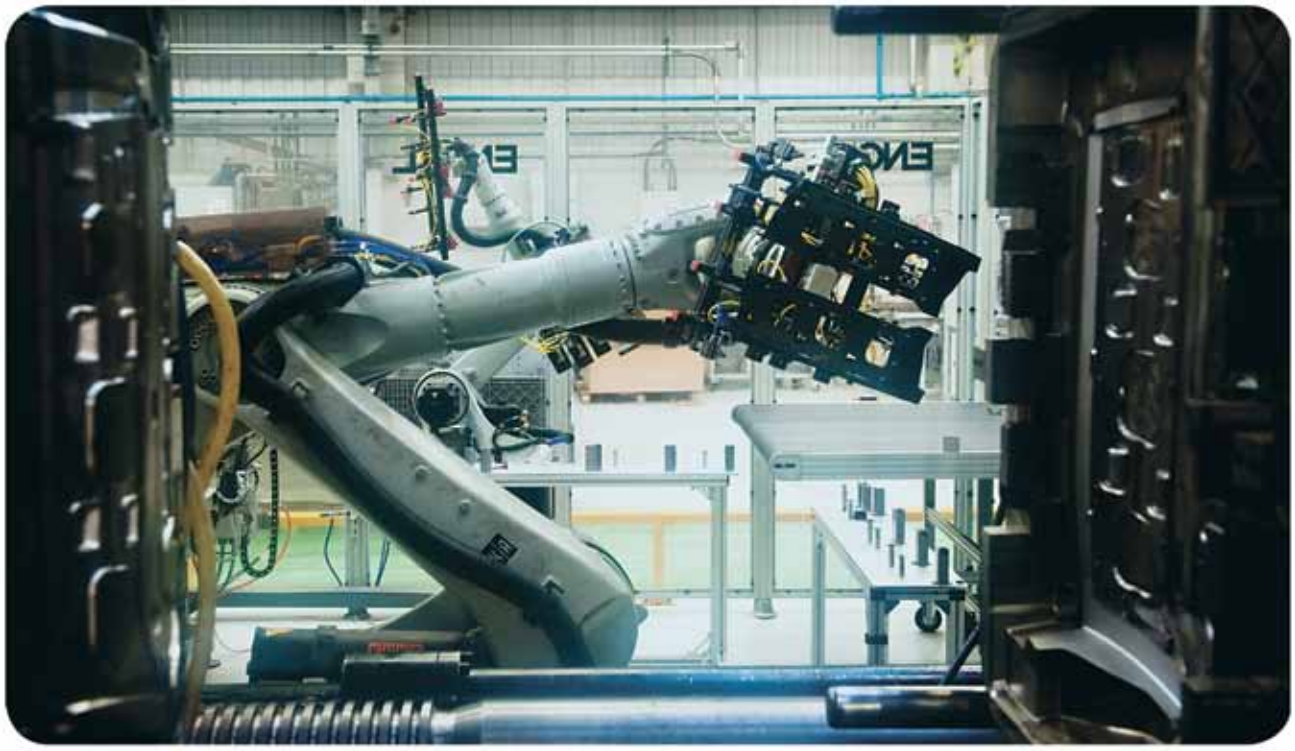
Crosby continues to be at the forefront of the development of e-application systems to provide customers with real-time information relating to the installation and use of Crosby products in the field. Building on the increased usage by customers of access through the Apple iPad in 2011, Crosby is working on a suite of iPad-based and Android-based applications to extend the range of services that can be utilised by customers. It is hoped that this will be rolled out on a worldwide basis to include internet-based certifications through CertPro and Verification Pro systems.

Outlook

Crosby has experienced a very sharp turnaround in its trading performance since the low point in 2009, not least because of the decisive actions taken by management. Although we do not expect the same rate of growth to continue in 2012, the strength of the opening order book gives us confidence of further improvement this year.

Divisional review

Other Industrial review



Revenue
(Year ended 31 December 2011)

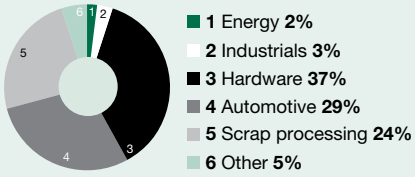
£207.9m
2010: £185.2m(1)

Headline(2) operating profit
(Year ended 31 December 2011)

£23.1m
2010: £21.8m(1)

(1) Restated to include the results of Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.

Revenue by end market
(Year ended 31 December 2011)



Market leading manufacturers across the housing, construction, automotive, scrap processing and other industrial sectors.

TRUTH HARDWARE — **www.truth.com**

Harris — **www.harrisequip.com**

McKechnie Plastic Components — **www.mckechnie-plastics.co.uk**

PRELOK® — **www.prelok.com**

Pictured:
MPC supplies over 40 different plastic components and assemblies to Land Rover for use on their new Range Rover Evoque, including complex door and wheel arch claddings.

TRUTH

Truth designs and manufactures a broad product portfolio of operating hardware for windows, patio doors and skylights. Truth products are sold primarily to OEM facilities throughout North America that serve new residential housing, commercial buildings and remodelling and replacement segments of the construction market. Primary manufacturing facilities are located in Minnesota, USA, and Ontario, Canada, with some outsourcing to lower cost countries.

After a strong recovery in 2010, both Truth and its customer base expected the momentum to continue into 2011. However, unusually harsh winter and spring weather in almost all regions of the US and Canada contributed to a slow start in 2011. Optimism for a better second half receded as it became evident that the US Government tax incentives introduced in 2010 had the effect of bringing forward demand into 2010 at the expense of 2011. On top of this, consumer confidence remained weak throughout the year.

The overall demand in the markets in which Truth operates declined in 2011 over the previous year. However, as a result of a concerted focus on new product design and development, Truth outperformed, achieving some notable market share gains.

A highlight in 2011 was the success of the award-winning 'Sentry Multi-Point Hinged Patio Door Hardware System'. This product was launched in mid-2011 and has been well received in the market. It is selling well and is already established as a core product within the Truth range.

Control of overheads was an area of major focus during 2011. Not only was this necessary to mitigate the impact on profit of the fall in sales, but also to help offset some of the effect of not being able to fully recover raw material price increases in the year.

Outlook

Truth remains positive about the prospects for 2012. Without the distorting effect of the US Government tax incentives in 2010 and 2011, it is expected that Truth will see a more normalised pattern of demand than has been seen in the previous two years. Although the general economy in North America is seeing signs of recovery, conditions in housing and construction are lagging behind. Nevertheless, Truth is confident of continuing to gain market share on the back of a healthy pipeline of new product introductions. Truth is an inherently high quality, high margin business with a very strong position in its market. When the housing and construction markets in North America recover, Truth's trading performance will bounce back sharply.

HARRIS

Harris is a market leader in the scrap and waste recycling industries, operating from two plants in Georgia, USA. The Company designs, manufactures and services a full range of size reduction equipment solutions for the scrap metal and fibre recycling industries.

Truth

Truth's new 'Sentry Multi-Point Hinged Patio Door Hardware System' combines flexibility with optimal security. The product has a 90-degree thumbturn located above the handle, high performance adjustable hinges and multiple handle designs.

More information about Truth is available online at **www.truth.com**

Harris performed well in 2011 as demand for scrap recycling machines continued to recover from 2010. On the back of the healthy increase in orders in 2011 over the previous year, revenue increased by 15 per cent, including an encouraging contribution from aftermarket sales. Operating profit was 25 per cent higher, assisted by continued efforts to improve productivity and contain costs.

Harris continued to invest in the design and engineering of new products. Three new baler and shear products were introduced to the market in 2011 that provide variable frequency drive technology for ferrous and non-ferrous materials. These new machines boast higher throughput than the machines they are replacing, but with approximately half the energy consumption, and present a strong value proposition.

Divisional review

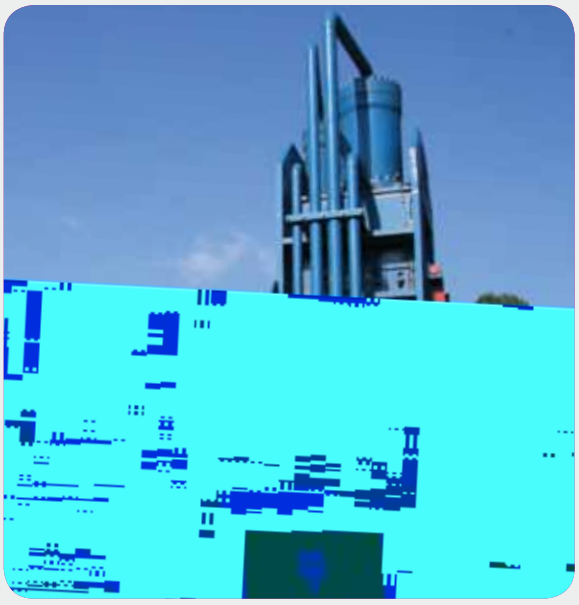
Other Industrial review continued

Harris expanded its presence in Latin America during 2011 to take advantage of the rapidly growing recycling industries in that region.

Outlook

Harris expects demand in the recycling industry to remain stable in 2012, with sales weighted more to the second half of the year, as in 2011. After a year of significantly higher revenue and profit in 2011, we expect a more steady trading result in 2012.

Harris



The equipment pictured shows a Harris GS-11, which is capable of shearing, baling and making logs and is the largest in the Harris GS series. With a 1,100 tonne shearing capacity it is designed to process scrap metal, such as automotive, pipe and plate, heavy ferrous and steel mill scrap. The specific model pictured was purchased by the Southern Metals Company, based in Charlotte, North Carolina, US.

More information about Harris is available online at www.harrisequip.com

MCKECHNIE PLASTIC COMPONENTS ('MPC')

MPC designs and manufactures engineered plastic injection moulded and extruded components and metal pressings for sectors including food and beverage packaging, automotive, construction and industrial.

MPC has reported strong trading results in 2011, with sales and profit up by in excess of 45 per cent and 70 per cent respectively. This is largely due to a healthy recovery in the automotive sector, where MPC is a supplier on a number of key programmes, such as the highly successful Range Rover Evoque.

During the year, MPC continued to focus on investing in its core engineering skills aimed at product and tool design, development and testing. As a result, it has been able to satisfy customer requirements for the supply of technically complex products, such as twin shot claddings, wheel arch liners and automated multi-assemblies.

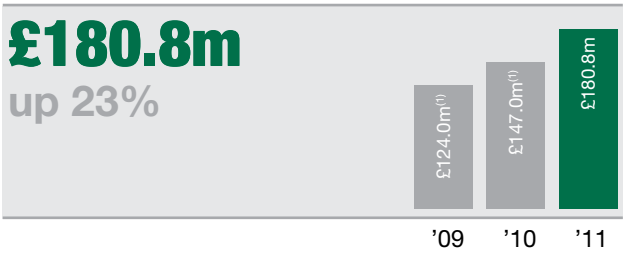
Technical differentiation remains at the core of MPC's value proposition, as it seeks to work closely with partner-customers such as Jaguar Land Rover, Ford, Marks & Spencer, Makita, Diageo and Heineken. MPC was delighted to be given the Jaguar Land Rover award for both quality and systems at its two manufacturing locations in Yorkshire, UK.

Outlook

MPC is well placed to continue to profit from the demand from automotive OEMs to provide cars to key export markets such as China, Russia and North America. With a number of exciting projects in the pipeline, we are confident of another year of progress for MPC.

Finance Director's review

Headline[2] operating profit
(Year ended 31 December 2011)



Capital expenditure to depreciation[3]
(Year ended 31 December 2011)

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Includes computer software amortisation.

The year to 31 December 2011 included the disposal of the Dynacast division along with four smaller businesses previously shown in the Other Industrial division; Brush Traction, Logistex UK, Madico and Weber Knapp. Taken together, these five businesses constituted 25% of both Group revenue and Group headline operating profit in 2010. In accordance with IFRS 5 the trading results of these businesses have been shown as discontinued in both years in these financial statements.

GROUP TRADING RESULTS — CONTINUING OPERATIONS

The continuing operations now include the three remaining trading divisions, namely Energy, Lifting and Other Industrial.

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

For the year ended 31 December 2011 the Group achieved revenue from continuing operations of £1,153.9 million (2010: £1,035.4 million) representing an 11% increase over 2010. During the second six months of 2011 this pace of year on year growth increased to 14% compared with 9% in the first six months of 2011.

Headline operating profit in the year ended 31 December 2011 was £180.8 million (2010: £147.0 million) which was up by 23% on the previous year, a very similar year on year growth rate to that achieved in the first six months of 2011. The headline operating profit margin (defined as the percentage of headline operating profit to revenue) increased from 14.2% in 2010 to 15.7% in 2011. Indeed, in the second half of 2011 the headline operating profit margin increased to 15.9%.

After exceptional costs, exceptional income and intangible asset amortisation Group operating profit was £117.0 million (2010: £134.0 million) and Group operating margin was 10.1% (2010: 12.9%).

Finance Director's review continued

TRADING RESULTS BY DIVISION — CONTINUING OPERATIONS

A split of revenue, headline operating profit and headline operating profit margin for 2011 and 2010 is as follows:

	2011 Revenue £m	**2011 Headline operating profit/ (loss) £m**	**2011 Headline operating profit margin**	2010 Revenue £m	2010 Headline operating profit/ (loss) £m	2010 Headline operating profit margin
Energy	**461.6**	**91.1**	**19.7%**	427.5	73.7	17.2%
Lifting	**484.4**	**82.6**	**17.1%**	422.7	66.7	15.8%
Other Industrial	**207.9**	**23.1**	**11.1%**	185.2	21.8	11.8%
Central – corporate	**—**	**(9.2)**	**n/a**	—	(8.6)	n/a
Central – LTIPs[1]	**—**	**(6.8)**	**n/a**	—	(6.6)	n/a
Continuing Group	**1,153.9**	**180.8**	**15.7%**	1,035.4	147.0	14.2%

(1) Long Term Incentive Plans.

The performance of each of the trading divisions is discussed in detail in the Chief Executive's review.

Central costs comprise £9.2 million (2010: £8.6 million) of Melrose PLC corporate costs and an LTIP charge of £6.8 million (2010: £6.6 million). The LTIP charge consists of an annual accrual for the Melrose 2009 Incentive Scheme of £1.8 million (2010: £1.8 million) and an accrual for the divisional management LTIPs of £5.0 million (2010: £4.8 million). The divisional management LTIPs are cash based incentive schemes for operational management to reward improvements in business performance mainly over the period to 31 December 2014.

FINANCE COSTS AND INCOME

The net finance cost in 2011 was £19.6 million (2010: £25.3 million).

Net interest on external bank loans, overdrafts and cash balances was £15.7 million (2010: £17.9 million), which, for the year ended 31 December 2011, was largely protected from interest rate changes by a number of interest rate swaps which fix the interest rate on £380.1 million (comprising US $546.0 million and €33.3 million), which is 78% of total Group interest-bearing borrowings. More detail on these swaps (and the new swap arrangements entered into in February 2012, relating to the new banking facility drawn down on 31 January 2012) is given in the finance cost risk management section of this review. The net interest expense on external loans reduced during the year because of lower leverage ratios. In 2011 the Group had a blended interest rate of 3.1% (2010: 3.4%).

Also included in the net finance cost is a £2.5 million (2010: £2.3 million) amortisation charge relating to the initial costs of raising the £750 million bank facility, a net interest cost on pension liabilities in excess of the expected return on their assets of £0.3 million (2010: £3.3 million) and a charge for the unwinding of discounts on long term provisions of £1.1 million (2010: £1.7 million).

EARNINGS PER SHARE (EPS)

In accordance with IAS 33, two sets of basic and diluted EPS numbers are disclosed on the face of the Income Statement, one for continuing operations and one that also includes discontinued operations. In the year ended 31 December 2011 the diluted EPS for continuing operations was 23.7p (2010: 19.8p) and for both continuing and discontinued operations was 59.0p (2010: 27.0p).

The Melrose Board believe that headline EPS gives the best reflection of performance in the year as it strips out the impact of exceptional costs, exceptional income and intangible asset amortisation. With the Melrose 2009 Incentive Scheme scheduled to crystallise in 2012, it is also considered more appropriate to focus on the diluted EPS calculation which recognises the impact of the shares that are expected to be issued under the Melrose 2009 Incentive Scheme. The estimate of the value of this scheme as at 31 December 2011, using a Black–Scholes pricing model compliant with IFRS 2, was £99.4 million (2010: £70.7 million). Using the average share price for the 40 business days up to 31 December 2011, if paid out in shares, this would result in the issue of 30.1 million Ordinary Shares.

Following the disposal of Dynacast and the share consolidation in the year, the Directors consider that the best measure of year on year growth in headline diluted EPS is shown by comparing the diluted EPS calculated using the headline results of continuing and discontinued businesses, before the profit on disposal of businesses, and the weighted average number of shares for the year, being 28.8p, with the headline diluted EPS of the full Group for 2010 of 24.1p. This shows a 20% increase.

EXCEPTIONAL ITEMS

In the year ended 31 December 2011 the Group incurred exceptional costs of £40.1 million (2010: £10.3 million) and did not receive any exceptional income (2010: £21.4 million). In addition intangible asset amortisation of £23.7 million (2010: £24.1 million) was charged. A tax credit on these exceptional costs and intangible asset amortisation, of £20.7 million (2010: £6.0 million), and an exceptional tax credit of £38.1 million (2010: £23.5 million) has been taken in the year.

The table below summarises the exceptional items in 2011:

	Total £m
Intangible asset amortisation	**(23.7)**
Exceptional costs	
Increase in legal provision	(21.0)
Restructuring costs	(15.9)
Acquisitions and disposals of businesses	(3.2)
Total exceptional costs	**(40.1)**
Tax credit on exceptional costs and on intangible asset amortisation	20.7
Exceptional tax credit	38.1
Total exceptional tax and tax on exceptional costs	**58.8**
Exceptional items and intangible asset amortisation (after tax)	**(5.0)**

As disclosed in the 2010 Annual Report and the 2011 Interim Statements and now updated in the exceptional costs note to these financial statements (note 6) two Bridon companies that Melrose acquired as part of the acquisition of FKI plc are defendants in respect of product liability litigation. In light of the current available information the provision relating to this has been increased by £21.0 million to £25.8 million (US $40 million) at 31 December 2011. This increase in the year has been charged to exceptional costs due to its size and nature.

During the second half of 2011 three restructuring programmes have been approved which are intended to enhance the operational and financial performance of the Group. These restructuring programmes include the reorganisation of the Brush facility in the Netherlands and the integration of Hawker Siddeley Switchgear into Brush Turbogenerators at a total cost of £12.0 million. In addition, as part of the large scale investment within the Bridon business, a provision for restructuring costs of £3.9 million has been recognised in order to relocate certain activities from Doncaster to the new Neptune Energy Park facility in Newcastle upon Tyne.

The Group considered the potential acquisition of Charter International plc but, following the emergence of a competitive bidder, your Board remained price disciplined and ended the process early enough to limit costs incurred to £2.4 million. The other acquisition and disposal costs of £0.8 million were primarily in respect of the return of capital following the disposal of Dynacast.

In recognition of the exceptional restructuring costs and increase in the legal provision booked in the year, a tax credit of £7.6 million has been taken and a tax credit of £13.1 million has also been recognised in respect of intangible asset amortisation. In addition, during the year, an exceptional tax credit of £38.1 million was taken of which £28.6 million related to the reduction of tax liabilities in respect of overseas tax audits inherited on the acquisition of FKI, reflecting the Company's view of the most likely outcome of these audits. A further £9.5 million exceptional deferred tax credit relates to previously unrecognised tax losses that are now considered recoverable.

Overall the net exceptional items and intangible asset amortisation, after tax, shows a net expense of £5.0 million.

DISPOSAL OF BUSINESSES

On 19 July 2011 Melrose completed the disposal of Dynacast to KDI Holdings Inc, managed by Kenner & Company, Inc. for an enterprise value of £377 million (US $607 million). This comprised £366.5 million (US $590 million) in cash received on completion, together with Dynacast taking with it £10.5 million (US $17 million) of net pension liabilities. The profit on disposal of this business in the year was £150.5 million after costs of £12.8 million and Dynacast contributed £164.0 million to revenue and £26.4 million to headline operating profit in 2011.

Dynacast was an extremely successful investment for Melrose. During its six years of ownership the enterprise value of Dynacast increased from £197 million to £377 million, and the equity value increased by four times. As a result of this and Melrose's other actions nearly £1 billion in cash has been generated from the £429 million McKechnie and Dynacast acquisition in May 2005.

Four smaller businesses were sold in the year, namely, Brush Traction, Logistex UK, Madico and Weber Knapp all of which were previously shown within the Other Industrial division. Along with the disposal of the businesses, £22 million of gross pension liabilities went with the Logistex UK business, and over £100 million of parent Company guarantees and bonds were transferred to the buyer on the Brush Traction disposal.

The gross proceeds received on the disposal of these businesses amounted to £24.0 million, with related costs of £1.8 million, realising a profit on disposal of £1.9 million. The businesses contributed £13.8 million to revenue and £1.0 million to headline operating profit in 2011.

RETURN OF CAPITAL AND NUMBER OF SHARES IN ISSUE

Consistent with the Melrose strategy of returning proceeds to shareholders following significant disposals, Melrose announced the return of £373.2 million to shareholders on 8 August 2011 following the sale of Dynacast.

The return was made via a redeemable share scheme which gave shareholders the option of receiving a payment either in August 2011 or April 2012, or a combination of both. A £1.1 million liability is included in the 31 December 2011 Balance Sheet to represent the outstanding balance on the £373.2 million capital repayment for those shareholders who elected to receive payment in April 2012. Alongside the capital return, a share consolidation took place which reduced the number of Ordinary Shares in issue by a factor of 11 for 14, or by 21%, from 497.6 million to 391.0 million.

CASH GENERATION AND MANAGEMENT

Melrose has started a significant period of investment in its key businesses with a resulting capital expenditure to depreciation ratio of 1.7× for the year. This means that it is appropriate to look at the operating cash generated post working capital movement, but pre capital expenditure, as a percentage of headline EBITDA (defined as headline operating profit before depreciation and amortisation) to

Finance Director's review continued

gauge cash performance in the year. The percentage in 2011 for the continuing Group was 89% which was ahead of internal expectations. It is also pleasing to note that the pace of profit conversion to cash improved in the second half to 102% (first half: 74%).

At 31 December 2011 the percentage of net working capital to sales for the Melrose Group was 12.5% compared to 15.4% on acquisition of FKI.

The cash generation performance in 2011 is summarised as follows:

	2011 £m
Headline operating profit	180.8
Depreciation and computer software amortisation	23.1
Working capital movement	(23.3)
Headline operating cash flow (pre capex)	**180.6**
Headline EBITDA conversion to cash (pre capex) %	**89%**
Net capital expenditure	(38.9)
Net interest and net tax paid	(38.9)
Defined benefit pension contributions	(24.9)
Other (including discontinued operations)	(23.4)
Cash inflow from trading (after all costs including tax)	**54.5**

Movement in net debt	2011 £m
Opening net debt	(287.4)
Cash flow from trading (after all costs including tax)	54.5
Net cash flow from disposals (including net cash disposed)	373.9
Amount paid to shareholders	(424.9)
Foreign exchange and other non-cash movements	(5.7)
Closing net debt	**(289.6)**

The Balance Sheet leverage (calculated as net debt divided by headline operating profit before depreciation and amortisation) was 1.4x at 31 December 2011 (31 December 2010: 1.3x). The fact that this increase in leverage was so small was a result of the strong cash management and improved profitability of the continuing Group as ordinarily the disposal of Dynacast and other businesses (together contributing 25% of Group headline operating profit in 2010) and returning all the proceeds to shareholders would have increased leverage further.

CAPITAL EXPENDITURE

Improving businesses by investing in capital projects with acceptable paybacks is a key part of the Melrose strategy. By division, the capital expenditure in the year was as per the table at the bottom of this page.

The capital spend to depreciation ratio was 1.7× in 2011, compared with 1.0× in 2010. Indeed, in the second half of 2011 it increased to 1.9×. This illustrates that the Group has returned to its investment phase by spending money on capital and restructuring projects which will improve the value of the businesses. The seven year Melrose average annual capital spend is in excess of depreciation at 1.3×.

The largest investment was made in the Bridon business (within the Lifting division) to improve the technical capabilities and capacity of the business. More detail on this investment and others is included in the Chief Executive's review.

REFINANCING

In December 2011 a new five-year committed £600 million multi-currency revolving credit facility was agreed with a syndicate of 10 banks, strengthening the Group's banking syndicate compared to that in place previously. This was drawn down on 31 January 2012, replacing the committed £750 million syndicated term loan and revolving credit facility which was fully repaid. The new facility has no mandatory repayments in its term and allows borrowings to be repaid as cash is generated.

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

TAX

As expected, the headline Income Statement tax rate in 2011 was 26% (2010 restated: 28%). The overall effect on the Group of higher tax rates in North America and certain European countries is offset by the benefit that continues to arise from lower tax rates in the Far East and other European countries, as well as the settlement of prior year tax audits.

The tax rate after exceptional items and intangible asset amortisation is a credit of 18% (2010: charge of 5%). The reasons for the tax credit in the year include the reduction by £28.6 million of tax liabilities in respect of overseas tax audits inherited on the acquisition of FKI. The reduction reflects the Company's view of the most likely outcome of those audits, which are now approaching conclusion. A further exceptional deferred tax credit of £9.5 million

Capital Expenditure	Energy	Lifting	Other Industrial	Central	Total
Capital expenditure £m	11.4	21.3	6.5	—	39.2
Depreciation £m	7.9	8.8	5.8	0.6	23.1
Capital expenditure to depreciation ratio (full year)	1.4x	2.4x	1.1x	n/a	1.7x
Capital expenditure to depreciation ratio (second half year)	1.9x	3.0x	0.5x	n/a	1.9x
Melrose seven year (2005–2011) average annual multiple					1.3x

has been recognised because some of the Group's previously unrecognised tax losses are now considered recoverable. In addition, a £7.6 million tax credit has been taken in the year in respect of tax relief on exceptional costs and a tax credit of £13.1 million taken in respect of current period intangible asset amortisation and the impact upon future amortisation of the change during the year of UK tax rates.

The cash tax rate on headline continuing and discontinued operations of 14% (2010: 16%) is again low due to the benefit arising from the utilisation of tax losses and other deferred tax assets. In the medium term, the headline cash tax rate is expected to trend toward the headline Income Statement rate.

The overall net tax liability (deferred and current) has decreased by £59.5 million in the year. The reduction in the current tax creditor, by £35.5 million, is mostly due to the exceptional credit taken in respect of overseas audits. The reduction in the net deferred tax creditor, by £24.0 million is largely represented by the recognition of a deferred tax asset on certain tax losses, and the reduction of the deferred tax liability on intangible assets, both of which are discussed above.

The Group's net deferred tax liability is £57.9 million (31 December 2010: £81.9 million). The largest item included within this balance is an £83.6 million (31 December 2010: £102.8 million) deferred tax liability provided in respect of brand names and customer relationships acquired. This liability does not represent a future cash tax payment and will unwind as the brand names and customer relationships are amortised.

The total amount of tax losses in the Group has decreased in the year for three reasons; the disposal of businesses containing losses, the utilisation of losses (and other assets) against taxable profits and the recalculation of available losses following tax audits. The total gross tax losses within the Group are shown below:

Tax losses	Recognised £m	Unrecognised £m	Total £m
UK	33.6	151.1	184.7
North America	1.4	—	1.4
Rest of World	—	15.3	15.3
Total 2011	**35.0**	**166.4**	**201.4**
Total 2010	—	251.7	251.7

ASSETS AND LIABILITIES

The summary Melrose Group assets and liabilities are shown below:

	2011 £m	2010 £m
Fixed assets (including computer software)	**218.1**	256.1
Intangible assets	**334.8**	381.1
Goodwill	**568.5**	798.1
Net working capital	**144.8**	115.9
Retirement benefit obligations	**(117.7)**	(119.6)
Provisions	**(120.6)**	(118.7)
Deferred tax and current tax	**(74.8)**	(134.3)
Other[1]	**(15.1)**	(8.3)
Total	**938.0**	1,170.3

(1) Includes net derivative liabilities in both years and, for 2011 only, a £1.1 million liability relating to the redeemable preference C shares to be redeemed on 30 April 2012.

These assets and liabilities are funded by:

	2011 £m	2010 £m
Net debt	**(289.6)**	(287.4)
Equity	**(648.4)**	(882.9)
Total	**(938.0)**	(1,170.3)

The decrease in total equity is primarily related to the £373.2 million return of capital to shareholders in August following the sale of Dynacast.

GOODWILL, INTANGIBLE ASSETS AND IMPAIRMENT REVIEW

The total value of goodwill as at 31 December 2011 was £568.5 million (31 December 2010: £798.1 million) and intangible assets was £334.8 million (31 December 2010: £381.1 million). These items are split by division as follows:

	Energy £m	Lifting £m	Other Industrial £m	Total £m
Goodwill	247.3	298.8	22.4	568.5
Intangible assets	117.5	199.3	18.0	334.8
Other net assets	44.6	56.9	39.4	140.9
Total carrying value	**409.4**	**555.0**	**79.8**	**1,044.2**

The goodwill and intangible assets have been tested for impairment as at 31 December 2011. The Board is comfortable that no impairment is required.

Finance Director's review continued

PENSIONS

The Group has a number of defined benefit and defined contribution pension plans.

The most significant pension plan in the Group is the FKI UK Pension Plan. The net accounting deficit on this plan was £79.4 million at 31 December 2011 (31 December 2010: £78.6 million). This plan had assets at 31 December 2011 of £600.3 million (31 December 2010: £549.2 million) and liabilities of £679.7 million (31 December 2010: £627.8 million).

The assumptions used to calculate the IAS 19 deficit of the pension plans within the Melrose Group are considered carefully by the Board of Directors. For the FKI UK Pension Plan a male aged 65 in 2011 is expected to live for a further 20.3 years. This is assumed to increase by 2.5 years (12%) for a male aged 65 in 2036. A summary of the key assumptions of the UK plans are shown below:

	2011 Assumptions %	2010 Assumptions %
Discount rate	**4.90**	5.55
Inflation	**3.10**	3.45

It is noted that a 0.1 percentage point decrease in the discount rate would increase the pension liabilities on the main FKI UK Pension Plan by £10.5 million, or 2%, and a 0.1 percentage point increase to inflation would increase the liabilities on this plan by £7.0 million, or 1%. Furthermore, an increase by one year in the expected life of a 65 year old male member would increase the pension liabilities on this plan by £19.8 million, or 3%.

The FKI UK Pension Plan is closed to new members and on 28 February 2011 it was closed to current members' future service.

The other UK defined benefit pension plan of significant size in the Group, namely the McKechnie UK Pension Plan, was in surplus of £3.0 million at 31 December 2011 (31 December 2010: surplus of £1.9 million). This plan had assets at 31 December 2011 of £157.5 million (31 December 2010: £143.8 million) and liabilities of £154.5 million (31 December 2010: £141.9 million).

The McKechnie UK Pension Plan is closed both to new members and current members' future service.

The long term strategy for the UK plans is to concentrate on the cash flows required to fund the liabilities as they fall due whether that is within the timescales of Melrose ownership or not. The Melrose PLC Board recognise that as businesses are bought and sold eventually pension scheme liabilities need to exit the Group. However this can be done at a time which is commercially sensible.

The pension plan cash flows extend many years into the future and the ultimate objective is that the total pool of assets derived from future company contributions and the investment strategy allows each cash payment to members to be made when due. The Melrose Group contributes £18.5 million to the FKI UK Pension Plan and £4.6 million to the McKechnie UK Pension Plan per annum.

In addition, a US defined benefit plan for FKI exists. At 31 December 2011, this had assets of £195.2 million (31 December 2010: £193.3 million), liabilities of £228.7 million (31 December 2010: £213.1 million) and consequently a deficit of £33.5 million (31 December 2010: £19.8 million). This plan is closed to new members and to current members' future accrual.

During the year the pension plans relating to Dynacast and Logistex UK were disposed which reduced the Group plan assets by £30.5 million and the Group plan liabilities by £41.1 million and hence the Group accounting deficit by £10.6 million.

PROVISIONS

Total provisions at 31 December 2011 were £120.6 million (31 December 2010: £118.7 million), a slight increase from the previous year. The following table shows the movement in provisions in the year. Within this there were some major movements:

	Total £m
At 31 December 2010	118.7
Utilised — cash spend	(37.6)
Net charge to headline operating profit	6.9
Net charge to exceptional costs	35.1
Disposal of businesses	(3.6)
Other (including foreign exchange)	1.1
At 31 December 2011	**120.6**

Included within cash spend on provisions in 2011 are two exceptional cash costs which the Group incurred, both of which were fully anticipated and provided. They represented payments in respect of two liabilities that were acquired with FKI plc. The first related to the transfer of £10.4 million of captive insurance liabilities to an external party, Safety National Inc., so that the Group has no further exposure to these risks. These were transferred at a cash cost of £9.0 million resulting in a profit in the year of £1.4 million. The second related to a legal settlement in respect of a historical FKI owned company, DeWind GmbH, disposed of prior to the Group's acquisition of FKI. This historical liability was paid in two tranches totalling £10.4 million. In addition £3.0 million of ongoing maintenance costs in respect of DeWind, originally provided, were paid in cash.

The net charge to headline operating profit in 2011 in respect of provisions was £6.9 million, mostly relating to the charge of £5.0 million in respect of the divisional LTIP schemes.

As described in the exceptional costs section of this review, a £21.0 million increase to a legal provision in respect of two Bridon businesses acquired as part of the acquisition of FKI plc has been charged in the year. In addition, of the £15.9 million exceptional cost relating to restructuring programmes agreed in the year, £14.1 million was booked to provisions with the remaining £1.8 million shown as an impairment of fixed assets.

The other movements on provisions in the year include £3.6 million of provisions that were sold along with the five disposed businesses and a movement of £1.1 million, being the net effect of the unwind on long term provisions and foreign exchange.

R

Risks and uncertainties

Melrose operates in a wide variety of sectors and countries and is exposed to a range of risks and uncertainties from a strategic, operational, compliance, ethical and financial perspective. Detailed below are risks and uncertainties that could impact on the Company's performance. A risk management and internal controls framework is in place within the Group to ensure that such risks and uncertainties can be identified and where possible managed suitably.

Strategic Risk	Nature of Risk	Mitigating Factors
Acquisition of new businesses and improvement strategies	• Discovery of unforeseen liabilities following acquisition. • Value generation post acquisition does not meet expectations. • Need for a greater amount of capital expenditure and working capital to grow the acquired business than originally forecast.	• Structured and focused due diligence undertaken. • Focus on acquisition targets that have strong headline fundamentals – high quality products, leading market share, but are underperforming their potential and ability to generate sustainable cash flows and profit growth. • Hands-on role taken by Directors and other senior employees of the Group. Development of strategic plans, restructuring opportunities, capital expenditure and working capital management.
Disposals	• Timing of disposal of companies. • Long term liabilities retained by the Group post disposal.	• Directors are experienced in judging and regularly reviewing the appropriate time in a business cycle for disposal to realise maximum value for shareholders. • Each disposal is assessed on its merits, along with the extent to which indemnities, warranties and guarantees are provided.

Operational Risk	Nature of Risk	Mitigating Factors
Economic and political risk	• Difficult macro-economic conditions, changing pattern of global demand and political uncertainty.	• Diverse range of companies operating within the Group, within a variety of different industries and countries, which reduces macro-economic and political risks. • Regular monitoring of order books and other leading indicators, to ensure the Group and each of its businesses can respond quickly to any adverse trading conditions. This includes the identification of cost reduction and efficiency measures.
Customers	• Concentration of customers in certain markets and/or countries around the world. • Financial viability of key customers.	• Diverse portfolio of businesses serving different customers and markets. No reliance on any one customer, or group of customers. At a business unit level performance could be materially affected by the loss of a key customer and regular monitoring is undertaken to reduce such risks. • Active credit management and development of customer relations at a business level. • Monitoring of key markets for early warning of negative commercial trends.
Suppliers	• Over reliance on a small number of suppliers, leading to a lack of availability. • Production volatility and supply chain disruption. • Fluctuations in cost of raw materials.	• Diverse portfolio of suppliers. The Company is not reliant on any one supplier, or group of suppliers. • Ongoing assessment of suppliers, including the monitoring of their financial viability. • If commercially suitable, contract prices are agreed with raw material suppliers to reduce the effect of short term price fluctuations. Risks are further reduced by the use of escalation clauses, surcharges and price increases when negotiating contracts, together with the use of matching hedging arrangements.

Risks and uncertainties continued

Operational Risk continued	Nature of Risk	Mitigating Factors
Product quality	• Reputational risks from product quality issues. • Product liabilities regarding defective products.	• Investment made available to allow for product improvements and efficient production processes. • Well defined testing procedures together with suitable research and development facilities at key manufacturing locations. • Maintenance of insurance policies to cover product liabilities.
Competitive markets	• Increased level of competition leading to loss of market share and/or reducing operational margins.	• Substantial investment in research and development. Funds made available for both the development of new products and to meet changing customer demands. • Ongoing monitoring of competing markets and products to ensure that potential threats are identified quickly. • Development of close customer relationships, understanding of customer needs and rigorous focus on costs.
Information technology	• Failure of IT systems leading to severe operational issues.	• Different IT systems used in each business. Regular review of IT policies and procedures within each business, to include disaster recovery planning.
Loss of key management	• Over reliance on small number of Directors and other senior managers, within both the Group and individual businesses.	• Succession planning within the Group is co-ordinated via the Nominations Committee in conjunction with the Board and includes all Directors and senior employees. • The Company recognises that, as with most businesses, particularly those operating within a technical field, it is dependent on Directors and employees with particular managerial, engineering, or technical skills. Appropriate remuneration packages and long term incentive arrangements are offered in an effort to retain such individuals.

Compliance and Ethical Risk	Nature of Risk	Mitigating Factors
Legal, regulatory and intellectual property ('IP')	• Ongoing changes to legal and/or regulatory requirements that may substantially differ from country to country. • Litigation from third parties. • Infringement or other inappropriate use of the Group's IP rights by a third party, leading to reputational issues and potential loss of sales.	• Regular monitoring of legal and regulatory matters at both a Group and business unit level. Consultation with external advisers where necessary. • Development of suitable corporate governance procedures both at a Group and business unit level. • Protection of rights over trademarks, copyright, patents, designs and trade secrets, where necessary. Internal IP audits are carried out by each Group business on a periodic basis.
Business conduct	• Reputational risk caused by ethical breach.	• Group-wide policies are in place to ensure ethical standards are adhered to within the businesses, which include anti-bribery and whistleblowing procedures.

Compliance and Ethical Risk continued	**Nature of Risk**	**Mitigating Factors**
Health, safety and environmental	• Potential risk of injury or damage to employees or third parties if policies and procedures are not adhered to. • Breach of legal and/or regulatory requirements.	• Strong approach to managing health and safety. Employee suggestions actively encouraged. • Group-wide health and safety KPIs designed to overlay the well established business specific KPIs. Review of health, safety and environmental matters at both Group Board meetings and business level meetings, together with the completion of risk control surveys.

Financial Risk	**Nature of Risk**	**Mitigating Factors**
Liquidity	• Inability of the Group to meet its finacial obligations.	• Ensure the Company has adequate resources to meet its liabilities by reviewing its rolling forecasts, ensuring there is sufficient headroom within committed bank facilities to cope with market volatility.
Finance cost	• Material fluctuations of interest rates.	• The Company enters into a suitable amount of interest rate protection to limit this exposure.
Exchange rate	• Exposure to fluctuations in foreign currency values. • Transaction risk when a business is disposed and proceeds received in a foreign currency.	• The Company policy is to protect against the majority of foreign exchange risk which affects cash. • Protection against specific transaction risks are taken by the Board on a case-by-case basis.
Pensions	• Pension deficit levels are affected by changes in asset values, discount rates, inflation and mortality assumptions. • Higher deficit levels may increase requirement on the Group to fund the deficit.	• Each of the Group's three key pension plans are now closed to new entrants and future service accrual. Long term funding plans are agreed with each of these plans and reviewed following completion of actuarial valuations. • Active management of pension scheme assets. Further information regarding these three pension plans can be found on page 44 of the Directors' report.

Further details in relation to the financial risks are shown within the Finance Director's review on pages 29 and 30.

Key performance indicators

Financial KPIs

In order to support the Group's strategy and to monitor performance the Board use a number of financial and non financial key performance indicators ('KPIs'). Details of a selection of the KPIs are shown below. Additional business level KPIs are also used, which are relevant to their particular circumstances.

Diluted headline[1] earnings per share (pence)

28.8p

Method of calculation
Group headline[1] profit after tax (excluding the profit on disposal of businesses) from continuing and discontinued operations (as reported in this 2011 Annual Report), divided by the diluted weighted average number of Ordinary Shares in issue.

Strategic objective
To create consistent and long term value for shareholders.

Dividend per share (pence)

13.0p

(in addition to the return of capital of £373.2 million in August 2011, which followed the sale of Dynacast, representing 75 pence per Ordinary Share).

Method of calculation
Amount declared as payable by way of dividends in terms of pence per share.

Strategic objective
To operate a progressive dividend policy whenever the financial position of the Company, in the opinion of the Board, justifies the payment.

Headline[1] operating profit (£m)

£180.8m

Method of calculation
Headline[1] operating profit for the continuing Group, as reported in this 2011 Annual Report.

Strategic objective
To improve profitability of Group operations.

Headline[1] operating margin (%)

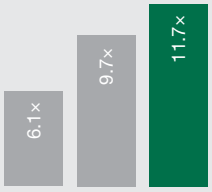
15.7%

Method of calculation
Headline[1] operating profit as a percentage of revenue, for the continuing Group, as reported in this 2011 Annual Report.

Strategic objective
To improve profitability of Group operations.

Interest cover

11.7x

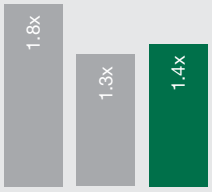


Method of calculation
Calculated as headline[1] EBITA[3] as a multiple of interest payable on bank loans and overdrafts for the full Group during each year.

Strategic objective
To ensure the Group has suitable amounts of debt and remains within its banking covenants.

Net Debt to headline[1] EBITDA[2]

1.4x



Method of calculation
Net debt divided by headline[1] EBITDA[2] for existing businesses at each year end.

Strategic objective
To ensure the Group has suitable amounts of debt and remains within its banking covenants.

Financial KPIs continued

Cash conversion (%)

89%

Method of calculation
Percentage of headline(1) EBITDA(2) conversion to cash for continuing businesses, pre capital expenditure.

Strategic objective
To ensure businesses are suitably cash generative in order to have adequate cash reserves for the effective running of the Company and for significant capital investment where required.

Further information in relation to the key financial performance indicators can be found within the Finance Director's review on pages 23 to 30.

Non-financial KPIs

Health and safety

Method of calculation
A variety of different health and safety KPIs are used by each of the businesses within the Group, which are specific to the exact nature of the business and its associated risks. Three overall Group KPIs are also used by the Board, which are Major Accident Frequency Rate (accidents that result in an employee having more than three days off work due to a work related injury, per 200,000 working hours), Accident Frequency Rate (accidents that result in an employee having less than three days off work due to a work related injury, per 200,000 working hours) and Accident Severity Rate (average number of lost days per work related accident).

Strategic objective
The Company has an objective to stop all preventable accidents.

Performance
The Company introduced the three Group KPIs during 2011 and as part of this process statistics were also calculated historically back to 2009. These KPIs improved during the period from 2009 to 2011. Further information in relation to the various health and safety initiatives undertaken by the Group's businesses during 2011 and planned for 2012 can be found within the Directors' report on pages 45 and 46.

Non-financial KPIs continued

Environmental and energy usage

Method of calculation
Environmental KPIs used within the Group and their method of calculation vary by business unit, which depends on the specific nature of the operation. A range of environmental measures are used, including energy consumption, CO_2 emissions, water consumption, water contamination and waste disposal.

Strategic objective
Each of the Group's businesses are committed to ensuring that their operations have a minimum adverse effect on the environment and that ongoing reductions are achieved, where practicable. Particular relevance has been placed on the reduction of energy consumption and CO_2 emissions.

Performance
Investment was provided by the Group for several environmental improvement initiatives during 2011. Details of these, together with some of the environmental initiatives for 2012 can be seen in the Directors' report on pages 46 and 47.

Other non-financial

Due to the diverse nature of the Group each business uses a range of its own specific non-financial KPIs, which are used to drive business performance and assist in managing risk. This helps to ensure that the KPIs used are relevant to each business and take into account specific operational and reporting requirements. Such KPIs cover operational, quality, commercial and human resource measures. Further information regarding some of the Group's recent initiatives can be found within the Directors' report on pages 43 and 44.

(1) Before exceptional costs, exceptional income and intangible asset amortisation.
(2) Operating profit before depreciation and amortisation of computer software.
(3) Operating profit before amortisation of computer software.
(4) Restated to include the results of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.

Board of Directors

Christopher Miller Executive Chairman

Age 60, he qualified as a chartered accountant with Coopers & Lybrand, following which he was an Associate Director of Hanson plc. In September 1988 he joined the board of Wassall PLC as its Chief Executive. Between October 2000 and May 2003 he was involved in private investment activities. Mr Miller was appointed as an executive Director of Melrose on 29 May 2003. He is currently a non-executive Director of TMO Renewables Limited.

David Roper Chief Executive

Age 61, he qualified as a chartered accountant with Peat Marwick Mitchell, following which he worked in the corporate finance divisions of S.G. Warburg & Co. Limited, BZW and Dillon Read. In September 1988 he was appointed to the board of Wassall PLC and became its Deputy Chief Executive in 1993. Between October 2000 and May 2003 he was involved in private investment activities and served as a non-executive Director on the boards of two companies. Mr Roper was appointed as an executive Director of Melrose on 29 May 2003.

Simon Peckham Chief Operating Officer

Age 49, he qualified as a solicitor in 1986. In 1990 he joined Wassall PLC and became an executive Director of Wassall PLC in 1999. From October 2000 until May 2003 he worked for the equity finance division of The Royal Bank of Scotland and was involved in several high profile transactions. Mr Peckham was appointed as an executive Director of Melrose on 29 May 2003.

Geoffrey Martin Group Finance Director

Age 44, he qualified as a chartered accountant with Coopers & Lybrand, where he worked within the corporate finance and audit departments. In 1996 he joined Royal Doulton PLC and was Group Finance Director from October 2000 until June 2005. During this time, he was involved in projects including raising public equity, debt refinancings and the restructuring and outsourcing of the manufacturing and supply chain. Mr Martin was appointed as an executive Director of Melrose on 7 July 2005.

Audit Committee
John Grant (Chairman), Perry Crosthwaite, Justin Dowley, Miles Templeman
During 2011 the Audit Committee met three times

Read more on pages **52 and 53**

Remuneration Committee
Perry Crosthwaite (Chairman), Miles Templeman, John Grant, Justin Dowley
During 2011 the Remuneration Committee met twice

Read more on page **53**

Miles Templeman Senior non-executive Director

Age 64, he has been a director of several consumer goods and retailing companies. He was Managing Director of Threshers Off-Licences between 1985 and 1988 and Managing Director of Whitbread Beer Company between 1990 and 2001. Mr Templeman was Chief Executive Officer of HP Bulmer Holdings PLC from January 2003 to July 2003 and non-executive Chairman of restaurant chain YO! Sushi between 2003 and 2008. He has also held a number of other non-executive directorships and was appointed as a non-executive Director of Melrose on 8 October 2003. Between October 2004 and October 2011 Mr Templeman also occupied the position of Director General of the Institute of Directors. He is currently non-executive Chairman of Shepherd Neame, the Kentish family brewer.

Perry Crosthwaite Non-executive Director

Age 63, he has over 30 years' experience as a Director in the City of London. He was a founding Director of Henderson Crosthwaite Institutional Brokers Limited, serving on the board until its acquisition by Investec Bank in 1998. He became a Director of Investec Bank (UK) Limited and Chairman of the Investment Banking division until his retirement in 2004. Mr Crosthwaite was appointed as a non-executive Director of Melrose on 26 July 2005. He is currently Chairman of Jupiter Green Investment Trust Plc and a non-executive Director of Investec Limited and Investec Plc.

John Grant Non-executive Director

Age 66, Mr Grant spent his executive career in a variety of senior international roles within the automotive industry and other engineering businesses. He was Chief Executive of Ascot Plc between 1997 and 2000. Prior to that, Mr Grant was Group Finance Director of Lucas Industries Plc (subsequently LucasVarity Plc) between 1992 and 1996. He previously held several senior strategy and finance positions with Ford Motor Company in Europe and the USA. Mr Grant was appointed as a non-executive Director of Melrose on 1 August 2006. He is currently non-executive Director of MHP S.A., Pace Plc and Wolfson Microelectronics Plc.

Justin Dowley Non-executive Director

Aged 56, he has extensive experience within the banking, investment and asset management sector and was latterly Vice Chairman of EMEA Investment Banking, a division of Nomura International plc; he was also a founder partner of Tricorn Partners, Head of Investment Banking at Merrill Lynch Europe and a Director at Morgan Grenfell. Mr Dowley was appointed as a non-executive Director of Melrose on 1 September 2011. He is also currently Chairman of Intermediate Capital Group plc, a specialist investment and asset management company and is also a director of a number of private companies including Ascot Authority (Holdings) Limited.

Nomination Committee

Miles Templeman (Chairman), Perry Crosthwaite, John Grant, Justin Dowley, Christopher Miller

During 2011 the Nomination Committee met three times

Read more on page **53**

Directors' report

The Directors of Melrose PLC present their annual report and audited financial statements of the Group for the year ended 31 December 2011.

STRATEGY

Melrose PLC has a buy, improve, sell strategy to acquire manufacturing businesses, improve performance and realise their value in the medium term. Further details of each part of the strategy are shown below. Additional information is also shown on pages 6 and 7.

DIVISIONAL REVIEWS

The Company remains committed to investing within its various businesses and this can be seen through the development of new or upgraded facilities at various Group locations around the world. Bridon's new £20 million state of the art manufacturing facility at Neptune Energy Park, Newcastle upon Tyne, UK, is on track to be operational by the end of 2012, whilst Marelli's new factory in Malaysia became fully operational towards the end of 2011. Other recent investments in site infrastructure include the development of an industry-leading patenting and galvanizing process at Bridon's Doncaster factory in the UK and improvements that will allow for capacity increases within each of Crosby's key US manufacturing locations. A further £15 million has been approved to increase capacity and productivity at the Brush facilities in the UK and Czech Republic, in relation to the manufacture of 2-pole generators. These investments will assist in developing growth opportunities within new markets, especially China, other parts of Asia and South America.

Investment continued in the development of new and innovative product lines during 2011, with further product launches planned for 2012. This strategy helps to ensure that each business can remain at the forefront of technological advances within defined market sectors and are also able to meet specific customer demands.

In accordance with the Group's strategy of improving commercial performance within its businesses, a variety of structural changes were implemented during 2011. A good example of this can be seen through the absorption of the Hawker Siddeley Switchgear ("HSS") business into Turbogenerators during 2011, thus allowing them to benefit from similar sales and end market opportunities. HSS will also be able to benefit from the Turbogenerator manufacturing strategy as a result of this re-organisation, which has been developed over a period of time to create industry-leading and efficient production methods. The cost base of all businesses was also kept under constant review, as each business continued to build on the various cost reduction initiatives that have been introduced in recent years, and to ensure they are able to react to changing markets and demand.

The Group also continues to regularly review its pension benefit and legacy liabilities and reduce volatility where possible. A number of actions were taken during the year, as detailed on page 28. In addition, the Group sold legacy FKI insurance obligations to a third party insurer to remove financial uncertainty in future years.

The results of the Group are set out in detail in the financial statements on pages 63 to 67 and in the accompanying notes.

The Company is required by the Companies Act 2006 to set out in this report a fair review of the development and performance of the Group during the year, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. The information that fulfils these requirements can be found within the Chief Executive's review, Divisional reviews, Finance Director's review and in this Directors' report. Details of the main key performance and risk indicators used by the Group can be seen on pages 31 to 35.

The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 3 to the Melrose PLC UK Company accounts, on page 113.

FINANCIAL RESULTS

The Group's profit for the financial year attributable to Ordinary shareholders was £286.4 million (2010: £141.1 million). In addition, there were gains attributable to non-controlling interests of £0.1 million (2010: £0.2 million).

SHAREHOLDER DIVIDEND

The Directors are pleased to recommend the payment of a final dividend of 8.4p (2010: 7.0p) on 14 May 2012 to Ordinary shareholders on the register at the close of business on 13 April 2012. This dividend recommendation will be put to shareholders at the forthcoming Annual General Meeting ('AGM') of the Company, to be held on 9 May 2012.

It is the intention of the Board to maintain a progressive dividend policy, where appropriate. The Company offers a Dividend Reinvestment Plan which gives shareholders the opportunity to use their dividend payments to purchase further Melrose PLC shares. Further details about the Dividend Reinvestment Plan and its terms and conditions can be found on the Company's website at www.melroseplc.net.

In August 2011, following the sale of the Dynacast business and as part of the return of capital to shareholders, a special dividend of 75 pence per Ordinary Share was approved. Following the return of capital, a consolidation and sub-division of the Company's ordinary share capital was undertaken. Further details can be found about this and the special dividend on pages 40 and 41.

DIRECTORS' APPOINTMENT AND POWERS

The Directors of the Company as at the date of this report, together with their biographical details, are given on pages 36 and 37. On 1 September 2011, Justin Dowley joined the Company as an independent non-executive Director in order to provide further experience and complement the existing skill set of the Board. Justin Dowley is also a member of the Audit, Remuneration and Nomination Committees of the Board.

The Company's Articles of Association ('Articles') give the Directors power to appoint and replace Directors. Under the terms of reference of the Nomination Committee, any appointment must be recommended by the Nomination Committee for approval by the Board. The Articles also require Directors to retire and resubmit themselves for election at the first AGM following their appointment. In previous years, one third of the Company's Directors have been subject to retirement by rotation with a requirement then to offer themselves for re-election. However, going forward and notwithstanding the Articles, the Board has determined that

Directors' report continued

all Directors of the Company will stand for re-election at the forthcoming AGM and annually thereafter, in compliance with the new provisions of the UK Corporate Governance Code.

The Directors are responsible for managing the business of the Company and exercise their powers in accordance with the Articles, directions given by special resolution and any relevant statutes. Specific powers relating to the issuing of shares and the ability of the Company to purchase its own shares are also included within the Articles and such authorities are submitted for approval by the shareholders at the AGM each year.

Pursuant to sections 693 and 701 of the Companies Act 2006 and a special resolution passed at the AGM in 2011, the Company was authorised to purchase its own shares, limited to an aggregate maximum number equal to 10 per cent of the issued share capital of the Company. Following the Share Capital Consolidation (defined below), this authority ceased to be valid. The Company did not purchase any Ordinary Shares pursuant to this authority. The resolutions being proposed at this year's AGM include a resolution to renew this authority.

DIRECTORS' INTERESTS AND REMUNERATION

Information on Directors' beneficial interests, including those of connected persons (within the meaning of section 252 of the Companies Act 2006), in the shares of the Company is shown in the Remuneration report on pages 56 to 59.

No Director had a material interest at any time during the year in any contract with the Company or any of its subsidiary undertakings, other than a service contract.

DIRECTORS' INDEMNITIES

The Directors have the benefit of an indemnity from the Company in respect of liabilities incurred as a result of their office. This indemnity is provided under the Articles and satisfies the indemnity provisions of the Companies Act 2006.

The Company has taken out an insurance policy in respect of those liabilities for which the Directors may not be indemnified. Neither the indemnity nor the insurance provides cover in the event that a Director is proved to have acted dishonestly or fraudulently.

DIRECTORS' RESPONSIBILITIES

The Statement of Directors' responsibilities in relation to the consolidated financial statements is set out on page 60.

SHARE CAPITAL

Following the sale of the Group's Dynacast business on 19 July 2011 for a cash consideration of £366.5 million, a return of capital was made to shareholders in August 2011. An amount of £373.2 million was agreed to be returned, representing 75 pence per existing Ordinary Share. A share capital consolidation and sub-division was authorised by the Directors and subsequently approved by the shareholders to help ensure that a constant share price be maintained both before and after the return of capital (subject to normal market movements). This resulted in a consolidation and sub-division of the Company's issued ordinary share capital; for every 14 Ordinary Shares of 0.2 pence nominal value in the capital of the Company ('Old Ordinary Shares') held shareholders received 11 new Ordinary Shares of 14/55 pence nominal value in the capital of the Company ('New Ordinary Shares') (the 'Share Capital Consolidation').

In order to facilitate the return of capital, shareholders were given one new C non-cumulative redeemable preference share of 75 pence each in the capital of the Company ('C Share') for every one Old Ordinary Share held. Three alternatives, with a mix and match facility, were offered to the holders of C Shares, allowing them to decide how and when to receive their return of capital, as detailed below:

Capital return alternatives	Details of the capital return
Initial redemption	Redemption of C Shares by the Company on 16 August 2011 at 75 pence per C Share.
Single C Share dividend	Receive a single C Share dividend of 75 pence per C Share on 16 August 2011, following which all C Shares (in respect of which an election for the Single C Share Dividend was made) automatically converted into unlisted deferred shares of 75 pence in the capital of the Company ("C Deferred Shares") to be redeemed by the Company on 30 April 2012.
Final redemption	Redemption of C Shares by the Company on 30 April 2012 at 75 pence per C Share.

Details of the structure of the Company's share capital both before and after the Share Capital Consolidation, together with the rights attached to each of the share classes in issue are set out below and on pages 41 and 42 in compliance with the requirements of section 992 of the Companies Act 2006.

Share class	31 December 2010	**31 December 2011**
Old Ordinary Shares of 0.2 pence	497,586,779	**Nil**
2009 Incentive Shares of £1.00	50,000	**50,000**
New Ordinary Shares of 14/55 pence	Nil	**390,961,043**
C Shares of 75 pence	Nil	**1,392,194**[1]
C Deferred Shares of 75 pence	Nil	**34,331,656**

[1] Recognised in the Balance Sheet as a current liability of £1.1 million.

The holders of the remaining C Shares and C Deferred Shares shall not be entitled to:

- any further right of participating in the profits of the Company; or
- the right to vote at general meetings of the Company, except holders of C Shares can vote on the winding up of the Company.

On a winding up, the holders of the C Shares shall be entitled in priority to all other classes of shares up to 75 pence per C Share. The holders of the C Deferred Shares shall not be entitled to any right or participation in the assets of the Company on a winding up.

The C Deferred Shares and C Shares will be redeemed by the Company on 30 April 2012.

Only the New Ordinary Shares are traded on the London Stock Exchange, having been admitted to the Official List as maintained by the UK Listing Authority, on 9 August 2011.

2009 INCENTIVE SHARES

The 2009 Incentive Shares of £1.00 each have been awarded to Directors and senior managers within the Company, together with Ogier Employee Benefit Trustee Limited (as Trustee of the Melrose PLC Employee Benefit Trust) and replaced the incentive share scheme introduced in 2007. The rights attaching to the 2009 Incentive Shares are identical to those originally attached to the 2007 Incentive Scheme, with the exception that the Company may pay a dividend on the 2009 Incentive Shares as an alternative to converting them into Ordinary Shares and the award holders were not able to request early conversion in 2010 and/or 2011. The rights attaching to the 2009 Incentive Shares remained the same both before and after the Share Capital Consolidation.

Holders of the 2009 Incentive Shares will be entitled to either a cash dividend, or a number of Ordinary Shares in the Company aligned to the increase in shareholder value between July 2007 and May 2012.

The 2009 Incentive Shares do not confer a right to be paid an interim or final dividend or to vote at a general meeting. On winding up, the holders are entitled to participate in the Company's assets equal to an amount to which they would have been entitled if their 2009 Incentive Shares had crystallised as at the date of winding up. Further details of the 2009 Incentive Shares can be found in the Remuneration report on pages 56 to 59.

FURTHER RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

The following summary is based on the Company's Articles, as adopted at a general meeting of the Company on 8 August 2011.

VOTING

Only New Ordinary Shares have voting rights attached. In a general meeting of the Company, subject to the provisions of the current Articles and to any special rights or restrictions as to voting attached to any other class of shares in the Company (of which there are currently none):

- on a show of hands, every member present shall have one vote; and
- on a poll, every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

The Company's Articles were amended pursuant to a special resolution approved at a general meeting of the Company held on 8 August 2011, to reflect the rights and restrictions attaching to the C Shares and the C Deferred Shares and certain other changes required in connection with the Share Capital Consolidation. The rights attaching to the New Ordinary Shares following the Share Capital Consolidation remained exactly the same as those attaching to the Old Ordinary Shares immediately prior to the Share Capital Consolidation.

If any call or other sum payable by a holder of New Ordinary Shares remains unpaid, they shall not be entitled to vote at any general meeting or class meeting in respect of any shares held by him. Currently, all issued New Ordinary Shares are fully paid.

As at 7 March 2012, the Melrose PLC Employee Benefit Trust held 19,862 New Ordinary Shares (2010: 25,279 Old Ordinary Shares) at a nominal value of 14/55 pence per share (2010: 0.2 pence per share), resulting from the crystallisation of the original incentive scheme in August 2007. The FKI Employee Benefit Trust held a further 124,232 New Ordinary Shares (2010: 158,114 Old Ordinary Shares) at a nominal value of 14/55 pence per share (2010: 0.2 pence per share), arising from the Melrose acquisition of FKI plc. The Remuneration Committee may direct how the voting rights of those shares are exercised.

DEADLINES FOR VOTING RIGHTS

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 9 May 2012 are set out in the Notice of AGM, on pages 118 to 120.

DIVIDENDS AND DISTRIBUTIONS

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to the Ordinary shareholders, but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. All dividends shall be apportioned and paid pro-rata according to the amounts paid up on the shares.

The Board may deduct from a dividend, or other amounts payable to a person in respect of their shares, amounts due from him to the Company on account of a call or otherwise in relation to such shares.

Directors' report continued

LIQUIDATION

Under the current Articles, if the Company is in liquidation, the liquidator may, on obtaining any sanction required by law:

- divide amongst the shareholders in kind the whole or any part of the assets of the Company; or
- vest the whole or any part of the assets in trust for the benefit of shareholders as the liquidator shall determine.

TRANSFER OF SHARES

Subject to the Articles, any member may transfer all or any of his shares in any form which the Board may approve, and the transfer shall be executed by or on behalf of the transferor. Subject to the Articles and the requirements of any relevant investment exchange, the Board may, in its absolute discretion, refuse to register a transfer of a share which is not a fully paid share or on which the Company has a lien. The Board may also decline to register a transfer unless the transfer is: (i) in respect of only one class of shares; (ii) in favour of not more than four joint transferees or renouncees; (iii) duly stamped (if required); and (iv) delivered for registration to the registered office, or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor.

SUBSTANTIAL SHAREHOLDINGS

As at 7 March 2012, the Company has been advised of the following substantial interests in the Ordinary Share capital of the Company:

Shareholder	Holding	%
Blackrock Inc	47,823,838	12.23
Threadneedle Asset Management Ltd	31,065,172	7.95
Standard Life Investments Ltd	28,659,567	7.33
Artemis Investment Management	25,701,112	6.57
Scottish Widows Investment Partnership	23,364,440	5.98
Ignis Asset Management	20,242,952	5.18
Aviva Investors	17,616,351	4.50
Legal & General Investment Management Ltd	16,576,989	4.24
F & C Asset Management Plc	14,728,830	3.77

CORPORATE GOVERNANCE

The Corporate Governance report is included as a separate report on pages 50 to 55.

RISKS AND UNCERTAINTIES

The Group operates a variety of risk management processes designed to take into account the identification, management and mitigation of business risk, where both short term and long term considerations are monitored. A review of the effectiveness of the Company's risk management and internal control systems is carried out on a regular basis and at least annually, in accordance with the provisions of the UK Corporate Governance Code. A summary of the material strategic, operational, compliance, ethical and financial risks and uncertainties that could impact on the Group's performance is shown on pages 31 to 33. Internal control and risk management is also discussed further within the Finance Director's review on pages 23 to 30 and the Corporate Governance report on pages 50 to 55. Additionally, key commercial and economic risks are covered in the Chief Executive's Review on pages 12 to 22.

SIGNIFICANT AGREEMENTS AND CHANGE OF CONTROL

With the exception of the Group's banking facilities, the Melrose 2009 Incentive Share Scheme and the divisional management long term incentive schemes, there are no other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, that are considered to be significant in terms of their potential impact on the business of the Group as a whole on 7 March 2012.

On 22 December 2011, the Group agreed a new syndicated £600 million five-year multi-currency, committed, revolving credit facility, which has the same change of control provisions as the previous £750 million facility. In the event of a change of control of the Company following a takeover bid, the Company and lenders under this facility are obliged to enter into negotiations to determine whether and, if so, how to continue with the facility. There is no obligation for the lenders to continue to make the facility available for more than 30 days beyond any change of control. Failure to reach agreement with parties on revised terms could require an acquirer to put in place replacement facilities.

In the event of a takeover of the Company, the 2009 Incentive Shares convert into New Ordinary Shares or an entitlement to a dividend paid in cash, the conversion being based upon the offer price of the Company's New Ordinary Shares as calculated on the date of the change of control of the Company. If part or the entire offer price is not in cash, the Remuneration Committee will determine the value of the non-cash element, having been advised by an investment bank of repute that such valuation is fair and reasonable.

PRODUCT AND EMPLOYER'S LIABILITY CLAIMS

The Group seeks to assess its ongoing risks in relation to potential future liabilities arising from insurance claims via the use of external actuarial projections to measure material exposures. Historic claims experience data is used to analyse risks in relation to less significant exposures. Actuarial projections and claims history experience are regularly analysed by management and key issues, trends and statistics are also discussed at Board level.

Risks within the Group relate to potential future liabilities arising from product, industrial disease (including asbestos), employer's liability and workers' compensation claims. Provisions in relation to such risks are recognised in the Group's Balance Sheet, where appropriate. Note 30 to the consolidated financial statements provides further information with regard to contingent product liabilities.

A number of businesses have ISO 9001 and ISO 16949 certifications for their quality management systems, which also help to ensure their products and processes are of a recognised quality, reducing the risk of product claims. Some businesses within the Group are also certified to international health and safety standards via ISO 18001, which helps to further ensure that risks in relation to employer's liability claims are kept to a minimum.

PAYMENTS TO SUPPLIERS

The Company has decided not to utilise standard protocols in respect of payments to suppliers, given the international nature of the Group's operations. It is the responsibility of each business to agree the exact terms and conditions of transactions with their suppliers and these arrangements are adhered to, provided that suppliers meet their contractual commitments. The Company, as a holding company, did not have any material amounts owing to trade creditors at 31 December 2011.

INTELLECTUAL PROPERTY

The Company and each of its businesses recognise the value and importance of its intellectual property ('IP') and, where appropriate, will seek to protect and enforce its rights over IP. Due to the varying types of IP rights held or licensed within the Group, each business is responsible for the management and enforcement of these on a de-centralised basis through the use of external advisers and the support of the Company. As part of this process and to try and reduce risks in this area, internal IP audits are conducted by all businesses within the Group.

EMPLOYMENT POLICIES

The Group recognises its responsibilities for the fair treatment of all its employees in accordance with legislation applicable to the territories within which it operates. Due to the diverse nature of the Group, businesses are required to manage their employment matters on a de-centralised basis and, therefore, responsibility for the adoption of employment policies and practices sits at a local business unit level. This position ensures that policies and procedures meet both site and local regulatory requirements, taking into account the size and nature of the businesses.

As part of this de-centralised approach, each business is responsible for setting and measuring its own KPIs and, as such, these vary throughout the Group. However, such measurements will generally include absenteeism, punctuality, headcount and employee relations issues. Any concerns or adverse trends are responded to in a timely manner. Further, as a Group-wide policy and so far as particular disabilities permit, the Company and each of its businesses will give employees disabled during their period of employment continued employment in the same job or, if this is not practicable, a suitable alternative job. Equal opportunities for appropriate training, career development and promotion are also available to all employees within the Group regardless of any physical disability, gender, religion, race, nationality, sexual orientation or age.

Applications for employment by disabled persons are always fully considered by the Group, taking into account job-specific requirements and applicant aptitude. It is the policy of the Group that in recruitment, training, career development and promotion, the treatment of disabled persons should, as far as possible, be identical to that of other employees.

The Group regards employee training and advancement as an essential element of industrial relations. Disputes and days lost through strike action are negligible.

EMPLOYEE INVOLVEMENT, CONSULTATION AND DEVELOPMENT

The Group attaches great importance to good labour relations, employee involvement and employee development. The nature of the Group's activities places the responsibility for employment practices with local management, in a manner appropriate to each business.

A culture of clear communication and employee consultation is inherent in the Group's businesses. Employee briefing sessions are held on a regular basis to communicate strategy, key changes, financial results, achievements and other important issues. Regular appraisals, employee surveys, noticeboards, intranet sites, team meetings, suggestion boxes and newsletters are also used to communicate with employees.

Extensive training is available to all staff and is actively encouraged to ensure a high standard of skill is maintained across the Group. Cross-training programmes are also in place at a number of the Group's businesses. The importance of training extends beyond on-the-job training and also focuses on enhancing personal development. Apprenticeship programmes are in place at the majority of sites, which help to assist with succession planning in locations where there is an ageing workforce. Employees are encouraged to think in an innovative manner across the Group.

Directors' report continued

HUMAN RESOURCE INITIATIVES

During 2011, many of the Group's businesses implemented a range of employee-related initiatives, which include the following:

- Within the Turbogenerators business at Loughborough, a substantial investment has been made in a new Learning Academy, which was officially opened in July 2011. Classroom style facilities have been provided to enhance the skills of existing employees and to ensure that future apprentices can benefit from a structured learning environment. These new training facilities are also being used to carry out customer training courses in relation to the growing Aftermarket business. During 2011, Brush invested in a series of 'next generation' management development programmes, aimed at managers who have responsibility for apprentices. The programme is being developed further during 2012. Turbogenerators were awarded a 'Gold Standard' from the National Apprenticeship Service during 2011, in relation to their highly regarded apprenticeship scheme.

- At Bridon's Doncaster UK facility, efforts have been made to encourage employee engagement in health and safety matters, in order to improve further the safety record of the site. This resulted in the business being awarded a steel industry 'Live Wire' award in 2011 for its efforts in involving employees in a variety of health and safety initiatives.

- Within each of the US-based businesses, a focus has been placed on various employee health and wellness initiatives. These include the introduction of tobacco-free sites, provision of flu jabs, weight loss initiatives, wellness fairs and free medical testing services. These initiatives are ongoing.

A significant number of employees are members of unions and some businesses operate works councils, both of which are used for consultation and dissemination of information, as appropriate.

The Directors have monthly meetings with divisional senior management and visit the sites on an ad hoc basis to communicate with the wider Group. Financial results of the Company for the half year and full year are discussed with the Group's senior management team; Group developments are communicated to the businesses as appropriate. Employee involvement in and commitment to the Group's profitability is encouraged through appropriate bonus schemes.

PENSIONS

Companies within the Group operate various pension schemes around the world. The table at the bottom of this page shows defined benefit schemes that are material to the Group.

The FKI UK Pension Plan ('FKI UK Plan') is a UK defined benefit pension plan with FKI Limited as its principal employer. The primary liability for funding rests with the participating employers, which currently pay £18.5 million annually into the FKI UK Plan. This is expected to remove the funding deficit by 31 December 2022, when the contribution levels were last formally assessed as at 31 December 2008. A formal actuarial valuation of the FKI UK Plan is currently being carried out, which will record the funding position as at 31 December 2011; the Company and the trustees of the plan will be discussing valuation results and funding requirements during the course of 2012. The FKI UK Plan closed to the accrual of future benefits for existing members on 28 February 2011 and this is expected to lead to the funding deficit being removed earlier than would otherwise have been the case.

The McKechnie UK Pension Plan ('McKechnie UK Plan') is a UK defined benefit pension plan with McKechnie Limited as its principal employer. The primary liability for funding rests with the participating employers. The Company and Trustees reviewed the funding of the McKechnie UK Plan as part of the actuarial valuation as at 31 December 2008 and it was agreed that the participating employers would contribute £4.6 million annually into the McKechnie UK Plan. The Company has guaranteed the funding of the McKechnie UK Plan on an ongoing basis. A formal actuarial valuation of the McKechnie UK Plan is currently being carried out, which will record the funding position as at 31 December 2011; the Company and Trustees of the plan will be discussing valuation results and funding requirements during the course of 2012.

The FKI US Pension Plan is a defined benefit pension plan covering several of FKI's US businesses. The primary liability for funding the FKI US Pension Plan rests with the participating employers. The Company and Trustees of the plan reviewed the funding requirements of the FKI US Pension Plan, based on its 1 January 2011 actuarial valuation and no contributions will need to be made during 2012. Unlike the UK pension plans, deferred member liabilities do not increase by inflation each year.

Defined benefits pension schemes material to the Group:		**As at 31 December 2011**		
Name of Plan	**Status**	**Assets £m**	**Liabilities £m**	**Number of members**
FKI UK Pension Plan	Closed to new members in October 2001. Closed to the accrual of future benefits on 28 February 2011.	**600.3 (2010: 549.2)**	**679.7 (2010: 627.8)**	**10,639 (2010: 10,753)**
McKechnie UK Pension Plan	Closed to new members in 2003. Closed for future accrual in 2005.	**157.5 (2010: 143.8)**	**154.5 (2010: 141.9)**	**3,217 (2010: 3,311)**
FKI US Pension Plan	Closed to new members in April 2003. Closed for future accrual in 2009.	**195.2 (2010: 193.3)**	**228.7 (2010: 213.1)**	**8,194 (2010: 8,401)[1]**

(1) A review of the FKI US Pension Plan was carried out in 2011 by the plan administrators, who have subsequently confirmed that the number of members within the FKI US Plan should be restated for the year ended 31 December 2010.

HEALTH AND SAFETY

The Directors of the Company are committed to minimising the health and safety risks that each of the Group's employees are exposed to by promoting the effective use and management of business specific policies and procedures.

The Group has a policy to ensure that the Directors are made aware of any serious health and safety incidents, wherever they occur in the world, without delay to ensure that suitable investigations and corrective action can be organised. Health and safety is also covered at every quarterly Board meeting of the Company.

Each of the Group's businesses has specific health and safety KPIs in use, which are specific to the exact nature of their business and allow for focus, analysis and improvement at local business levels, often on a location by location basis.

To supplement the business specific KPIs, Group-wide health and safety KPIs were developed during 2011. Going forward, this will allow the Directors to review Group statistics on a regular and consistent basis; it will also ensure they have a greater visibility of the key Group health and safety trends in order to help them to make decisions on where future focus should be placed.

The Group health and safety KPIs that are actively being used are: Major Accident Frequency Rate (defined as an accident that resulted in an employee having more than three days off work due to a work-related injury, per 200,000 working hours), Accident Frequency Rate (defined as an accident that resulted in an employee having between one and three days off work due to a work-related injury, per 200,000 working hours) and Accident Severity Rate (which calculates the average number of lost working days per accident). Such statistics are collected quarterly on a site-by-site basis. From an overall Group perspective, each of the three KPI statistics had improved in the period from 2009 to 2011.

Each business is responsible for setting its own detailed arrangements concerning health and safety policies and procedures, in accordance with local health and safety legislation. As a general rule, businesses strive to achieve best practice, in terms of what is suitable and practical for the size and nature of their operations. Several of the Group's businesses already hold ISO 18001 certification, the internationally recognised assessment standard for occupational health and safety management systems. This certification includes some of the major manufacturing locations within the Group, such as the Brush sites at Loughborough, UK and in the Czech Republic. The certification process is also currently underway at the two MPC sites in Yorkshire. The Bridon business has a medium term strategy to achieve ISO 18001 international health and safety standards for all of its sites.

Divisional managers within each business unit have responsibilities to ensure that health and safety remains a key focus and to ensure that active procedures and monitoring systems are in place to provide substance to written policies. Detailed health and safety plans are set by businesses each year to determine annual targets and improvement initiatives.

All businesses have an established Health and Safety Committee ('H&S Committee') structure in place; such committees meet on a regular basis and are made up of representatives from both management and shop floor level personnel. Each of the H&S Committees has wide-ranging responsibilities which vary from business to business and include the review of reported incidents and the monitoring of incident trends. These H&S Committees are also responsible for ensuring that corrective measures are implemented when accidents occur and that all incidents, whether or not they are deemed reportable under local legislation, are given due attention.

One of the key responsibilities for these H&S Committees is to carry out regular tours of the premises in which they work, in order to ensure compliance with local policies and procedures. These tours also identify potential hazards, for which counter measures can be identified to prevent accidents from happening. Each H&S Committee recommendation is followed up at the next committee meeting to ensure that issues are resolved. Additionally, operations are audited by the H&S Committees at least annually and reports of performance and recommended improvements are prepared and circulated to the divisional senior management teams. Divisional managers are provided with detailed health and safety reports on a frequent basis to ensure that such matters are given high visibility and that improvements are authorised and implemented quickly.

HEALTH AND SAFETY INITIATIVES

During 2011, many of the Group's businesses implemented a range of initiatives aimed at improving health and safety performance, as part of the Group's goal of achieving zero preventable accidents and these include:

- Ongoing development within Bridon of a new team meeting structure throughout its worldwide locations; at such meetings, Bridon's policy dictates that health and safety should be top of the agenda, thus providing suitable forums to discuss relevant issues and escalate these to management quickly. As part of this approach, a variety of different meetings take place on a daily, weekly and monthly basis to discuss a whole range of business issues, with the aim of improving visibility, ownership and leadership on a site-by-site basis. This structure is already in place within Bridon's European sites and is now being rolled out to its sites in the US, Asia and New Zealand. Bridon is also in the process of further developing their existing health and safety auditing systems.
- During 2011, investment of approximately £0.5 million was provided to various Bridon facilities to further improve barriers designed to segregate walkways from forklift truck usage and to improve machine guarding.

Directors' report continued

The photograph above shows a 'level one' shop floor meeting taking place at Bridon's factory in Willington Quay, near Newcastle upon Tyne, UK. With heavy industrial processes taking place in Bridon's worldwide locations health and safety takes a top priority at daily meetings such as this.

More information about Bridon is available online at www.bridon.com

- At Turbogenerators, focus continues to be placed on driving down the number of accidents within each of its key manufacturing locations through the process of cultural change. Improved safety committee structures and site safety tours are all helping the business to reduce its accident rate. During 2011, a full equipment audit took place within Turbogenerators to develop a register of machinery that has the potential to cause hand arm vibration or noise induced injuries, which will allow usage levels to be monitored going forward. Equipment has also been identified that either needs to be repaired, recalibrated or replaced.
- HSS implemented production line process changes during 2011 in order to reduce the number of manual handling injuries and this will continue to be monitored throughout the course of 2012. The use of safety eye wear has also been made compulsory in certain parts of the Blackwood site in South Wales, together with a communication programme to ensure all employees are aware of the policy. They have also just implemented an initiative in conjunction with some of their sheet metal suppliers to ensure that materials arrive in a 'de-burred' state, which ensures all sharp edges are removed to further reduce the number of cut-related injuries.
- Marelli are currently rolling out an in-house risk perception training course for four hundred of its employees at their main manufacturing location in Arzignano, Italy. This is designed to communicate further the importance of risk reduction and the health and safety policies that need to be adhered to whilst on site.
- Within several of the US businesses, efforts are being made to reduce specific accident causes, such as slips, falls and repetitive strain type injuries. Investments include the use of non-slip coatings on factory floors and the installation of cranes to allow for the safer loading and unloading of heavy materials. Additional safety training and awareness programmes have also been introduced to assist further in working towards the goal of achieving a zero-tolerance approach to preventable accidents.

THE ENVIRONMENT

The Company's main impact on the environment is through its energy use and associated carbon dioxide (CO_2) emissions and waste. The Directors fully understand the importance of the Group's environmental responsibilities. Each of the Company's businesses are committed to ensuring that their operations have a minimum adverse effect on the environment and that ongoing reductions in both energy usage and CO_2 emissions are achieved, wherever practicable.

Many of the Group's businesses are developing environmental policies and procedures in line with best practice guidelines, via ongoing improvements to local processes to reduce the impact of their activities. A number of the businesses have achieved, or are currently in the process of achieving, the high standards required to obtain ISO 14001 Environmental Management Systems certification. In addition, UK subsidiaries comply with the UK Packaging Waste Regulations and REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), as appropriate.

Although there are no standardised environmental KPIs currently used within the Group, each business fully understands the importance of monitoring the impact of its operations on the environment. A range of KPIs are used as environmental measures, including energy consumption, CO_2 emissions, water consumption, water contamination, waste disposal, solid and liquid waste generation, recycling and volatile organic compound emissions. Environmental performance is measured via the use of KPIs in order that each of the businesses can plan for ongoing reductions.

ENVIRONMENTAL INITIATIVES

In terms of environmental initiatives that have either been completed in 2011, or are ongoing for 2012, there are a variety of examples from the Group's businesses and these include:

- Continuing development of a new 'triple rinse system' at Bridon's Doncaster, UK site, which is designed to conserve water used to rinse products and recover acid. This project was ongoing through 2011 and it is hoped the system will be fully operational from mid-2012.

- Planned reduction in the use of hydrochloric acid as a pickling agent at Bridon's Doncaster site. This will be achieved by the greater use of mechanical de-scaling and ultra-sonic technology using phosphoric acid as the cleaning agent. Phosphoric acid is preferred to hydrochloric acid as it does not spontaneously fume and therefore no emissions are released into the atmosphere. It is anticipated that this project will be completed by the end of 2012.
- The installation of variable speed drives on pumps within bore hole abstraction wells and the effluent plant at Bridon's Doncaster site was completed during the year. Prior to this, such processes had operated on a constant full power setting. The benefits of this investment include the reduction of energy consumption of up to 65 per cent on the specific processes to which the variable speed drives were applied, together with a 30 per cent reduction in the use of bore hole water, thus conserving local water supplies.
- A reduction in waste product is planned at Turbogenerators Loughborough, UK site during 2012 by a further commitment to recycle not only general waste but also shop floor waste such as copper, other metals and plastic. Further workforce training will help to ensure recycling figures increase and waste product declines going forward. Various other initiatives are also currently taking place within Brush to reduce energy consumption, such as investment in automatic roller shutter doors to aid heat retention, trials of LED energy efficient lighting and an increase in the number of lights around the site that are on timers.
- Truth have recently made a considerable investment in a new air compressor system at their Owatonna, Minnesota, US facility, designed to substantially reduce energy consumption; a similar investment will be made in Truth's Canadian facility at Brampton, Ontario, during 2012.
- At Crosby's Tulsa, Oklahoma, site in the US, during December 2011, a sulphuric acid recovery system was installed within the galvanizing department. This allows for the acid to be recovered and recycled as part of the cleaning process on the galvanizing line, thus reducing the amount of hazardous waste generated from this operation, as well as providing a significant return on the investment.
- A programme to reduce the amount of energy used for lighting within Crosby's site in Tulsa has been very successful, resulting in a 50 per cent reduction in energy consumed by such usage. Further energy efficient improvements were made, including insulation of exterior walls and new energy efficient windows. The replacement of old and inefficient pre-heating stations used for welding operations was also carried out during the year, with the new equipment being 50 per cent more efficient due to the reduction in pre-heating times.
- Emergency spill kits have been introduced to Crosby's Jacksonville, US site during the year, which will substantially improve the containment response time in the event of a large spill of hazardous material from the drums used to hold such liquids. Training courses were also provided for employees working in these areas in relation to the new equipment.

During the year, the Company filed its first Annual Report to the Environment Agency to ensure compliance with the Carbon Reduction Commitment Energy Efficiency Scheme ('CRC'). This is a mandatory climate change and energy saving scheme introduced in the UK during April 2010, designed to record the Group's CO_2 usage within the UK. The Company will ensure that it continues to comply with the ongoing annual reporting requirements of the CRC and to further reduce energy consumption wherever possible.

ENVIRONMENTAL LIABILITIES

The Directors seek to ensure that all environmental risks are closely managed by external environmental specialists in conjunction with internal management. The environmental laws of certain jurisdictions impose obligations to remediate contaminated sites in relation to sites both currently and previously owned by the Group.

The Company Secretary is made aware of all major environmental liabilities that may occur within any of the Group's businesses; the Board are also regularly updated on such matters. All costs incurred by the Group with regard to environmental liabilities are monitored, with provisions being made as appropriate.

RESEARCH AND DEVELOPMENT

The Company actively encourages ongoing research and development within each of its businesses. Investment funds are made available for this purpose to ensure that new designs can be introduced to market and that existing processes can be further enhanced. This helps to ensure that each business unit remains at the forefront of technological advances and is able to meet the ever-changing demands of its customers. Details of some of the new products currently being introduced to the market are included within the Chief Executive's review on pages 12 to 22. Due to the nature of the research and development that occurred in 2011, the associated costs were expensed during the year rather than being capitalised, in line with the Group's accounting policy on page 71.

CORPORATE SOCIAL RESPONSIBILITY

Due to the heavy industrial nature of some of the Group activities, the Directors recognise that its operations will potentially impact on a wide variety of stakeholders in terms of social, environmental and ethical matters, including employees, customers, suppliers and local communities.

Many of the Group's businesses have social and ethical policies, with responsibility for communication and implementation resting with relevant senior divisional managers. Such policies apply and extend to local law and standards and as a minimum include equal opportunities and anti-discrimination policies.

The majority of the businesses provided community support during the year with efforts ranging from charitable donations to voluntary assistance and fund raising.

The Company is committed to continuing to invest in its businesses during its ownership, thus enhancing their reputation within the markets and communities in which they operate.

Directors' report continued

CHARITABLE AND POLITICAL DONATIONS

The Group paid £50,000 (2010: £21,550) to charities during the year. There were no political donations made during the year (2010: nil).

AUDITOR

So far as each Director is aware, there is no relevant audit information of which the auditor is unaware and the Directors have taken all the steps which they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor. Accordingly, a resolution will be proposed at the AGM of the Company to reappoint Deloitte LLP as auditor of the Company and to authorise the Directors to determine their remuneration.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Divisional reviews on pages 14 to 22. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 23 to 30. In addition, notes 19 and 24 to the consolidated financial statements include the Group's policies and processes for managing its capital, exposures to liquidity risk and financial risk management objectives, as well as details of its financial instruments and hedging strategies. Credit risk exposure is discussed in notes 16 and 24 to the consolidated financial statements.

The Group prepares regular business forecasts and monitors projected facility headroom and compliance with its banking covenants, which are reviewed by the Board. Forecasts are then adjusted for sensitivities which address the principal risks to which the Group is exposed, such as fluctuations in exchange rates and best estimates of the possible impact of the macroeconomic environment on the Group's underlying trading results. Consideration is then given to the potential actions available to management to mitigate the impact of one or more of the sensitivities.

Taking all this into consideration, the Group should be able to operate within the level of its current banking facilities and remain covenant compliant for the foreseeable future, being a period of at least twelve months from the date of approval of these financial statements.

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

AGM

The AGM of the Company will be held at Barber-Surgeons' Hall, Monkwell Square, Wood Street, London, EC2Y 5BL at 11.00 am on 9 May 2012.

In accordance with the UK Corporate Governance Code published in June 2010, which applies to all accounting periods beginning on or after 29 June 2010, all Directors will offer themselves for election or re-election at this year's AGM, as per resolutions 4 to 10 of the Notice of Meeting shown on pages 118 to 120. Following his appointment to the Board on 1 September 2011 and in accordance with the Company's articles of association, Justin Dowley will retire and offer himself for election at the AGM as per resolution 11 of the Notice of Meeting.

Resolutions dealing with the following special business will be proposed at the AGM:

Resolution 13 will seek shareholder approval to renew the Directors' authority to allot shares or grant rights to subscribe for or convert any securities into shares pursuant to section 551 of the Companies Act 2006 (the 'Section 551 authority'). The authority contained in paragraph (A) of the resolution will be limited to an aggregate nominal value representing £331,724, being approximately one third of the Company's issued Ordinary Share capital, as at 7 March 2012.

In line with guidance issued by the Association of British Insurers, paragraph (B) of this resolution would give the Directors authority to allot shares or grant rights to subscribe for or convert any securities into shares in connection with a rights issue up to an aggregate nominal value of £663,448, representing approximately two-thirds of the Company's issued Ordinary Share capital as at 7 March 2012, as reduced by the nominal amount of any shares issued under paragraph (A) of this resolution.

The Company does not hold any treasury shares.

Resolution 14 will seek to renew the authority conferred on the Board to allot equity securities of the Company (or sell any shares which the Company may elect to hold in treasury) for cash pursuant to section 570 of the Companies Act 2006 (the 'Section 570 authority') without first offering them to existing shareholders in proportion to their existing shareholdings.

The authority is limited to allotments or sales in connection with pre-emptive offers, subject to any arrangements that the Directors consider appropriate to deal with fractions and overseas requirements, and otherwise up to a maximum nominal value of £49,758, representing approximately 5 per cent of the Company's issued Ordinary Share capital as at 7 March 2012, which is in accordance with the relevant guidelines for the Company.

If approved, the Section 551 authority and the Section 570 authority will expire at the conclusion of next year's AGM or, if earlier, at the close of business on 30 June 2013. The Directors have no present intention of exercising the Section 551 authority or the Section 570 authority.

Resolution 15 will seek to renew the authority conferred on the Company to purchase its own shares pursuant to sections 693 and 701 of the Companies Act 2006. This authority is limited to an aggregate maximum number of 39,096,104 Ordinary Shares, representing 10 per cent of the Company's issued Ordinary Share capital as at 7 March 2012. This power will expire at the conclusion of next year's AGM or, if earlier, at the close of business on 30 June 2013. The maximum price which may be paid for an Ordinary Share will be an amount which is not more than 5 per cent above 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. The Directors have no present intention of exercising all or any of the powers conferred by this resolution and will only exercise their authority if it is in the interests of shareholders generally.

Resolution 16 will seek shareholder approval to allow the Company to continue to call general meetings (other than AGMs) on 14 clear days' notice. In accordance with the Companies (Shareholders' Rights) Regulations 2009 the notice period required for general meetings of the Company is 21 days unless shareholders approve a shorter notice period (subject to a minimum period of 14 clear days). AGMs will continue to be held on at least 21 clear days' notice.

The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. In accordance with the Companies Act 2006, the Company must make a means of electronic voting available to all shareholders for that meeting in order to be able to call a general meeting on less than 21 clear days' notice.

RECOMMENDATIONS

The Board believes that each of the resolutions to be proposed at the AGM is in the best interests of the Company and its shareholders as a whole. Accordingly, the Directors unanimously recommend that ordinary shareholders vote in favour of all of the resolutions proposed, as they intend to do in respect of their own beneficial holdings.

DISCLOSURES IN THE DIRECTORS' REPORT

The Corporate Governance report, Divisional reviews and Finance Director's review form part of the Directors' report.

Approved by the Board of Directors and signed on its behalf by:

Garry Barnes
Secretary
7 March 2012

Corporate Governance report

STATEMENT OF COMPLIANCE

The Board of Directors remains committed to maintaining the high standards of corporate governance required to ensure the Company can continue to deliver its long term strategic goals for shareholders. As part of this approach, the Board supports the principles of the UK Corporate Governance Code (the "UK Code"), which replaced the 2008 Combined Code on Corporate Governance with effect from financial years beginning on or after 29 June 2010.

The Board is accountable to the Company's shareholders for good governance. Throughout the year ended 31 December 2011, the Company complied with the provisions of the UK Code and with the requirements of the Disclosure and Transparency Rules ('DTR') on audit committees and corporate governance statements. The statements below describe how the Company has applied the principles identified in the UK Code and DTR directives.

THE BOARD

Members: Christopher Miller, Executive Chairman
David Roper, Chief Executive
Simon Peckham, Chief Operating Officer
Geoffrey Martin, Group Finance Director
Perry Crosthwaite, Non-executive Director
Justin Dowley, Non-executive Director
John Grant, Non-executive Director
Miles Templeman, Senior non-executive Director

All of the above Directors served throughout the year, with the exception of Justin Dowley who was appointed as a non-executive Director on 1 September 2011.

THE MAIN RESPONSIBILITIES:

- effectively manage and control the Company via a formal schedule of matters reserved for its decision;
- determine and review Company strategy and policy;
- consider acquisitions, disposals and asset requests for major capital expenditure;
- review trading performance;
- ensure that adequate funding and personnel are in place;
- maintain sound internal control systems; and
- report to shareholders and give consideration to all other significant financial matters.

Board responsibilities are undertaken in conjunction with senior management, who in turn are responsible for the day-to-day conduct of the Group's operations and for reporting to the Board on items of significance and progress against objectives. The Board meets regularly during the year as well as on an ad hoc basis as required by time critical business needs. There were four scheduled Board meetings held during the year and the attendance of each of the Directors is shown on page 54.

BOARD BALANCE, INDEPENDENCE AND PERFORMANCE

The Board believes that the Directors possess diverse business experience in areas complementary to the activities of the Company; this position has been enhanced further by the appointment of Justin Dowley during the year. Biographies of the Directors are shown on pages 36 and 37. These biographies identify any other appointments held by the Directors. The only executive Director to hold non-executive Director appointments elsewhere is Christopher Miller, who is a non-executive Director of TMO Renewables Limited and is allowed to retain the remuneration he receives from that appointment.

In accordance with the provisions of the UK Code, consideration has been given to the independence of all the non-executive Directors; the Board considers all the non-executive Directors to be independent. The non-executive Directors are not entitled to any bonus or shares under the 2009 Incentive Share Scheme. Performance of the Board and each Committee is evaluated annually.

As part of the performance appraisal process both the executive and non-executive Directors are required to complete performance questionnaires on an annual basis in relation to the Board, its three committees of audit, remuneration and nomination and their fellow Directors. All responses are reviewed and collated by the Company Secretary before further action is taken, as necessary. This process also helps to determine if any of the Directors have any specific training requirements.

The Chairman has held meetings with the Directors, including the senior independent non-executive Director, Miles Templeman, to discuss the performance of individual executive Directors and the Board as a whole. It was considered that the individual Directors and the Board as a whole were operating effectively. The non-executive Directors, led by Miles Templeman, the senior non-executive Director, are responsible for the performance evaluation of the Chairman and as part of this process also took account of the views of the executive Directors.

The Board are currently considering the impact on the performance evaluation process with respect to the new requirement under the UK Code to carry out externally facilitated performance evaluations at least every three years. The Company has therefore not yet carried out an external evaluation of its Directors' performance.

The Nomination Committee currently takes into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform in the role, experience, knowledge, ethnicity and gender. The most important priority of the Nomination Committee has been, and will continue to be, ensuring that the best candidate is selected to join the Board and this approach will remain in place going forward.

(1) David Roper will become Executive Vice-Chairman with effect from the Company's AGM on 9 May 2012.
(2) Simon Peckham will become Chief Executive with effect from the Company's AGM on 9 May 2012.
(3) John Grant became Chairman of the Audit Committee on 6 March 2012. Prior to this the Chairman of this committee was Miles Templeman.

New Directors joining the Board receive a formal and tailored induction shortly after their appointment. Directors are advised that they have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board may seek independent legal and financial advice in the furtherance of its duties, at the Company's expense.

A pack of briefing papers and an agenda are provided to each Director in advance of each scheduled Board or standing Committee meeting. The Directors are able to seek further clarification and information on any matter from any other Director or employee of the Group whenever necessary. Decisions are taken by the Board in conjunction with the recommendations of its Committees and advice from external consultants, advisers and senior management.

DIRECTOR TERMS AND CONDITIONS

The terms and conditions of the executive Directors' service contracts and the non-executive Directors' appointments are available for inspection at the Company's registered office. The non-executive Directors' appointment letters are also available on the Company's website: www.melroseplc.net.

ANNUAL RE-ELECTION OF DIRECTORS

In previous years, one third of the Company's Directors have been subject to retirement by rotation with a requirement then to offer themselves for re-election. However, going forward and notwithstanding the Company's Articles, the Board has determined that all Directors of the Company will stand for election or re-election at the forthcoming AGM and annually thereafter, in compliance with the provisions of the UK Code.

The Board and Nomination Committee have carefully considered the time commitments required and the contribution made by each Director. Both the Nomination Committee and the Board are of the belief that the performance of each executive and non-executive Director continues to be effective and that each Director demonstrates commitment to his role.

CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chairman and Chief Executive of the Company are, and will remain, separate and distinct from one another in accordance with best practice and Board policy.

The Chairman alone is responsible for leadership of the Board. Responsibility for ensuring effective communications with shareholders rests with the Chairman and other executive Directors. The Chief Executive is responsible for strategic direction and decisions involving the day-to-day management of the Company. These respective responsibilities are set out in writing and have been approved by the Board, which considers that the respective roles and responsibilities are clearly understood by both individuals and by the Board as a whole.

COMMITTEES OF THE BOARD

In accordance with the provisions of the UK Code, the Board has three standing Committees: the Audit, Remuneration and Nomination Committees. Each of these includes the four independent non-executive Directors. The duties of the Committees are set out in formal terms of reference. These are available from

Corporate Governance report continued

the Company Secretary and on the Company's website, www.melroseplc.net. The Company Secretary acts as Secretary to each of the Committees.

AUDIT COMMITTEE

Members: John Grant, Chairman (from 6 March 2012)
Perry Crosthwaite
Justin Dowley
Miles Templeman (Chairman to 6 March 2012)

MAIN RESPONSIBILITIES:

- review and monitor the integrity of the financial statements of the Group, including its interim accounts, the annual report, interim management and preliminary statements and any other formal announcements relating to the financial performance of the Group;
- keep under review the effectiveness of the Group's financial reporting, internal controls, risk management systems and compliance controls;
- focus and challenge the consistency of accounting policies, methods used to account for significant or unusual transactions and compliance with accounting standards;
- review the Group's arrangements for its employees to raise concerns in confidence about possible wrongdoing in financial reporting, in accordance with the Company's whistleblowing policy; and
- develop, implement and monitor the Group's policy on external audit and for overseeing the objectivity and effectiveness of the auditor.

Each member of the Audit Committee brings relevant financial experience from senior executive and non-executive positions as described in their biographies on pages 36 and 37.

The Audit Committee invites the Group Finance Director, the Head of Financial Reporting and senior representatives of the external and internal auditors to attend meetings as appropriate to the business being considered. The Audit Committee has the right to invite any other employees to attend meetings where this is considered appropriate. In addition, the Audit Committee meets at least once per year with both the external and internal auditors, without management present.

The Audit Committee is expected to meet not less than three times a year and the Audit Committee met three times during 2011. The attendance of its members, along with the Group Finance Director, is shown in the table on page 54.

GROUP AUDITOR

The Group's external auditor is recommended for reappointment by the Audit Committee, which also assesses the appropriateness of the scope of audit work performed and provides recommendations in respect of their remuneration and terms of engagement. The Audit Committee receives regular reports from the Group's external auditor.

The Audit Committee has a policy on the engagement of the external auditor for the supply of non-audit services. In accordance with best practice FRC guidelines, which apply from 30 April 2011 onwards, the Company policy in relation to non-audit services is kept under regular review; the policy outlines which non-audit services are pre-approved, which services require the prior approval of the Audit Committee and which services the auditor is excluded from providing.

During 2011, the main non-audit services provided by Deloitte LLP were in relation to taxation compliance, tax planning, corporate finance (which includes work carried out around the sale of Dynacast and aborted purchase of Charter International plc) and UK pensions.

The Audit Committee carries out regular reviews to ensure that auditor objectivity and independence is maintained at all times. A different senior partner carries out the taxation audit of the Company compared to those working on the non-audit taxation services. With regard to corporate finance services a separate team, which was independent from the audit team was used within Deloitte LLP to carry out this work. The non-audit work provided on pensions was performed either by a different senior partner to those involved in audit work, or by independent actuaries who have no links with Deloitte LLP. Based on these strict procedures the Audit Committee remains confident that auditor objectivity and independence has been maintained but accepts that non-audit work should be controlled to ensure that it does not compromise the auditor's position.

Deloitte LLP was appointed in 2003. At each year end, Deloitte LLP submits a letter setting out how it believes its independence and objectivity have been maintained. They are also required to rotate the audit partner responsible for the Group and subsidiary audits every five years. The Group's audit signing partner changed as part of that rotation process in 2010. There are no contractual obligations that restrict the Group's capacity to recommend a particular firm for appointment as auditor.

INTERNAL AUDIT PROGRAMME

Due to the size and complexity of the Group, it is appropriate for an internal audit programme to be used within the business. BM Howarth, an external firm, provides internal audit services to the Group. A rotation programme is in place, such that every business unit will have an internal audit at least once every three years, with the largest sites being reviewed at least once every two years. The rotation programme allows divisional management's actions and responses to be followed up on a timely basis. During the year, BM Howarth also carried out an audit of the Group's central head office functions.

The internal auditor's remit includes assessment of the effectiveness of internal control systems, compliance with the Group's Policies and Procedures Manual and a review of the businesses' Balance Sheets. A report of key findings and recommendations is presented to the Group Finance Director, Head of Financial Reporting and Group Operations Controller, followed by a meeting

to discuss key findings and resulting action points. BM Howarth also presented their key findings to the Audit Committee twice during the year. Review of the internal audit process and scope of work covered by the internal auditor is the responsibility of the Audit Committee, to ensure their objectives, level of authority and resources are appropriate for the nature of the businesses under review. A report of significant findings is presented by the internal auditor to the Committee at each meeting and implementation of recommendations by the Board are followed up at the subsequent Committee meeting.

REMUNERATION COMMITTEE

Members: Perry Crosthwaite, Chairman
Justin Dowley
John Grant
Miles Templeman

MAIN RESPONSIBILITIES:

- annually review remuneration trends across the Group and obtain reliable and up-to-date information about the remuneration of Directors and senior employees in other companies;
- consider and make recommendations to the Board on the framework for the remuneration of the Company's executive Directors, the Company Secretary and other senior employees;
- ensure the executive Directors and senior employees are provided with appropriate annual incentives to encourage enhanced performance and that they are rewarded for their individual contributions to the success of the Company; and
- approve the structure of, and determine targets for, any long term incentive plans operated by the Company.

In developing its recommendations, the Committee has given due consideration to Schedule 8 of Part 15 of the Companies Act 2006.

The Remuneration Committee is expected to meet not less than twice a year and during 2011 the Remuneration Committee met twice. The attendance of its members is shown in the table on page 54. The report to shareholders on how Directors are remunerated, together with details of individual Directors' remuneration is shown in the Remuneration report on pages 56 to 59.

NOMINATION COMMITTEE

Members: Miles Templeman, Chairman
Perry Crosthwaite
Justin Dowley
John Grant
Christopher Miller

MAIN RESPONSIBILITIES:

- keep the size, structure and composition of the Board under regular review and recommend to the Board any adjustments as may be necessary from time to time;
- give full consideration to succession planning to ensure an optimum balance of executive and non-executive Directors in terms of skills, experience and diversity;
- keep under review the leadership needs of the business; and
- keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the markets in which it operates.

As one of the main responsibilities of the Nomination Committee is to recommend any adjustments to the size or structure of the Board, it was involved in the recruitment of Justin Dowley, who was appointed as a non-executive Director on 1 September 2011. Prior to Justin's appointment the Committee agreed upon a specific recruitment process. This included the development of a candidate specification which set out the required skills, qualifications and experience followed by a thorough interview process.

The Nomination Committee is expected to meet not less than twice a year and during 2011 the Nomination Committee met three times. The attendance of its members is shown in the table overleaf.

The Nomination Committee uses external search consultants as appropriate.

ATTENDANCE AT MEETINGS

The table over the page shows the attendance of each of the Directors at the scheduled and significant meetings of the Board and its standing Committees held during the year. The quorum necessary for the transaction of business by the Board and each of its standing Committees is two. Briefing papers and meeting agendas are provided to each Director in advance of each meeting. Decisions are taken by the Board in conjunction with the recommendations of its Committees and advice from external advisers and senior management as appropriate. The representations of any Director who is unable to attend a meeting of the Board or a standing Committee are duly considered by those Directors in attendance.

Corporate Governance report continued

	Board	Audit	Remuneration	Nomination
Number of meetings[1]	**4**	**3**	**2**	**3**
Christopher Miller	4	—	—	3
David Roper	4	—	—	—
Simon Peckham	4	—	—	—
Geoffrey Martin	4	3[2]	—	—
Miles Templeman	4	3	2	3
Perry Crosthwaite	4	3	2	3
John Grant	4	3	2	3
Justin Dowley[3]	1	1	1	1

(1) In addition, ad-hoc meetings are held from time-to-time which are attended by a quorum of Directors and are convened to deal with specific items of business.
(2) Geoffrey Martin attends by invitation.
(3) Justin Dowley was appointed as a non-executive Director on 1 September 2011 and attended the remaining Board meeting of the year in December 2011, together with the December meetings of the Audit, Remuneration and Nomination Committees.

INTERNAL CONTROL AND RISK MANAGEMENT

Objectives and policy

The objectives of the Directors and senior management are to safeguard and increase the value of the business and assets of the Group. Achievement of their objectives requires the development of policies and appropriate internal control frameworks to ensure the Group's resources are managed properly and any key risks are identified and mitigated where possible.

The Board is ultimately responsible for the Group's overall system of internal control and for reviewing its effectiveness, while the role of management is to implement the policies set by the Board in respect of risk management and controls. The Directors recognise that the systems and processes established by the Board are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and cannot provide absolute assurance against material financial misstatement or loss.

The Board is committed to satisfying the internal control guidance for Directors set out in the revised version of the Turnbull Guidance on Internal Control. In accordance with this guidance, there is an ongoing process, regularly reviewed by the Directors, for identifying, evaluating, managing and mitigating (where possible) the significant risks faced by the Group. This process for reviewing the Group's internal controls is consistent with prior years and has been in place throughout the 2011 financial year and up to the date of approval of this Annual Report.

Managing and controlling risk

The Group has policies which address a number of key business risks, including strategic, operational, compliance, ethical and financial risks. A summary of some of the strategic and operational risks and uncertainties that could impact on the Company's performance is set out on pages 31 to 33. The Group's financial risk management objectives and policies are also described in the Finance Director's review on pages 23 to 30. Further information can also be found in the Chief Executive's review on pages 12 to 22, and the Directors' report on pages 38 to 49.

The Group operates on a de-centralised basis and the Board has established an organisational structure with clear reporting procedures, lines of responsibility and delegated authority. Divisional senior management, plant managers and financial controllers have been delegated responsibility by the Board for the establishment and implementation of detailed control systems as appropriate for their business.

An established programme of regular review is in place at the businesses and a culture of continuous improvement is encouraged by the Board through regular meetings with senior management, review of operating performance and progress against business plans. The ongoing process of review provides assurance that the control environment is operating as intended.

The Audit Committee also monitors the effectiveness of the internal control processes implemented across the Group through review of the key findings presented by the external and internal auditors and discussions with senior management on an ad-hoc basis. The Board is responsible for considering Audit Committee recommendations in respect of internal controls and risk management and ensuring implementation by management of those recommendations it deems appropriate for the business.

Internal financial controls

The Group has a comprehensive system for assessing the effectiveness of the Group's systems of internal financial controls, including strategic business planning and regular monitoring and reporting of financial performance. A detailed annual budget is prepared by senior management and thereafter is reviewed and formally adopted by the Board. The budget and other targets are regularly updated via a rolling forecast process and regular business review meetings are held involving senior management to assess performance. The results of these reviews are in turn reported to and discussed by the Board at each meeting.

As discussed in the Audit Committee section on pages 52 and 53 of this report, BM Howarth is the Group's internal auditor. A total of 21 businesses have been visited during the year, including the Group's central head office functions, and the Directors are pleased to report that there were no material deficiencies and that the majority of recommendations presented in the internal auditor reports have now been, or are in the process of being implemented. A further 23 businesses are planned for review during 2012.

The Board confirms that, from the review of internal controls, it has not determined any significant failings or weaknesses that it considers require remedial action. The Board also confirms that it has not been advised of any material weaknesses in the internal control systems that relate to financial reporting.

WHISTLEBLOWING, ANTI-BRIBERY AND CORRUPTION POLICIES

During the year, the Company updated its anti-bribery and corruption policy in accordance with the Bribery Act 2010 (the '2010 Act'), which came into force on 1 July 2011. As part of this process, a full audit of each Group business was carried out in which key risks were identified and mitigating actions agreed. The results of the audit confirmed that additional procedures were required within some of the Group businesses in relation to the use of sales agents who operate in high risk areas of the world, together with the general development of stricter policies and procedures when trading in certain territories for the first time. Additional procedures have also been developed with regard to gift, hospitality and charitable donation registers.

In order to ensure compliance with the 2010 Act, the Company developed a specific training and communication process to ensure all relevant senior employees were aware of the Group's policy and their individual obligations in helping to ensure adherence. This process involved the development of a specific internally designed training portal for use by relevant employees within the Group. An internal review process has also been incorporated into the annual audit programme carried out by BM Howarth, to ensure ongoing compliance to the Group policy. As an addition to this, each business is required to provide an annual confirmation to the Company that it has fully complied with the Group's anti-bribery and corruption policy.

The Group's anti-bribery and corruption policy applies to all Directors, employees (whether permanent, fixed-term, or temporary), pension trustees, consultants and other business advisers, contractors, trainees, volunteers, business agents, distributors, joint venture partners, or any other person working for or performing a service on behalf of the Company, its subsidiaries and associated companies in which it has a majority interest.

Responsibility for anti-corruption policies and procedures rests with the Board of Directors. It is tasked with ensuring that adequate internal financial controls and record keeping is in place within the Group in order to minimise the risk of bribery and corruption.

The Company also updated its whistleblowing policy during the year, as part of the anti-bribery and corruption communication process within the Group. This enables individuals to make protected disclosures to their divisional human resources manager, Group Company Secretary or the senior non-executive Director if they have concerns about possible improprieties in financial reporting or other malpractices within their business.

COMMUNICATIONS WITH SHAREHOLDERS

The Company seeks to build on a mutual understanding of objectives with its institutional shareholders, via the executive Directors, through regular meetings and presentations following announcements of its annual and interim results. The non-executive Directors are available to meet institutional shareholders should there be unresolved matters they wish to bring to their attention. The views of key analysts and major shareholders are fed back to the Board directly by individual Directors, or via the Company's brokers. This helps to ensure that all members of the Board develop an understanding of the views of major shareholders. Corporate information is available on the Company's website, www.melroseplc.net.

The Board welcomes the attendance of shareholders at the AGM. The number of proxy votes cast for and against each of the resolutions proposed is announced at the AGM and a summary will be provided shortly after the AGM, on the Company's website.

By order of the Board

Garry Barnes
Secretary
7 March 2012

Remuneration report

INTRODUCTION AND COMPLIANCE

The Directors' Remuneration report has been prepared by the Remuneration Committee and approved by the Board. The report has been drawn up in accordance with relevant sections of the UK Corporate Governance Code, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Companies Act 2006 and the UK Listing Authority Listing Rules.

A resolution inviting shareholders to approve the report will be put to the Annual General Meeting on 9 May 2012.

The Remuneration report is divided into two parts. The first part contains commentary on remuneration policy, which is not required to be audited. The second part contains details of the Directors' remuneration, which has been audited in accordance with the relevant statutory requirements.

Biographies of the Directors are shown on pages 36 and 37. These biographies identify any other significant appointments held by the Directors.

UNAUDITED INFORMATION: REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Perry Crosthwaite, an independent non-executive Director. Miles Templeman, John Grant and Justin Dowley (appointed on 1 September 2011), the other three independent non-executive Directors, complete the Committee.

The terms of reference of the Remuneration Committee are posted on the Corporate Governance section of the Company's website (www.melroseplc.net) and are also available from the Company Secretary at the registered office address. Page 53 of the Corporate Governance report sets out the functions of the Remuneration Committee.

REMUNERATION POLICY

Remuneration packages are reviewed regularly and changes are effective from 1 January each year. The Remuneration Committee and its advisers use a number of third party remuneration surveys from which to obtain remuneration data in order to carry out benchmarking exercises.

The remuneration package for all executive Directors comprises base salary and benefits, annual bonus, long term incentive arrangements and pension contributions as described within this report. Some senior employees of the Group are also entitled to bonuses and long term incentive arrangements as noted below.

EXECUTIVE DIRECTORS AND OTHER SENIOR EMPLOYEES

The Board establishes the remuneration policy based on the recommendations of the Remuneration Committee. The remuneration policy adopted by the Company requires the package offered to any executive Director or senior employee to be sufficient to attract, retain and motivate management of a suitable quality, but not to be more than is necessary for this purpose. It is intended that performance related pay should comprise a significant proportion of the total remuneration package.

NON-EXECUTIVE DIRECTORS

The executive Directors are responsible for proposing the non-executive Directors' fees. In proposing such fees they take account of fees paid to non-executive Directors of similar sized listed companies within the Company's listing sector, as well as the time commitment and responsibility of the role. Any decisions regarding fee changes are taken by the executive Directors as a whole and non-executive Directors do not take part in discussions on their own remuneration. Non-executive Directors do not receive other taxable benefits or pension contributions from the Group.

BASE SALARY AND BENEFITS

The Remuneration Committee gives consideration to both the performance of the individual during the period of review and of current market salaries for equivalent roles based on independently sourced market information.

The salaries of all executive Directors and the senior management team are reviewed by the Remuneration Committee prior to the beginning of each year. Base salaries for 2011 were reviewed in December 2010. In January 2011, each of the executive and non-executive Directors received an inflationary increase of three per cent. In addition, a further inflationary increase of three per cent was awarded in December 2011, effective from January 2012.

The executive Directors also receive a company car allowance, fuel allowance, private medical insurance, life insurance and permanent health insurance cover. Mr Martin also receives paid train travel to and from London and accommodation for working in London.

ANNUAL BONUSES

Bonus scheme arrangements are in place for executive Directors and senior management. The maximum bonus payable is 100 per cent of base salary. The annual bonus scheme has two components, up to 80 per cent of base salary is payable based on diluted earnings per share growth and the remaining 20 per cent is discretionary. The discretionary element is payable based on the Remuneration Committee considering a range of financial and non-financial factors including working capital management and cash generation, overhead cost control, liability management, health and safety improvements and any other factors which the Remuneration Committee considers to be relevant. The Chairman does not participate in the annual bonus scheme and the same will also apply to the Executive Vice-Chairman with effect from the Company's AGM on 9 May 2012.

LONG TERM INCENTIVES

Long term incentives are granted to Directors and other senior employees in order to promote the success of the Company. The long term incentive arrangements currently in place are structured to ensure that participants are only rewarded for growth in the underlying value of the business in order to align the interests of the Directors with those of the Company's shareholders.

During 2011 the Group operated the following long term incentive schemes:

- 2009 Incentive Share Scheme
- Divisional long term incentive plans
- FKI cash long term incentive plan

2009 INCENTIVE SHARE SCHEME

The 2009 Incentive Share Scheme (the '2009 Scheme') was approved by shareholders at a General Meeting held in May 2009; it replaced the 2007 Incentive Share Scheme and as at 7 March 2012 continues to ensure the interests of the executive Directors and senior employees are aligned with those of shareholders by only rewarding participants if shareholder value is created. The executive Directors and five other senior employees are the only participants in the 2009 Scheme, as at 7 March 2012.

Participants of the 2009 Scheme are entitled to either a cash dividend or a number of Ordinary Shares, equal in value to 10 per cent of the increase in shareholder value from 18 July 2007 to 31 May 2012, or earlier upon a takeover of the Company (the 'trigger date'). The increase in shareholder value is calculated as the difference between the market capitalisation on the trigger date (determined by reference to the average market price of an Ordinary Share over 40 business days prior to the trigger date, or the offer price as appropriate) and the net invested capital in the Company. The net invested capital is the issued share capital at 18 July 2007, plus any amounts paid up for the issue of new Ordinary Shares, less all dividend payments or other distributions made by the Company in respect of its Ordinary Shares, as adjusted in line with the movement in the RPI (plus 2 per cent per annum).

As at 31 December 2011, the fair value attributable to the 2009 Incentive Shares (including those held by the Employee Benefit Trust) was £99.4 million (2010: £70.7 million), of which £86.5 million (2010: £61.5 million) was attributable to the executive Directors. Details of the Directors' beneficial interest in the 2009 Incentive Shares as at 7 March 2012 are shown in the table of Directors' shareholdings later in this report.

As at 7 March 2012, the Melrose Employee Benefit Trust held 500 of the 2009 Incentive Shares.

DIVISIONAL LONG TERM INCENTIVE PLANS

Divisional long term incentive plans have been implemented for certain divisional senior managers. It is the intention of the Board that participants will receive a cash payment upon the sale of a division or based upon financial performance as measured by growth in operating profit from the date of the FKI acquisition in July 2008, through to variable end dates which vary by business.

FKI CASH LONG TERM INCENTIVE PLAN

The cash long term incentive plan for senior management of the FKI businesses ended on 31 March 2011. It was replaced by the divisional long term incentive plan arrangements for certain divisional senior managers, as mentioned above.

PENSION

No Director is a member of any Group pension arrangement. The executive Directors may elect to receive a Company contribution to their individual pension arrangement, or a supplement to base salary in lieu of a pension arrangement. Company contributions are calculated on base salary only.

SERVICE CONTRACTS

Consistent with the best practice guidance provided by the UK Corporate Governance Code, the Company's policy is for Directors' service contracts to be terminable on a maximum of one year's notice. Directors' service contracts do not provide for pre-determined compensation in the event of termination. Any payments made would be subject to normal contractual principles, including mitigation as appropriate. The length of service for any one executive Director is not defined and is subject to both the requirements of annual re-elections under the UK Corporate Governance Code and the Company's Articles of Association. The non-executive Directors do not have service contracts but have letters of appointment for an initial period of three years, which may be renewed by mutual agreement. Generally, a non-executive Director may be appointed for up to a further two periods of three years after the initial three year period has expired. The terms of appointment do not contain any contractual provisions regarding a notice period or the right to receive compensation in the event of early termination.

Details of the Directors' appointment or reappointment dates and notice periods are as set out below:

Executive Directors	Date of appointment as a Director	Notice period
Christopher Miller	29 May 2003	12 months
David Roper	29 May 2003	12 months
Simon Peckham	29 May 2003	12 months
Geoffrey Martin	7 July 2005	12 months

Non-executive Directors	Date of appointment or most recent reappointment	End of appointment period
Miles Templeman	28 October 2009	27 October 2012
Perry Crosthwaite	25 July 2011	24 July 2014
John Grant	1 August 2009	31 July 2012
Justin Dowley	1 September 2011	31 August 2014

Remuneration report continued

DIRECTORS' SHAREHOLDINGS

Ordinary Shares

Following the sale of the Company's Dynacast business and subsequent return of £373.2 million to shareholders, a share consolidation and sub-division took place on 8 August 2011 pursuant to which every 14 Ordinary Shares of 0.2p nominal value in the capital of the Company ('Old Ordinary Shares') were converted into 11 Ordinary Shares of 14/55p nominal value in the capital of the Company ('New Ordinary Shares') (the 'Share Capital Consolidation'). The information in the table below shows the Directors' beneficial interests, including interests of connected persons (within the meaning of section 252 of the Companies Act 2006), in the New Ordinary Shares of the Company as at 31 December 2011. Holdings at the start of the period and prior to the Share Capital Consolidation are shown as Old Ordinary Shares.

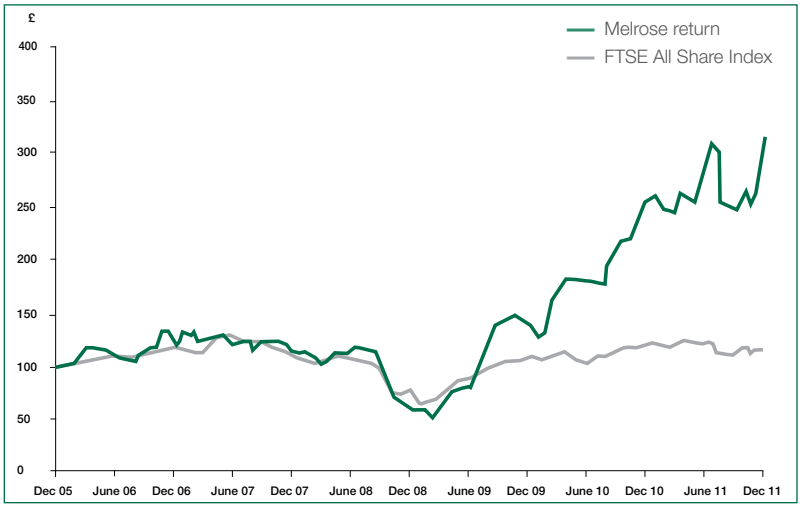
Director	Number of Old Ordinary Shares as at 1 January 2011	Number of Old Ordinary Shares purchased between 1 January 2011 and the Share Capital Consolidation	Number of New Ordinary Shares held immediately following the Share Capital Consolidation	Number of New Ordinary Shares purchased following the Share Capital Consolidation and prior to 31 December 2011	Number of New Ordinary Shares as at 31 December 2011
Christopher Miller[1]	5,702,464	—	4,480,507	100,000	4,580,507
David Roper	2,462,292	—	1,934,658	341,500	2,276,158
Simon Peckham	1,948,067	—	1,530,624	341,500	1,872,124
Geoffrey Martin	711,580	—	559,098	100,000	659,098
Miles Templeman	398,787	—	313,332	—	313,332
Perry Crosthwaite	131,250	—	103,125	—	103,125
John Grant	153,806	—	120,847	25,000	145,847
Justin Dowley	—	—	—	138,000	138,000
Total	11,508,246	—	9,042,191	1,046,000	10,088,191

(1) The interest of Christopher Miller includes 2,160,714 New Ordinary Shares (31 December 2010: 2,750,000 Old Ordinary Shares) held by Harris & Sheldon Investments Limited, a company which is connected with Christopher Miller within the meaning of section 252 of the Companies Act 2006.

None of the Directors who held office at the end of the financial year had any beneficial interest in the shares of other Group companies.

TOTAL SHAREHOLDER RETURN

The Ordinary Shares of Melrose PLC were admitted to the Official List and to trading on the London Stock Exchange on 9 December 2005. Following the Share Capital Consolidation, as a result of the return of proceeds generated from the sale of the Company's Dynacast division, the New Ordinary Shares were admitted to the Official List and to trading on the London Stock Exchange on 9 August 2011.



The total shareholder return graph shows the value as at December 2011 of £100 invested in the Company in December 2005, compared with £100 invested in the FTSE All Share Index.

The source data for the graph on the previous page assumes that the £220 million of cash returned to shareholders in August 2007, following the McKechnie Aerospace and PSM Fasteners disposals, together with the £373.2 million that was approved to be returned to shareholders in August 2011 following the sale of Dynacast, was reinvested to purchase shares in the Company. This results in an adjustment factor on the price and this factor is used in ongoing calculations of shareholder return for the Company, as ordinarily a return of capital would reduce the share price and an analysis of returns going forward would not reflect value already returned to shareholders. The benefit of any cash distribution is thereby reflected within the shareholder return performance of the Company.

AUDITED INFORMATION: DIRECTORS' REMUNERATION AND 2009 INCENTIVE SHARES

	Emoluments during 2011							
Directors	Salaries/ fees £	Bonus £	Taxable benefits £	In lieu of pension contributions[1] £	**2011 Total emoluments £**	Pension contributions[1] £	**2011 Total remuneration £**	2010 Total remuneration £
Christopher Miller[2]	397,850	—	20,121	59,678	**477,649**	—	**477,649**	463,602
David Roper	397,850	334,194	19,430	59,678	**811,152**	—	**811,152**	849,341
Simon Peckham	397,850	334,194	19,891	16,176	**768,111**	43,500	**811,611**	849,353
Geoffrey Martin	318,300	267,372	53,217	9,941	**648,830**	37,800	**686,630**	718,139
Miles Templeman[3]	61,650	—	—	—	**61,650**	—	**61,650**	60,000
Perry Crosthwaite[4]	61,650	—	—	—	**61,650**	—	**61,650**	60,000
John Grant	56,650	—	—	—	**56,650**	—	**56,650**	55,000
Justin Dowley[5]	18,883	—	—	—	**18,883**	—	**18,883**	Nil
Total	**1,710,683**	**935,760**	**112,659**	**145,473**	**2,904,575**	**81,300**	**2,985,875**	**3,055,435**

(1) Of the £226,773 attributable to pension contributions, £145,473 was paid as a supplement to base salary in lieu of pension arrangements. The balance of £81,300 was paid into the individual Directors' nominated private pension schemes.
(2) Christopher Miller is a non-executive Director of TMO Renewables Limited. His fees for the year were £27,472. This amount is retained by Christopher Miller and therefore excluded from the table above.
(3) Includes £5,000 per annum in recognition of Chairmanship of the Audit and Nomination Committees.
(4) Includes £5,000 per annum in recognition of Chairmanship of the Remuneration Committee.
(5) Justin Dowley was appointed as a non-executive Director of the Company on 1 September 2011.

2009 INCENTIVE SHARES

The Directors also had a beneficial interest in the Company's 2009 Incentive Shares (nominal value £1.00) at 31 December 2011 as follows:

Director	Number of 2009 Incentive Shares of Melrose PLC (as at 1 January 2011 and 31 December 2011)
Christopher Miller	12,000
David Roper	12,000
Simon Peckham	12,000
Geoffrey Martin	7,500
Miles Templeman	Nil
Perry Crosthwaite	Nil
John Grant	Nil
Justin Dowley	Nil

There were no options over 2009 Incentive Shares outstanding as at 31 December 2011.

This report was approved by the Board on 7 March 2012 and signed on its behalf by:

Perry Crosthwaite
Chairman of the Remuneration Committee
7 March 2012

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Chairman's statement, Chief Executive's review, Finance Director's review and Directors' report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Geoffrey Martin
Group Finance Director
7 March 2012

Simon Peckham
Chief Operating Officer
7 March 2012

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Auditor's report on the consolidated financial statements

Independent auditor's report to the members of Melrose PLC

We have audited the consolidated financial statements of Melrose PLC for the year ended 31 December 2011 which comprise the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Cash Flows, the consolidated Balance Sheet, the consolidated Statement of Changes in Equity and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

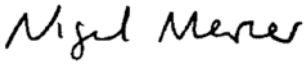
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, contained within the Directors' report, in relation to going concern;
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Company financial statements of Melrose PLC for the year ended 31 December 2011 and on the information in the Remuneration report that is described as having been audited.



Nigel Mercer, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
7 March 2012

Consolidated Income Statement

	Notes	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Continuing operations			
Revenue	4,5	**1,153.9**	1,035.4
Cost of sales		**(812.9)**	(731.0)
Gross profit		**341.0**	304.4
Headline[2] operating expenses		**(160.2)**	(157.0)
Share of results of joint ventures	14	**—**	(0.4)
Intangible asset amortisation		**(23.7)**	(24.1)
Exceptional costs	6	**(40.1)**	(10.3)
Exceptional income	6	**—**	21.4
Total net operating expenses	7	**(224.0)**	(170.4)
Operating profit		**117.0**	134.0
Headline[2] operating profit	5	**180.8**	147.0
Finance costs	7	**(29.6)**	(34.6)
Finance income	4,7	**10.0**	9.3
Profit before tax		**97.4**	108.7
Headline[2] profit before tax		**161.2**	121.7
Headline[2] tax		**(41.4)**	(34.5)
Exceptional tax[3]		**58.8**	29.5
Total tax	8	**17.4**	(5.0)
Profit for the year from continuing operations		**114.8**	103.7
Headline[2] profit for the year from continuing operations		**119.8**	87.2
Discontinued operations			
Profit for the year from discontinued operations	9	**171.7**	37.6
Profit for the year		**286.5**	141.3
Attributable to:			
Owners of the parent		**286.4**	141.1
Non-controlling interests		**0.1**	0.2
		286.5	141.3
Earnings per share			
From continuing operations			
— Basic	11	**25.2p**	20.8p
— Diluted	11	**23.7p**	19.8p
From continuing and discontinued operations			
— Basic	11	**62.9p**	28.4p
— Diluted	11	**59.0p**	27.0p
— Headline[2] diluted	11	**28.8p**	24.1p

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.
(2) Before exceptional costs, exceptional income and intangible asset amortisation.
(3) Includes exceptional tax and tax on exceptional items and intangible asset amortisation.

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Profit for the year		**286.5**	141.3
Currency translation on net investments	25	**(17.3)**	8.0
Currency translation on non-controlling interests		**–**	0.1
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	25	**(52.6)**	(0.1)
Losses on cash flow hedges	25	**(0.1)**	(7.8)
Transfer to Income Statement on cash flow hedges	25	**(5.1)**	(0.5)
Actuarial (loss)/gain on retirement benefit obligations	23	**(37.1)**	13.8
Other comprehensive (expense)/income before tax		**(112.2)**	13.5
Tax relating to components of other comprehensive (expense)/income	8	**16.8**	7.9
Other comprehensive (expense)/income after tax		**(95.4)**	21.4
Total comprehensive income for the year		**191.1**	162.7
Attributable to:			
Owners of the parent		**191.0**	162.4
Non-controlling interests		**0.1**	0.3
		191.1	162.7

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Net cash from operating activities from continuing operations	26	**74.6**	72.7
Net cash from operating activities from discontinued operations	26	**16.6**	45.2
Net cash from operating activities		**91.2**	117.9
Investing activities			
Disposal of businesses		**374.4**	(0.1)
Net cash disposed	9	**(0.5)**	—
Acquisition and disposal costs	6	**(3.2)**	—
Purchase of property, plant and equipment		**(37.6)**	(22.9)
Proceeds from disposal of property, plant and equipment		**0.3**	0.2
Purchase of computer software		**(1.6)**	(1.2)
Dividends received from joint ventures	14	**—**	0.3
Interest received		**10.0**	9.3
Acquisition of subsidiaries and non-controlling interests		**—**	(9.1)
Net cash from/(used in) investing activities from continuing operations		**341.8**	(23.5)
Net cash used in investing activities from discontinued operations	26	**(4.6)**	(6.7)
Net cash from/(used in) investing activities		**337.2**	(30.2)
Financing activities			
Return of capital	10	**(372.1)**	—
Repayment of obligations under finance leases		**—**	(1.1)
Dividends paid	10	**(52.8)**	(43.8)
Net cash used in financing activities from continuing operations		**(424.9)**	(44.9)
Net cash used in financing activities from discontinued operations	26	**(0.3)**	(0.5)
Net cash used in financing activities		**(425.2)**	(45.4)
Net increase in cash and cash equivalents		**3.2**	42.3
Cash and cash equivalents at beginning of year	26	**195.7**	147.5
Effect of foreign exchange rate changes	26	**(3.3)**	5.9
Cash and cash equivalents at end of year	17,26	**195.6**	195.7

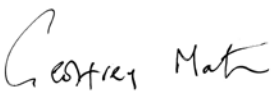
(1) Restated to include the cash flows of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.

As at 31 December 2011, the Group's net debt was £289.6 million (31 December 2010: £287.4 million). A reconciliation of the movement in net debt is shown in note 26.

Consolidated Balance Sheet

	Notes	31 December 2011 £m	31 December 2010 £m
Non-current assets			
Goodwill and other intangible assets	12	**906.1**	1,181.6
Property, plant and equipment	13	**215.3**	253.7
Deferred tax assets	21	**40.4**	33.0
Trade and other receivables	16	**0.3**	1.9
		1,162.1	1,470.2
Current assets			
Inventories	15	**205.8**	216.3
Trade and other receivables	16	**216.3**	257.7
Derivative financial assets	24	**1.7**	3.9
Cash and cash equivalents	17	**195.6**	195.7
		619.4	673.6
Total assets	5	**1,781.5**	2,143.8
Current liabilities			
Trade and other payables	18	**276.0**	355.3
Interest-bearing loans and borrowings	19	**28.8**	0.3
Derivative financial liabilities	24	**14.1**	8.3
Current tax liabilities		**16.9**	52.4
Provisions	20	**58.2**	35.9
		394.0	452.2
Net current assets		**225.4**	221.4
Non-current liabilities			
Trade and other payables	18	**1.6**	4.7
Interest-bearing loans and borrowings	19	**457.5**	482.8
Derivative financial liabilities	24	**1.6**	3.9
Deferred tax liabilities	21	**98.3**	114.9
Retirement benefit obligations	23	**117.7**	119.6
Provisions	20	**62.4**	82.8
		739.1	808.7
Total liabilities	5	**1,133.1**	1,260.9
Net assets		**648.4**	882.9
Equity			
Issued share capital	25	**26.8**	1.1
Share premium account		**126.0**	279.1
Merger reserve		**285.1**	285.1
Capital redemption reserve		**346.4**	220.1
Hedging and translation reserves	25	**(2.6)**	71.0
Retained earnings		**(133.4)**	25.1
Equity attributable to owners of the parent		**648.3**	881.5
Non-controlling interests		**0.1**	1.4
Total equity		**648.4**	882.9

The financial statements were approved and authorised for issue by the Board of Directors on 7 March 2012 and were signed on its behalf by:



Geoffrey Martin
Group Finance Director

Simon Peckham
Chief Operating Officer

Consolidated Statement of Changes in Equity

Reserves	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2010	1.1	279.1	285.1	220.1	71.6	(95.4)	761.6	1.7	763.3
Profit for the year	—	—	—	—	—	141.1	141.1	0.2	141.3
Other comprehensive (expense)/income	—	—	—	—	(0.6)	21.9	21.3	0.1	21.4
Total comprehensive (expense)/income	—	—	—	—	(0.6)	163.0	162.4	0.3	162.7
Dividends paid	—	—	—	—	—	(43.8)	(43.8)	(0.2)	(44.0)
Credit to equity for equity-settled share-based payments	—	—	—	—	—	1.8	1.8	—	1.8
Acquisition of non-controlling interest	—	—	—	—	—	(0.5)	(0.5)	(0.4)	(0.9)
At 31 December 2010	1.1	279.1	285.1	220.1	71.0	25.1	881.5	1.4	882.9
Profit for the year	—	—	—	—	—	286.4	286.4	0.1	286.5
Other comprehensive expense	—	—	—	—	(73.6)	(21.8)	(95.4)	—	(95.4)
Total comprehensive (expense)/income	—	—	—	—	(73.6)	264.6	191.0	0.1	191.1
Issue of redeemable preference C shares	372.1	(153.1)	—	(220.1)	—	—	(1.1)	—	(1.1)
Preference C shares redeemed	(346.4)	—	—	346.4	—	—	—	—	—
Return of capital	—	—	—	—	—	(372.1)	(372.1)	—	(372.1)
Dividends paid	—	—	—	—	—	(52.8)	(52.8)	(0.2)	(53.0)
Credit to equity for equity-settled share-based payments	—	—	—	—	—	1.8	1.8	—	1.8
Disposal of non-controlling interests	—	—	—	—	—	—	—	(1.2)	(1.2)
At 31 December 2011	**26.8**	**126.0**	**285.1**	**346.4**	**(2.6)**	**(133.4)**	**648.3**	**0.1**	**648.4**

Notes to the financial statements

1. Corporate information

The consolidated financial statements of Melrose PLC ('the Group') for the year ended 31 December 2011 were authorised in accordance with a resolution of the Directors of Melrose PLC on 7 March 2012.

Melrose PLC ('the Company') is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 121. The nature of the Group's operations and its principal activities are set out in note 5.

These financial statements are presented in pounds Sterling which is the currency of the primary economic environment in which the Company is based. Foreign operations are included in accordance with the policies set out in note 2.

The comparative information for the year ended 31 December 2010 in these financial statements has been restated to include the results and cash flows of the Dynacast segment along with four businesses previously shown in the Other Industrial segment; namely Brush Traction, Logistex UK, Madico and Weber Knapp, within discontinued operations.

1.1 New Standards and Interpretations affecting amounts, presentation or disclosure reported in the current period

During the period, the Group adopted three new or revised Standards and Interpretations, none of which significantly affected the amounts reported in these financial statements. Details of the Standards and Interpretations that were adopted are set out in section 1.2.

1.2 New Standards and Interpretations adopted with no significant effect on financial statements

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements, but may impact the accounting for future transactions and arrangements.

IAS 24 (revised): Related party disclosures
Amendments to IFRIC 14: Prepayments of a minimum funding requirement
Annual improvements to IFRSs 2010

1.3 New Standards and Interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations are in issue but not yet effective:

Amendments to IAS 1: Presentation of items of other comprehensive income
Amendments to IAS 12: Deferred tax — recovery of underlying assets
IAS 19 (revised): Employee benefits
IAS 27 (revised): Separate financial statements
IAS 28 (revised): Investments in associates and joint ventures
Amendments to IFRS 7: Financial instruments disclosures
IFRS 9: Financial instruments
IFRS 10: Consolidated financial statements
IFRS 11: Joint arrangements
IFRS 12: Disclosure of interest in other entities
IFRS 13: Fair value measurement
Annual improvements to IFRSs 2011

The Directors do not anticipate that the adoption of these Standards and Interpretations will have a material impact on the Group's financial statements in the period of initial application, except as follows:

IAS 19 (revised) will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the Group's total obligation. Following the adoption of IAS 19 (revised), effective from 1 January 2013, the net retirement benefit obligation in the Balance Sheet will not be impacted but the net finance cost of pensions, within the Income Statement, will increase. This will reduce profit for the year and accordingly increase Other Comprehensive Income.

2. Summary of significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs'). The consolidated financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments which are recognised at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for these assets. The principal accounting policies adopted are consistent with the prior year and are set out below.

Basis of consolidation

The Group financial statements include the results of the parent undertaking and all of its subsidiary undertakings. The results of businesses acquired during the period are included from the effective date of acquisition and for those sold during the period to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All inter-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders is initially measured at the non-controlling interests' proportion of the share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' statement of going concern on page 48 of the Directors' report.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the fair value of assets given, the liabilities incurred or assumed at the date of exchange of control and equity instruments issued by the Group in exchange for control of the acquiree. Costs directly attributable to business combinations are recognised as an expense in the Income Statement as incurred.

The acquired identifiable assets and liabilities are measured at their fair value at the date of acquisition except those where specific guidance is provided by IFRSs. Non-current assets and directly attributable liabilities that are classified as held for sale in accordance with IFRS 5: 'Non-current assets held for sale and discontinued operations', are recognised and measured at fair value less costs to sell. Also, deferred tax assets and liabilities are recognised and measured in accordance with IAS 12: 'Income taxes', liabilities and assets related to employee benefit arrangements are recognised and measured in accordance with IAS 19: 'Employee benefits' and liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payments awards are measured in accordance with IFRS 2: 'Share-based payments'. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts where appropriate. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

Goodwill on acquisition is initially measured at cost being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Notes to the financial statements continued

2. Summary of significant accounting policies (continued)

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units acquired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the Income Statement and is not subsequently reversed. When there is a disposal of a cash-generating unit, goodwill relating to the operation disposed of is taken into account in determining the gain or loss on disposal of that operation. The amount of goodwill allocated to a partial disposal is measured on the basis of the relative values of the operation disposed of and the operation retained.

Joint ventures

A joint venture is an entity which is not a subsidiary undertaking but the interest of the Group is that of a partner in a business over which the Group exercises joint control. The results, assets and liabilities of joint ventures are accounted for using the equity method of accounting.

Revenue

Revenue is recognised when the significant risks and rewards of ownership of goods have passed to the buyer and can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes.

Where percentage of completion accounting is applied and where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the Balance Sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest applicable.

Exceptional costs/income

Exceptional costs/income are those costs/income of a significant and non-recurring nature or those associated with significant restructuring programmes, acquisitions or disposals.

Operating profit

Operating profit is stated after exceptional operating costs and income, intangible asset amortisation and the Group's share of results of joint ventures, but before finance income and finance costs.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

Issue costs of loans

The finance cost recognised in the Income Statement in respect of the issue costs of borrowings is allocated to periods over the terms of the instrument using the effective interest rate method.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of an asset comprises its purchase price or construction cost, and any costs directly attributable to bring the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

2. Summary of significant accounting policies (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold land	nil
Freehold buildings and long leasehold property	over expected economic life not exceeding 50 years
Short leasehold property	over the term of the lease
Plant and equipment	3–12 years

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists an impairment review is performed and, where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds or costs and the carrying amount of the item) is included in the Income Statement in the year that the item is derecognised.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

On acquisition of businesses, separately identifiable intangible assets are determined in relation to the specific circumstances of the business acquired and are valued on an appropriate basis.

Access to the use of patented technology and trade names are valued using a ‘relief from royalty’ method which determines the net present value of future additional cash flows arising from the use of the intangible asset.

Customer relationships are valued on the basis of the net present value of the future additional cash flows arising from customer relationships with appropriate allowance for attrition of customers.

The estimated useful lives of intangible assets are:

Computer software	5 years or less
Patented technology	5 years or less
Customer relationships	10 years or less
Trade names	20 years or less

Computer software is initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Where these have been acquired other than through a business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Computer software assets are amortised over their estimated useful lives on a straight-line basis.

Intangible assets are tested for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are measured on a similar basis to property, plant and equipment. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed 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 where 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.

Notes to the financial statements continued

2. Summary of significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes all direct expenditure and appropriate production overhead expenditure incurred in bringing goods to their current state under normal operating conditions. Net realisable value is based on estimated selling price less costs expected to be incurred to completion and disposal. Provisions have been made for obsolescence or other expected losses where necessary.

Trade and other receivables

Trade receivables and other receivables are measured and carried at amortised cost using the effective interest method, less any impairment. The carrying amount of other receivables is reduced by the impairment loss directly and a charge is recorded in the Income Statement. For trade receivables, the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account and changes in the carrying amount of the allowance account are recognised in the Income Statement.

Trade receivables that are assessed not to be impaired individually are also assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting receipts, an increase in the number of delayed receipts in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash in hand and current balances with banks and similar institutions and short-term deposits which are readily convertible to cash which are subject to insignificant risks of changes in value.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the Income Statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that discounts estimated future cash payments throughout the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and commodity risks, arising from operating and financing activities. The Group does not hold or issue derivative financial instruments for trading purposes. Details of derivative financial instruments are disclosed in note 24 of the financial statements. Movements on the hedging reserve in equity are detailed in note 25.

2. Summary of significant accounting policies (continued)

Derivative financial instruments are recognised and stated at fair value. Their fair value is recalculated at each reporting date. The accounting treatment for the resulting gain or loss will depend on whether the derivative meets the criteria to qualify for hedge accounting.

Where derivatives do not meet the criteria to qualify for hedge accounting, any gains or losses on the revaluation to fair value at the period end are recognised immediately in the Income Statement. Where derivatives do meet the criteria to qualify for hedge accounting, recognition of any resulting gain or loss on revaluation depends on the nature of the hedge relationship and the item being hedged.

Derivative financial instruments with maturity dates of less than one year from the period end date are classified as current in the Balance Sheet.

Hedge accounting

In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument and to show that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

The Group designates certain hedging instruments, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

Fair value hedge

Derivative financial instruments are classified as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Cash flow hedge

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to the variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted cash flow.

The effective portion of any gain or loss from revaluing the derivative financial instrument is recognised in the Statement of Comprehensive Income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts previously recognised in the Statement of Comprehensive Income and accumulated in equity are recycled to the Income Statement in the periods when the hedged item is recognised in the Income Statement or the hedged relationship is discontinued. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedges of net investments in foreign operations

Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in foreign operations. The effective element of any foreign exchange gain or loss from revaluing the derivative at a reporting period end is recognised in the Statement of Comprehensive Income. Any ineffective element is recognised immediately in the Income Statement.

Gains and losses accumulated in equity are recognised immediately in the Income Statement when the foreign operation is disposed of or the hedged relationship is discontinued.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Environmental liabilities

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action. The amount recognised is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognised is the present value of the estimated future expenditure.

Notes to the financial statements continued

2. Summary of significant accounting policies (continued)

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by employees of the Group. The accounting policy for pensions and other retirement benefits is described below.

The Group also operates long term incentive plans (LTIPs) for Directors and certain employees. The expected settlement costs of these plans are expensed on a straight-line basis over the life of the plans.

Pensions and other retirement benefits

The Group operates defined benefit pension plans and defined contribution plans, some of which require contributions to be made to administered funds separate from the Group. In some jurisdictions, funds are not administered separately from the Group but appropriate liabilities are recognised in the Balance Sheet.

For the defined benefit pension and retirement benefit plans, plan assets are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities. Any assets resulting from this calculation are limited to past service cost plus the present value of available refunds and reductions in future contributions to the plan.

The service cost of providing pension and other retirement benefits to employees for the period is charged to the Income Statement.

A charge representing the unwinding of the discount on the plan liabilities during the period is included within finance costs.

A credit representing the expected return on the plan assets during the period is included within finance costs. This credit is based on the market value of the plan assets, and expected rates of return, at the beginning of the year.

Actuarial gains and losses may result from: differences between the expected return and the actual return on plan assets; differences between the actuarial assumptions underlying the plan liabilities and actual experience during the period; or changes in the actuarial assumptions used in the valuation of the plan liabilities. Actuarial gains and losses, and taxation thereon, are recognised in full in the period in which they occur, in the Statement of Comprehensive Income.

For defined contribution plans, contributions payable are charged to the Income Statement as they fall due as an operating expense.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Balance Sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Balance Sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Income Statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Income Statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the Balance Sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in the Statement of Comprehensive Income and accumulated in equity (attributed to non-controlling interests as appropriate). Such translation differences are recognised as income or as expenses in the period in which the related operation is disposed of. Any exchange differences that have previously been attributed to non-controlling interests are derecognised but they are not reclassified to the Income Statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate prevailing at the Balance Sheet date.

2. Summary of significant accounting policies (continued)

Taxation

The tax expense is based on the taxable profits for the period and represents the sum of the tax paid or currently payable and deferred tax.

Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises on goodwill that is not tax deductible or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- where the timing of the reversal of the temporary differences associated with investments in subsidiaries and interests in joint ventures can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carry-forward of unused tax assets and unused tax losses can be utilised except:

- where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the relevant Balance Sheet date.

Tax relating to items recognised directly in other comprehensive income is recognised in the Statement of Comprehensive Income and not in the Income Statement.

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- where receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Share-based payments

The Group has applied the requirements of IFRS 2: 'Share-based payments'. The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instrument excluding the effect of non-market based vesting conditions at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black–Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Notes to the financial statements continued

2. Summary of significant accounting policies (continued)

Non-current assets and businesses held for sale

Non-current assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and businesses are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset or business is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

3. Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies as set out in note 2, management has made critical accounting judgements in the quantification of provisions, the impairment of non-current assets and the valuation of retirement benefit obligations and taxation. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates. An analysis of the key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year is provided below.

Provisions

The quantification of certain liabilities within provisions (environmental remediation obligations and future costs and settlements in relation to certain legal claims) have been estimated using the best information available. However, such liabilities depend on the actions of third parties and on the specific circumstances pertaining to each obligation, neither of which is controlled by the Group. Although provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided. Further details are set out in note 6 and note 20.

Impairment of non-current assets

Goodwill and intangible assets are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired and at least annually. Such events and circumstances include the effects of restructuring initiated by management.

To determine whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and other intangible assets has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Such calculations require judgement relating to the appropriate discount factors and long term growth prevalent in a particular market as well as short and medium term business plans. The Directors draw upon experience as well as external resources in making these judgements.

The carrying amount of goodwill and other intangible assets (including computer software) at the Balance Sheet date was £906.1 million (31 December 2010: £1,181.6 million). At 31 December 2011 and 2010, the Group recognised no impairment loss in respect of these assets.

Retirement benefit obligations

Retirement benefits are accounted for under IAS 19: 'Employee benefits'. For defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at fair value. Because of changing market and economic conditions, the expenses and liabilities actually arising under the plans in the future may differ materially from the estimates made on the basis of these actuarial assumptions. Therefore, declining returns on equity markets and markets for fixed-income instruments could necessitate additional contributions to the plans in order to cover future pension obligations. Also, higher or lower withdrawal rates or longer or shorter life of participants may have an impact on the amount of pension income or expense recorded in the future.

The interest rate used to discount retirement benefit obligations to present value is derived from the yields of senior, high-quality corporate bonds at the Balance Sheet date. These generally include AA-rated securities. The discount rate is based on the yield of a portfolio of bonds whose weighted residual maturities approximately correspond to the duration necessary to cover the entire benefit obligation.

Pension and other retirement benefits are inherently long term and future experience may differ from the actuarial assumptions used to determine the net charge for retirement benefit obligations. Note 23 to the consolidated financial statements describes the principal discount rate, earnings increase and pension retirement benefit obligation assumptions that have been used to determine the net charge for retirement benefit obligations in accordance with IAS 19. The calculation of any charge relating to retirement benefit obligations is clearly dependent on the assumptions used, which reflects the exercise of judgement. The assumptions adopted are based on prior experience, market conditions and the advice of plan actuaries.

At 31 December 2011, the Group's retirement benefit obligation deficit was £117.7 million (31 December 2010: £119.6 million). Further details on the sensitivities and assumptions are discussed in the Finance Director's review on pages 23 to 30.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Taxation

The Group is subject to income tax in most of the jurisdictions in which it operates. Management is required to exercise judgement in determining the Group's provision for income taxes. Management's judgement is required in estimating tax provisions where additional current tax may become payable in the future following the audit by the tax authorities of previously filed tax returns. Management's judgement is also required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. While the Group aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected.

4. Revenue

An analysis of the Group's revenue, as defined by IAS 18, is as follows:

	Notes	**Year ended 31 December 2011 £m**	Restated[1] year ended 31 December 2010 £m
Continuing operations			
Revenue from the sale of goods		**1,122.4**	1,020.5
Revenue recognised on long-term contracts		**31.5**	14.9
Revenue	5	**1,153.9**	1,035.4
Finance income	7	**10.0**	9.3
Total revenue from continuing operations as defined by IAS 18		**1,163.9**	1,044.7
Discontinued operations			
Revenue from the sale of goods		**177.4**	337.4
Revenue recognised on long-term contracts		**0.4**	6.7
Revenue	5,9	**177.8**	344.1
Finance income		**0.5**	—
Total revenue from discontinued operations as defined by IAS 18		**178.3**	344.1
Total revenue as defined by IAS 18		**1,342.2**	1,388.8

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

5. Segment information

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

- Energy
- Lifting
- Other Industrial

The Energy segment incorporates the Turbogenerators (now including the Hawker Siddeley Switchgear business unit) and Marelli business units, specialist suppliers of energy industrial products to the global market. The Lifting segment consists of the businesses of Bridon, Crosby and Acco, serving oil & gas production, mining, petrochemical, alternative energy and general construction markets. The Other Industrial segment consists of the businesses of Truth, Harris and MPC primarily serving the housing, scrap processing, engineered plastic and automotive markets.

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

- Central — corporate
- Central — LTIPs[1]

(1) Long Term Incentive Plans.

The Central corporate cost centre contains the Melrose Group head office costs whilst the Central LTIPs cost centre contains the costs associated with the 2009 Melrose Incentive Scheme and the divisional management LTIP schemes that are in operation across the Group.

The discontinued segment incorporates the Dynacast segment along with four businesses previously shown in the Other Industrial segment; namely Brush Traction, Logistex UK, Madico and Weber Knapp.

Notes to the financial statements continued

5. Segment information (continued)

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

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

The following tables present revenue, profit, and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2011 and the comparative period. Note 6 gives details of exceptional costs and income.

Segment revenues and results

		Segment revenue from external customers	
	Notes	**Year ended 31 December 2011 £m**	Restated[1] year ended 31 December 2010 £m
Continuing operations			
Energy		**461.6**	427.5
Lifting		**484.4**	422.7
Other Industrial		**207.9**	185.2
Total continuing operations	4	**1,153.9**	1,035.4
Discontinued operations	4,9	**177.8**	344.1
Total revenue		**1,331.7**	1,379.5

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

		Segment result	
	Notes	**Year ended 31 December 2011 £m**	Restated[1] year ended 31 December 2010 £m
Continuing operations			
Energy		**91.1**	73.7
Lifting		**82.6**	66.7
Other Industrial		**23.1**	21.8
Central — corporate		**(9.2)**	(8.6)
Central — LTIPs[2]		**(6.8)**	(6.6)
Headline[3] operating profit		**180.8**	147.0
Intangible asset amortisation		**(23.7)**	(24.1)
Exceptional costs	6	**(40.1)**	(10.3)
Exceptional income	6	**—**	21.4
Operating profit		**117.0**	134.0
Finance costs	7	**(29.6)**	(34.6)
Finance income	7	**10.0**	9.3
Profit before tax		**97.4**	108.7
Tax	8	**17.4**	(5.0)
Profit for the year from discontinued operations	9	**171.7**	37.6
Profit for the year		**286.5**	141.3

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.
(2) Long Term Incentive Plans.
(3) As defined on the Income Statement.

5. Segment information (continued)

	Total assets		Total liabilities	
	31 December 2011 £m	Restated[1] 31 December 2010 £m	**31 December 2011 £m**	Restated[1] 31 December 2010 £m
Energy	**641.0**	643.7	**231.6**	216.0
Lifting	**767.3**	750.4	**212.3**	190.1
Other Industrial	**121.5**	117.2	**41.7**	48.0
Central — corporate	**251.7**	243.4	**632.2**	678.4
Central — LTIPs[2]	**—**	—	**15.3**	12.5
Total continuing operations	**1,781.5**	1,754.7	**1,133.1**	1,145.0
Discontinued operations	**—**	389.1	**—**	115.9
Total	**1,781.5**	2,143.8	**1,133.1**	1,260.9

(1) Restated to include the total assets and total liabilities of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.
(2) Long Term Incentive Plans.

	Capital expenditure[1]		Depreciation[1]	
	Year ended 31 December 2011 £m	Restated[2] year ended 31 December 2010 £m	**Year ended 31 December 2011 £m**	Restated[2] year ended 31 December 2010 £m
Continuing operations				
Energy	**11.4**	9.4	**7.9**	8.0
Lifting	**21.3**	9.8	**8.8**	9.4
Other Industrial	**6.5**	4.8	**5.8**	5.9
Central — corporate	**—**	0.2	**0.6**	0.7
Total continuing operations	**39.2**	24.2	**23.1**	24.0
Discontinued operations	**3.6**	7.7	**4.1**	8.9
Total	**42.8**	31.9	**27.2**	32.9

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

Notes to the financial statements continued

5. Segment information (continued)

Geographical information

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

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

	Revenue[1] from external customers		Non-current assets	
	Year ended 31 December 2011 £m	Restated[2] year ended 31 December 2010 £m	**31 December 2011 £m**	Restated[2] 31 December 2010 £m
UK	**195.2**	156.5	**367.0**	362.4
Europe	**287.6**	294.1	**321.7**	339.6
North America	**463.5**	419.8	**422.2**	430.2
Other	**207.6**	165.0	**10.5**	9.8
Total continuing operations	**1,153.9**	1,035.4	**1,121.4**	1,142.0
Discontinued operations	**177.8**	344.1	**—**	293.3
Total	**1,331.7**	1,379.5	**1,121.4**	1,435.3

(1) Revenue is presented by destination.
(2) Restated to include the revenue and non-current assets of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.

6. Exceptional costs and income

Exceptional costs	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Continuing operations		
Increase in legal provision	**(21.0)**	—
Restructuring costs	**(15.9)**	(5.9)
Acquisitions and disposals of businesses	**(3.2)**	(0.4)
Defined benefit pension plan disposal	**—**	(4.0)
Total exceptional costs	**(40.1)**	(10.3)

During the year, a legal provision, in respect of two Bridon companies, in connection with product liability litigation in the US inherited, in part, from the FKI acquisition has been increased to £25.8 million (US $40.0 million). Noble Drilling Services ('Noble') is claiming from Bridon and its US distributor for alleged losses arising from Hurricane Ike causing two offshore drilling rigs secured by Bridon ropes to break station in the Gulf of Mexico. The operator of the wells, Anadarko Petroleum Corp., then opportunistically joined the litigation seeking to recover alleged losses of its own from all parties, including Noble, but the court endorsed Bridon's analysis that this claim was meritless and dismissed it in full by way of summary judgement. The amount of the Noble claim is US $104 million which, based on legal and factual analysis, Bridon considers to be grossly inflated. Bridon intends to vigorously defend against all claims asserted against it at trial, which is set for later this year, and has robust defences to all allegations. In the event of an adverse ruling, Bridon already has a number of strong grounds for appeal, which itself could take a further six to eighteen months. Bridon has an insurance programme of up to £105 million (US$163 million at 31 December 2011) that may be available to respond and Bridon is currently in discussions with its insurers in relation to the extent of this coverage.

During 2011, the Group incurred £15.9 million (2010: £5.9 million) of costs relating to restructuring programmes which include the integration of the Hawker Siddeley Switchgear business into the Turbogenerators business within the Energy division, the reorganisation of the Brush facility in the Netherlands also within the Energy division and, within the Lifting division, the restructuring at Bridon's Doncaster works following the large scale investment to relocate certain activities from Doncaster to the newly invested Neptune Energy Park facility in Newcastle upon Tyne.

6. Exceptional costs and income (continued)

Costs associated with acquisitions and disposals of businesses consist predominately of the expenses arising during the aborted process to acquire Charter International plc and the costs associated with the return of capital following the disposal of Dynacast.

In addition, the Group incurred two exceptional cash costs during the year, both were fully anticipated and fully provided and represented two exceptional liabilities that were acquired with FKI plc. The first related to the transfer of £10.4 million, at a cash cost of £9.0 million, of FKI captive insurance liabilities to an external party so that the Group has no further exposure to these risks. The second related to a legal settlement in respect of an historical FKI owned company, DeWind GmbH, paid in two tranches totalling £10.4 million.

On 12 February 2010, the Group acquired 100% of the share capital of Generator & Motor Services of Pennsylvania, LLC. Also during 2010, the Prelok France business was disposed of. A net loss of £0.2 million was incurred which included a cumulative exchange gain of £0.1 million recycled from equity.

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

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

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

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

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

7. Revenues and expenses

	Continuing operations		Discontinued operations		Total	
Net operating expenses comprise:	**Year ended 31 December 2011 £m**	Restated[1] year ended 31 December 2010 £m	**Year ended 31 December 2011 £m**	Restated[1] year ended 31 December 2010 £m	**Year ended 31 December 2011 £m**	Restated[1] year ended 31 December 2010 £m
Selling and distribution costs	**(79.2)**	(76.6)	**(5.5)**	(10.6)	**(84.7)**	(87.2)
Administration expenses	**(104.7)**	(104.5)	**(12.9)**	(28.6)	**(117.6)**	(133.1)
Share of results of joint ventures (note 14)	**—**	(0.4)	**—**	—	**—**	(0.4)
Other operating costs — exceptional	**(40.1)**	(10.3)	**—**	—	**(40.1)**	(10.3)
Other operating income — exceptional	**—**	21.4	**—**	—	**—**	21.4
Total net operating expenses	**(224.0)**	(170.4)	**(18.4)**	(39.2)	**(242.4)**	(209.6)

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

Notes to the financial statements continued

7. Revenues and expenses (continued)

	Continuing operations		Discontinued operations		Total	
Operating profit is stated after charging:	**Year ended 31 December 2011 £m**	Restated[1] year ended 31 December 2010 £m	**Year ended 31 December 2011 £m**	Restated[1] year ended 31 December 2010 £m	**Year ended 31 December 2011 £m**	Restated[1] year ended 31 December 2010 £m
Depreciation and impairment	**24.3**	23.3	**3.9**	8.7	**28.2**	32.0
Cost of inventories	**812.9**	731.0	**133.4**	257.5	**946.3**	988.5
Amortisation of other intangible assets (note 12)	**23.7**	24.1	**1.4**	2.5	**25.1**	26.6
Amortisation of computer software (note 12)	**0.6**	0.7	**0.2**	0.2	**0.8**	0.9
Operating lease expense	**7.9**	7.5	**2.7**	4.4	**10.6**	11.9
Staff costs	**283.3**	271.7	**45.6**	95.8	**328.9**	367.5
Research and development costs	**2.0**	2.4	**—**	—	**2.0**	2.4
(Profit)/loss on disposal of property, plant and equipment	**—**	(0.1)	**—**	0.4	**—**	0.3

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

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.6**	0.6
Fees payable to the Company's auditor and their associates for other services to the Group:		
— the audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.8
Total audit fees	**1.2**	1.4

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Taxation compliance services	**0.4**	0.3
Other taxation advisory services	**1.2**	1.0
Corporate finance services	**1.0**	1.1
Other services	**0.2**	0.2
Total non-audit fees	**2.8**	2.6

Fees for the audit of the Company's accounts represent fees payable to Deloitte LLP in respect of the audit of the Company's individual financial statements and the Group's consolidated financial statements. Corporate finance services include due diligence and other transaction related services.

7. Revenues and expenses (continued)

	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Staff costs during the year (including executive Directors):		
Wages and salaries	**237.5**	223.3
Social security costs	**35.0**	32.0
Pension costs		
— defined benefit plans	**0.4**	3.9
— defined contribution plans	**10.4**	12.5
Total continuing staff costs	**283.3**	271.7
Discontinued staff costs[2]	**45.6**	95.8
Total staff costs	**328.9**	367.5

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.
(2) Includes £0.2 million (2010: £0.4 million) of defined benefit pension costs and £0.5 million (2010: £1.9 million) of defined contribution pension costs.

	Year ended 31 December 2011 Number	Restated[1] year ended 31 December 2010 Number
Average monthly number of persons employed (including executive Directors)		
Energy	**3,341**	3,277
Lifting	**3,079**	2,917
Other Industrial	**1,670**	1,650
Central — corporate	**33**	33
Total continuing operations	**8,123**	7,877
Discontinued operations	**1,884**	3,297
Total average number of persons employed	**10,007**	11,174

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

	Notes	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Finance costs and income			
Interest on bank loans and overdrafts		**(25.7)**	(27.2)
Amortisation of costs of raising finance		**(2.5)**	(2.3)
Interest on obligations under finance leases		**—**	(0.1)
Net finance cost of pensions		**(0.3)**	(3.3)
Unwind of discount on provisions	20	**(1.1)**	(1.7)
Total finance costs		**(29.6)**	(34.6)
Finance income	4	**10.0**	9.3
Total continuing operations		**(19.6)**	(25.3)
Discontinued operations[2]	9	**0.3**	(0.8)
Total net finance costs		**(19.3)**	(26.1)

(1) Restated to include the results of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.
(2) Includes £0.2 million (2010: £0.8 million) net finance cost of pensions.

The finance cost of pensions in the continuing Group is the interest cost on benefit obligations of £52.6 million net of the expected return on plan assets of £52.3 million (2010: £55.1 million and £51.8 million respectively).

The interest cost on discontinued defined benefit obligations was £0.2 million and the expected return on plan assets was £nil (2010: £2.2 million and £1.4 million respectively).

Notes to the financial statements continued

8. Tax

Analysis of (credit)/charge in year:	Continuing operations Year ended 31 December 2011 £m	Continuing operations Restated[1] year ended 31 December 2010 £m	Discontinued operations Year ended 31 December 2011 £m	Discontinued operations Restated[1] year ended 31 December 2010 £m	Total Year ended 31 December 2011 £m	Total Restated[1] year ended 31 December 2010 £m
Current tax	**(5.9)**	16.3	**7.2**	12.5	**1.3**	28.8
Deferred tax (note 21)	**(11.5)**	(11.3)	**(0.2)**	(3.5)	**(11.7)**	(14.8)
Total income tax (credit)/charge	**(17.4)**	5.0	**7.0**	9.0	**(10.4)**	14.0
Tax charge on headline[2] profit before tax	**41.4**	34.5	**7.8**	9.9	**49.2**	44.4
Exceptional tax credit	**(38.1)**	(23.5)	**—**	—	**(38.1)**	(23.5)
Tax (credit)/charge on net exceptional items	**(7.6)**	4.3	**—**	—	**(7.6)**	4.3
Tax credit in respect of intangible asset amortisation	**(13.1)**	(10.3)	**(0.8)**	(0.9)	**(13.9)**	(11.2)
Total income tax (credit)/charge	**(17.4)**	5.0	**7.0**	9.0	**(10.4)**	14.0

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

The tax credit for the year ended 31 December 2011 (charge for the year ended 31 December 2010) includes an exceptional tax credit of £38.1 million (2010: £23.5 million). Of this exceptional tax credit, £28.6 million (2010: £nil) relates to the change in the Company's expectation of the outcome of overseas tax audits inherited on the acquisition of FKI and £9.5 million (2010: £23.5 million) relates to the recognition of a previously unrecognised deferred tax asset during the period that is now considered to be recoverable.

The income tax rate for the current year is lower (2010: lower) than the average standard rate of corporation tax in the UK for the year of 26.5% (2010: 28.0%). The differences are explained in the following table:

	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Profit on ordinary activities before tax:		
Continuing operations	**97.4**	108.7
Discontinued operations (note 9)	**26.3**	46.6
	123.7	155.3
Tax on profit on ordinary activities at UK corporate tax rate 26.5% (2010: 28.0%)	**32.8**	43.5
Tax effect of:		
Net permanent differences	**1.7**	1.2
Adjustment in respect of foreign tax rates	**3.7**	(0.2)
Effect of UK rate change on deferred tax liability	**(7.2)**	(3.8)
Timing differences not recognised in deferred tax	**0.6**	(2.9)
Prior year tax adjustments	**(3.9)**	(0.3)
Exceptional tax credit	**(38.1)**	(23.5)
Total tax (credit)/charge for the year	**(10.4)**	14.0

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

In addition to the amount (credited)/charged to the Income Statement, a tax credit of £16.8 million (2010: £7.9 million) has been recognised directly in the Statement of Comprehensive Income. This represents a tax credit of £12.0 million (2010: £8.1 million) in respect of retirement benefit obligations, a tax credit of £1.5 million (2010: charge of £0.2 million) in respect of movements on cash flow hedges and a tax credit of £3.3 million (2010: £nil) in respect of the use of losses on items taken directly to reserves in prior years.

A tax charge of £0.8 million arising on the disposal of businesses has been included, as a cost of disposal, in the net gain on disposal of net assets of discontinued operations (note 9).

9. Discontinued operations

Disposal of businesses

On 19 July 2011, the Group completed the disposal of the Dynacast business for a cash consideration of US $590.0 million (£366.5 million). The costs charged during the year associated with the disposal were £12.8 million and the profit on disposal in the year was £150.5 million after the recycling of cumulative translation differences of £51.4 million. In addition, disposal costs of £2.3 million were paid during the year which had been accrued in 2010.

During the year, the Group also disposed of four other businesses; namely Brush Traction, Logistex UK, Madico and Weber Knapp, previously shown within the Other Industrial segment. The cash consideration received for these businesses was £24.0 million and the costs incurred were £1.8 million, including £0.8 million of tax charged on the disposal of the assets of Brush Traction. The profit on disposal of these businesses was £1.9 million after the recycling of cumulative translation differences of £1.2 million.

Financial performance of discontinued operations:

	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Revenue	**177.8**	344.1
Operating costs	**(150.4)**	(294.2)
Headline[2] operating profit	**27.4**	49.9
Intangible asset amortisation	**(1.4)**	(2.5)
Net finance income/(costs)	**0.3**	(0.8)
Profit before tax	**26.3**	46.6
Headline tax	**(7.8)**	(9.9)
Tax on intangible asset amortisation	**0.8**	0.9
Profit after tax	**19.3**	37.6
Cumulative translation differences recycled on disposals	**52.6**	–
Gain on disposal of net assets of discontinued operations	**99.8**	–
Profit for the period from discontinued operations	**171.7**	37.6
Attributable to:		
Owners of the parent	**171.6**	37.4
Non-controlling interests	**0.1**	0.2
	171.7	37.6

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

During the year, up until its sale on 19 July 2011, the Dynacast business contributed £164.0 million of revenue and £26.4 million of headline operating profit. The disposed businesses from the Other Industrial segment contributed £13.8 million to revenue and £1.0 million to headline operating profit up to the point of sale.

Notes to the financial statements continued

9. Discontinued operations (continued)

The major classes of assets and liabilities disposed of during the year were as follows:

	Dynacast £m	Other Industrial £m	Discontinued operations £m
Goodwill and other intangible assets	223.8	16.4	240.2
Property, plant and equipment	40.1	7.6	47.7
Inventories	24.1	7.6	31.7
Trade and other receivables	51.9	11.9	63.8
Cash and cash equivalents	—	0.5	0.5
Total assets disposed of	339.9	44.0	383.9
Trade and other payables	65.6	22.0	87.6
Tax[1]	4.8	—	4.8
Retirement benefit obligations	10.5	0.1	10.6
Provisions	3.2	0.4	3.6
Non-controlling interests	1.2	—	1.2
Total liabilities disposed of	85.3	22.5	107.8
Net assets disposed of	254.6	21.5	276.1
Cash consideration net of costs[2]	353.7	22.2	375.9
Gain on disposal of net assets	99.1	0.7	99.8
Cumulative translation differences recycled on disposals	51.4	1.2	52.6
Profit on disposal of businesses	150.5	1.9	152.4

(1) Includes £1.7 million of net deferred tax assets.
(2) In addition £2.3 million of cash costs were incurred on the disposal of Dynacast which had been accrued in 2010.

10. Dividends

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Second interim dividend for the year ended 31 December 2010 of nil (2009: 4.8p)	**—**	23.9
Final dividend for the year ended 31 December 2010 paid of 7.0p (2009: nil)	**34.8**	—
Interim dividend for the year ended 31 December 2011 paid of 4.6p (2010: 4.0p)	**18.0**	19.9
	52.8	43.8
Proposed final dividend for the year ended 31 December 2011 of 8.4p (2010: 7.0p)	**32.8**	34.8

A final dividend of 8.4p was proposed by the Board on 7 March 2012 and, in accordance with IAS 10, has not been included as a liability in these financial statements.

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

11. Earnings per share

Earnings attributable to owners of the parent	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Profit for the purposes of earnings per share	**286.4**	141.1
Less: profit for the year from discontinued operations (note 9)	**(171.6)**	(37.4)
Earnings for basis of earnings per share from continuing operations	**114.8**	103.7
Continuing operations		
Intangible asset amortisation	**23.7**	24.1
Exceptional costs (note 6)	**40.1**	10.3
Exceptional income (note 6)	**—**	(21.4)
Exceptional tax[2]	**(58.8)**	(29.5)
Earnings for basis of headline[2] earnings per share from continuing operations	**119.8**	87.2
Discontinued operations		
Profit for the period from discontinued operations (note 9)	**171.6**	37.4
Profit on disposal of businesses	**(152.4)**	—
Intangible asset amortisation	**1.4**	2.5
Tax on intangible asset amortisation	**(0.8)**	(0.9)
Earnings for basis of headline[2] earnings per share from continuing and discontinued operations	**139.6**	126.2

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

	Number	Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share (million)	**455.3**	497.6
Further shares for the purposes of diluted earnings per share (million)[1]	**30.1**	25.3
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share (million)	**485.4**	522.9

(1) Relating to the 2009 Melrose Incentive Scheme.

Earnings per share	Year ended 31 December 2011 pence	Restated[1] year ended 31 December 2010 pence
Basic earnings per share		
From continuing and discontinued operations	**62.9**	28.4
From continuing operations	**25.2**	20.8
From discontinued operations	**37.7**	7.6
Diluted earnings per share		
From continuing and discontinued operations	**59.0**	27.0
From continuing operations	**23.7**	19.8
From discontinued operations	**35.3**	7.2
Headline[2] basic earnings per share		
From continuing and discontinued operations	**30.7**	25.4
Headline[2] diluted earnings per share		
From continuing and discontinued operations	**28.8**	24.1

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

Notes to the financial statements continued

12. Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Computer software £m	Total £m
Cost				
At 1 January 2010	779.2	449.8	2.5	1,231.5
Acquisitions	7.8	0.7	—	8.5
Additions	—	—	1.2	1.2
Disposals	—	—	(0.7)	(0.7)
Exchange adjustments	11.1	4.2	—	15.3
At 31 December 2010	798.1	454.7	3.0	1,255.8
Additions	—	—	1.6	1.6
Disposal of businesses	(220.8)	(34.0)	(1.4)	(256.2)
Exchange adjustments	(8.8)	(2.4)	(0.1)	(11.3)
At 31 December 2011	**568.5**	**418.3**	**3.1**	**989.9**
Amortisation				
At 1 January 2010	—	(46.7)	(0.5)	(47.2)
Charge for period	—	(26.6)	(0.9)	(27.5)
Disposals	—	—	0.7	0.7
Exchange adjustments	—	(0.3)	0.1	(0.2)
At 31 December 2010	—	(73.6)	(0.6)	(74.2)
Charge for the period	—	(25.1)	(0.8)	(25.9)
Disposal of businesses	—	15.0	1.0	16.0
Exchange adjustments	—	0.2	0.1	0.3
At 31 December 2011	**—**	**(83.5)**	**(0.3)**	**(83.8)**
Net book value				
At 31 December 2011	**568.5**	**334.8**	**2.8**	**906.1**
At 31 December 2010	798.1	381.1	2.4	1,181.6
At 1 January 2010	779.2	403.1	2.0	1,184.3

Other intangible assets include patented technology, customer relationships and trade names.

Goodwill has been allocated to the business segments, each of which comprises several cash-generating units, as follows:

	31 December 2011 £m	Restated[1] 31 December 2010 £m
Energy	**247.3**	252.1
Lifting	**298.8**	299.7
Other Industrial	**22.4**	22.3
Discontinued	**—**	224.0
	568.5	798.1

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

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each cash-generating unit. The growth rates are based on a prudent estimate of long term industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

12. Goodwill and other intangible assets (continued)

The Group prepares cash flow forecasts derived from financial budgets approved by management and extrapolates pre-tax cash flows based on estimated growth rates of between 2% and 3% (2010: 2% and 3%). This rate does not exceed the average long term growth rate for the relevant markets. The pre-tax discount rate applied is between 9% and 10% (2010: 8% and 10%) depending on the risk elements associated with each cash-generating unit. The key assumptions used in forecasting pre-tax cash flows relate to future budgeted revenue and operating margins likely to be achieved and likely rates of long-term growth by market sector. Budgeted revenue and operating margins are based on views on past performance, secured orders and orders likely to be achieved in the short to medium-term, given trends in the relevant market sector. No impairment was identified and a reasonable possible change in the assumptions applied would not result in any impairment.

13. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2010	112.6	225.8	338.4
Acquisition	—	0.3	0.3
Additions	3.8	26.9	30.7
Disposals	—	(6.3)	(6.3)
Disposal of businesses	—	(0.5)	(0.5)
Exchange adjustments	1.1	3.9	5.0
At 31 December 2010	117.5	250.1	367.6
Additions	3.6	37.6	41.2
Disposals	(0.1)	(2.1)	(2.2)
Disposal of businesses	(16.4)	(92.6)	(109.0)
Exchange adjustments	(1.7)	(2.3)	(4.0)
At 31 December 2011	**102.9**	**190.7**	**293.6**
Accumulated depreciation and impairment			
At 1 January 2010	(6.4)	(79.7)	(86.1)
Charge for the period	(3.4)	(28.6)	(32.0)
Disposals	—	5.7	5.7
Disposal of businesses	—	0.2	0.2
Exchange adjustments	(0.3)	(1.4)	(1.7)
At 31 December 2010	(10.1)	(103.8)	(113.9)
Charge for the period	(3.3)	(23.1)	(26.4)
Impairments[1]	(1.4)	(0.4)	(1.8)
Disposals	0.1	1.8	1.9
Disposal of businesses	4.7	56.6	61.3
Exchange adjustments	—	0.6	0.6
At 31 December 2011	**(10.0)**	**(68.3)**	**(78.3)**
Net book value			
At 31 December 2011	**92.9**	**122.4**	**215.3**
At 31 December 2010	107.4	146.3	253.7
At 1 January 2010	106.2	146.1	252.3

(1) In respect of assets held in the Brush facility, in the Netherlands, impaired following the restructuring programme in 2011 (see note 6).

Notes to the financial statements continued

14. Interests in joint ventures

	31 December 2011 £m	31 December 2010 £m
Aggregated amounts relating to joint ventures:		
Total assets	**3.9**	0.4
Total liabilities	**(4.3)**	(0.8)
Interests in joint ventures	**(0.4)**	(0.4)
Share of joint venture revenues	**3.2**	0.8
Share of results of joint ventures	**–**	(0.4)
Dividends received	**–**	(0.3)

Interests in joint ventures are in a net liability position and are therefore recognised within current liabilities.

A list of all the significant investments in subsidiaries including the name, country of incorporation and proportion of ownership interest is given in note 3 to the Company's separate financial statements.

15. Inventories

	31 December 2011 £m	31 December 2010 £m
Raw materials	**53.3**	54.3
Work in progress	**77.9**	79.6
Finished goods	**74.6**	82.4
	205.8	216.3

The Directors consider that there is no material difference between the Balance Sheet value of inventories and their replacement cost.

Construction contracts

	31 December 2011 £m	31 December 2010 £m
Contracts in progress at the Balance Sheet date:		
Amounts due from contract customers included in other receivables	**2.9**	4.9
Amounts due to contract customers included in other payables	**–**	(5.2)
	2.9	(0.3)
Contract costs incurred plus recognised profit less recognised losses to date	**19.0**	26.1
Less: progress billings	**(16.1)**	(26.4)
	2.9	(0.3)

The average life of contracts is 1–2 years (31 December 2010: 2–3 years).

16. Trade and other receivables

Current	31 December 2011 £m	31 December 2010 £m
Trade receivables	**195.9**	231.5
Allowance for doubtful receivables	**(3.2)**	(6.6)
Other receivables	**9.1**	13.1
Prepayments	**14.5**	19.7
	216.3	257.7

Trade receivables are non-interest bearing. Credit terms offered to customers vary upon the country of operation but are generally between 30 and 90 days.

Non-current	31 December 2011 £m	31 December 2010 £m
Other receivables	**0.3**	1.9

An allowance has been made for estimated irrecoverable amounts made with reference to past default experience and management's assessment of creditworthiness, an analysis of which is as follows:

	Energy £m	Lifting £m	Other[1] Industrial £m	Central £m	Discontinued[1] £m	Total £m
At 1 January 2010	2.8	1.4	0.9	0.1	2.9	8.1
Income Statement charge	0.2	0.3	0.2	0.1	0.4	1.2
Utilised	(0.8)	(0.6)	(0.3)	—	(1.2)	(2.9)
Exchange differences	—	—	0.1	—	0.1	0.2
At 31 December 2010	2.2	1.1	0.9	0.2	2.2	6.6
Disposal of businesses	—	—	—	—	(2.1)	(2.1)
Income Statement charge	0.3	0.4	—	—	0.1	0.8
Utilised	(1.0)	(0.6)	(0.1)	(0.1)	(0.2)	(2.0)
Exchange differences	(0.1)	—	—	—	—	(0.1)
At 31 December 2011	**1.4**	**0.9**	**0.8**	**0.1**	**—**	**3.2**

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

The concentration of credit risk is limited due to the large number of customers and because they are unrelated to each other. Credit control procedures are implemented to ensure that sales are only made to organisations that are willing and able to pay for them. Such procedures include the establishment and review of customer credit limits and terms. The Group does not hold any collateral or any other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Notes to the financial statements continued

16. Trade and other receivables (continued)

The ageing of impaired trade receivables past due is as follows:

Ageing of impaired trade receivables past due	31 December 2011 £m	31 December 2010 £m
0–30 days	**0.4**	1.3
31–60 days	**0.3**	0.9
60+ days	**2.5**	4.4
	3.2	6.6

Included in the Group's trade receivables balance are overdue trade receivables with a carrying amount of £37.3 million (31 December 2010: £43.4 million) against which an appropriate provision of £3.2 million (31 December 2010: £6.6 million) is held.

The balance deemed recoverable of £34.1 million (31 December 2010: £36.8 million) is past due as follows:

	31 December 2011 £m	31 December 2010 £m
0–30 days	**23.3**	25.9
31–60 days	**5.8**	6.5
60+ days	**5.0**	4.4
	34.1	36.8

The Directors consider that the carrying amount of trade and other receivables, including amounts not past due and not impaired, approximates to their fair value.

17. Cash and cash equivalents

	31 December 2011 £m	31 December 2010 £m
Cash and cash equivalents	**195.6**	195.7

Cash and cash equivalents comprises cash at bank and in hand which earns interest at floating rates based on daily bank deposit rates and short-term deposits which are made for varying periods of between one day and one month and earn interest at the respective short-term deposit rates. The carrying amount of these assets is considered to be equal to their fair value.

18. Trade and other payables

Current	31 December 2011 £m	31 December 2010 £m
Trade payables	**144.0**	160.5
Other payables	**54.4**	87.8
Other taxes and social security	**7.4**	11.5
Accruals	**70.2**	95.5
	276.0	355.3

Trade payables are non-interest bearing. Normal settlement terms vary by country and the average credit period taken for trade purchases is 91 days (2010: 95 days). Other payables are non-interest bearing and have an average term of approximately 60 days.

Non-current	31 December 2011 £m	31 December 2010 £m
Other payables	**–**	3.3
Accruals	**1.6**	1.4
	1.6	4.7

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. Details of the Group's exposure to credit, liquidity, interest rate and foreign currency risk are included in note 24.

	Current		Non-current		Total	
	31 December 2011 £m	31 December 2010 £m	**31 December 2011 £m**	31 December 2010 £m	**31 December 2011 £m**	31 December 2010 £m
Fixed rate obligations						
Bank borrowings — Euro loan (Austria)[1]	**–**	0.3	**–**	–	**–**	0.3
	–	0.3	**–**	–	**–**	0.3
Floating rate obligations						
Bank borrowings — US Dollar loan[2]	**–**	–	**390.1**	388.5	**390.1**	388.5
Bank borrowings — Euro loan[3]	**–**	–	**48.6**	50.3	**48.6**	50.3
Bank borrowings — Sterling loan[4]	**27.7**	–	**22.3**	50.0	**50.0**	50.0
	27.7	–	**461.0**	488.8	**488.7**	488.8
Redeemable preference C shares	**1.1**	–	**–**	–	**1.1**	–
Unamortised finance costs	**–**	–	**(3.5)**	(6.0)	**(3.5)**	(6.0)
Total interest-bearing loans and borrowings	**28.8**	0.3	**457.5**	482.8	**486.3**	483.1

(1) Interest rate 1.50%, repaid June 2011.
(2) Interest rate LIBOR +1.35%, final maturity April 2013.
(3) Interest rate EURIBOR +1.35%, final maturity April 2013.
(4) Interest rate LIBOR +1.35%, final maturity April 2013.

During 2011, the Group utilised a £750 million multi-currency committed bank facility that provided term loan and revolving credit facilities through to 22 April 2013. A number of Group companies act as guarantors to this facility. Drawdowns bear interest at interbank rates of interest plus a margin determined by reference to the Group's performance under its debt cover covenant ratio and ranges between 1.25% and 2.35%. The margin as at 31 December 2011 was 1.35% (31 December 2010: 1.50%).

Notes to the financial statements continued

19. Interest-bearing loans and borrowings (continued)

Throughout the year, the Group remained compliant with all covenants under these facilities. The term loan facility is fully drawn down having originally been set at £500 million. In 2009, the Group repaid and cancelled US $80 million of this term loan facility following the disposal of the Logistex business.

On 22 December 2011, the Group agreed a new five year banking facility. On 31 January 2012, all amounts outstanding on the original facility were repaid using surplus cash in the Group at that time and by partially utilising the new facility.

The new facility is a £600 million, multi-currency, committed, revolving credit facility. A number of Group companies continue to act as guarantors under the new facility. Drawdowns bear interest at interbank rates of interest plus a margin determined by reference to the Group's performance under its debt cover covenant ratio and ranges between 1.20% and 2.00%.

The interest rate re-pricing profile of financial liabilities, after taking into account hedging interest rate derivatives, is described in note 24.

As described in note 25, the 1,392,194 redeemable preference C shares will be redeemed on 30 April 2012 at a value of £1.1 million. In accordance with applicable accounting standards, the liability is not included in net debt.

Maturity of financial liabilities

The maturity profile of anticipated future cash flows including interest in relation to the Group's financial liabilities, on an undiscounted basis and which, therefore, differs from both the carrying value and fair value is shown in the table below. Interest on floating rate debt is based on the relevant LIBOR curve for US Dollar and Sterling balances and EURIBOR curve for Euro balances. Interest on hedging interest rate swaps is based on the relevant forward LIBOR curve for US Dollar amounts and EURIBOR curve for Euro amounts and is illustrated as a net cash flow.

	Interest-bearing loans and borrowings £m	Derivative financial liabilities £m	Other financial liabilities £m	Total financial liabilities £m
Within one year	**38.7**	**14.1**	**268.6**	**321.4**
In one to two years	**464.2**	**1.6**	**1.6**	**467.4**
Effect of financing rates	**(16.6)**	**–**	**–**	**(16.6)**
31 December 2011	**486.3**	**15.7**	**270.2**	**772.2**
Within one year	10.3	8.3	343.8	362.4
In one to two years	40.8	3.7	4.7	49.2
In two to three years	466.2	0.2	–	466.4
Effect of financing rates	(34.2)	–	–	(34.2)
31 December 2010	483.1	12.2	348.5	843.8

20. Provisions

	Surplus leasehold property costs £m	Environmental and legal costs £m	Incentive scheme related £m	FKI captive insurance £m	Other £m	Total £m
At 31 December 2010	26.4	57.7	12.5	11.0	11.1	118.7
Disposal of businesses	(2.1)	–	–	–	(1.5)	(3.6)
Utilised[1]	(5.2)	(16.0)	(2.2)	(11.0)	(4.8)	(39.2)
Arising in the year[2]	–	21.0	5.0	–	17.6	43.6
Unwind of discount (note 7)	0.6	0.5	–	–	–	1.1
Exchange differences	–	0.5	–	–	(0.5)	–
At 31 December 2011	**19.7**	**63.7**	**15.3**	**–**	**21.9**	**120.6**
Current	4.7	31.6	–	–	21.9	58.2
Non-current	15.0	32.1	15.3	–	–	62.4
	19.7	**63.7**	**15.3**	**–**	**21.9**	**120.6**

(1) Includes £37.6 million of provisions utilised by cash and £1.6 million through headline[3] operating profit.
(2) Includes £35.1 million of provisions arising in the year through exceptional costs (note 6) and £8.5 million of provisions arising in the year through headline[3] operating profit.
(3) As defined on the Income Statement.

20. Provisions (continued)

The provision for surplus leasehold property costs represents the estimated net payments payable over the term of these leases together with any dilapidation costs. This is expected to result in cash expenditure over the next one to seven years.

Environmental and legal costs provisions relate to the estimated remediation costs of pollution, soil and groundwater contamination at certain sites and estimated future costs and settlements in relation to legal claims. Due to their nature, it is not possible to predict precisely when these provisions will be utilised.

Incentive scheme related provisions are in respect of long term incentive plans for divisional senior management, expected to result in cash expenditure in the next three to four years.

The FKI captive insurance provision related to known and actuarial assessments of future claims covered by the captive including, but not limited to, public and product liability, employer's liability in the UK, workers' compensation in the US and US automotive claims. Following the sale of these liabilities, within the year, at 31 December 2011 the Group has no further exposure to these claims.

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

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

21. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period.

		Deferred tax assets	Deferred tax liabilities			
	Notes	Tax losses and other assets £m	Accelerated capital allowances and other liabilities £m	Deferred tax on intangible assets £m	Total deferred tax liabilities £m	Total net deferred tax £m
At 1 January 2010		22.1	(12.4)	(112.9)	(125.3)	(103.2)
Credit to income	8	2.6	1.0	11.2	12.2	14.8
Credit/(charge) to other comprehensive income		8.1	(0.2)	—	(0.2)	7.9
Acquisition		—	(0.3)	—	(0.3)	(0.3)
Exchange differences		0.2	(0.2)	(1.1)	(1.3)	(1.1)
At 31 December 2010		33.0	(12.1)	(102.8)	(114.9)	(81.9)
Credit/(charge) to income	8	2.1	(4.3)	13.9	9.6	11.7
Credit to other comprehensive income		12.0	1.5	—	1.5	13.5
Disposal of businesses		(6.6)	0.2	4.7	4.9	(1.7)
Exchange differences		(0.1)	—	0.6	0.6	0.5
At 31 December 2011		**40.4**	**(14.7)**	**(83.6)**	**(98.3)**	**(57.9)**

As at 31 December 2011, the Group has gross unused losses of £201.4 million (31 December 2010: £251.7 million) available for offset against future profits. The Group has recognised deferred tax assets in respect of certain unused losses during the year. At 31 December 2011, an £8.9 million deferred tax asset (31 December 2010: £nil) in respect of £35.0 million of these gross losses remains in the Balance Sheet. No asset has been recognised in respect of the remaining losses due to the divisional and geographic split of anticipated future profit streams. The majority of these losses may be carried forward indefinitely subject to certain continuity of business requirements.

A significant part of the retirement benefit obligations recognised in the Group accounts relates to the FKI UK Pension Plan, the McKechnie UK Pension Plan and the FKI US Pension Plan. A deferred tax asset of £18.4 million (31 December 2010: £12.9 million) has been recognised on these obligations, being the extent to which they are expected to generate tax deductions against foreseeable profits.

As at 31 December 2011, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £3.4 million (31 December 2010: £4.5 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Notes to the financial statements continued

22. Share-based payments

Melrose 2009 Incentive Scheme

The Company has 50,000 2009 Incentive Shares held by Directors, employees and the Melrose Employee Benefit Trust. Further details of the scheme are provided in the Remuneration report on pages 56 to 59.

The estimated fair value attributable to the 2009 Incentive Shares (formerly the 2007 Incentive Shares), using a Black–Scholes option pricing model, at 31 December 2011 was £99.4 million (31 December 2010: £70.7 million).

The inputs into the Black–Scholes model that were used to fair value the scheme when it was originally established in 2007 were as follows:

	Valuation assumptions
Weighted average share price	**£1.67**
Weighted average exercise price	**£1.00**
Expected volatility	**25.0%**
Expected life as at inception	**4.8yrs**
Risk free interest	**2.0%**
Expected dividend yield	**3.2%**

Expected volatility was determined by calculating the historical volatility of the Company's share price.

The Group recognised an IFRS 2 charge of £1.8 million (2010: £1.8 million) in relation to the Melrose 2009 Incentive Scheme in the year ended 31 December 2011.

23. Retirement benefit obligations

Melrose holds several pension plans covering many of its employees, operating in several jurisdictions.

The most significant defined benefit plans are:

- The FKI UK Pension Plan is defined benefit in type and is a funded plan where the future liabilities for members' benefits are provided for by the accumulation of assets held externally to the Group in separate trustee administered funds. The plan is closed to new members and on 28 February 2011 was closed to the accrual of future benefits for existing members.
- The McKechnie UK Pension Plan is defined benefit in type and is a funded plan (other than £3.5 million of unfunded liabilities) where the future liabilities for members' benefits are provided for by the accumulation of assets held externally to the Group in separate trustee administered funds. The plan is closed to the accrual of future benefits.
- The FKI US Pension Plan is defined benefit in type and is a funded plan where the future liabilities for members' benefits are provided for by the accumulation of assets held externally to the Group in separate trustee administered funds. The plan is closed to the accrual of future benefits.

Other plans include a number of funded and unfunded defined benefit arrangements across Europe.

Further details of the status of the significant plans are disclosed in the Directors' report on page 44.

Upon the sale of Dynacast and Logistex UK, £41.1 million of plan obligations and £30.5 million of plan assets were disposed.

The cost of the Group's defined benefit plans is determined in accordance with IAS 19 with the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK and annually in the US.

The valuations are based on the UK full actuarial valuations as of 31 December 2008 updated at 31 December 2011 by independent actuaries and US full actuarial valuations as of 31 December 2010 updated at 31 December 2011 by independent actuaries. The next formal UK valuations as at 31 December 2011 are currently being undertaken.

The Group also operates unfunded retiree medical and welfare benefit plans, principally in the US.

The Company contributes £18.5 million per annum to the FKI UK Pension Plan and £4.6 million per annum to the McKechnie UK Pension Plan.

23. Retirement benefit obligations (continued)

In addition to this, there are a number of defined contribution plans across the Group. Contributions during the year were £10.9 million (2010: £14.4 million).

Actuarial assumptions

The major weighted average assumptions used by the actuaries in calculating the Group's pension plan assets and liabilities are as set out below:

	31 December 2011				
	FKI UK Plan % p.a.	**McKechnie UK Plan % p.a.**	**FKI US Plan % p.a.**	**US Retiree Benefit Plans % p.a.**	**Other plans % p.a.**
Rate of increase in salaries	**n/a**	**3.60**[1]	**n/a**	**n/a**	**n/a**
Rate of increase in pensions in payment	**3.00**	**3.10**	**n/a**	**n/a**	**n/a**
Discount rate	**4.90**	**4.90**	**4.30**	**4.00**	**4.60**
RPI inflation assumption	**3.10**	**3.10**	**2.75**	**n/a**	**2.50**

(1) Closed to the accrual of future benefits but active members benefits are still linked to current salaries.

	31 December 2010				
	FKI UK Plan % p.a.	McKechnie UK Plan % p.a.	FKI US Plan % p.a.	US Retiree Benefit Plans % p.a.	Other plans % p.a.
Rate of increase in salaries	4.00	3.95	3.50	n/a	3.00
Rate of increase in pensions in payment	3.30	3.45	n/a	n/a	3.22
Discount rate	5.55	5.55	5.10	5.10	5.44
RPI inflation assumption	3.45	3.45	2.75	n/a	3.41

Mortality

FKI UK Pension Plan

Mortality assumptions for the most significant plan in the Group, the FKI UK Plan, as at 31 December 2011 are based on 90% of the 'heavy' Self Administered Pension Scheme (SAPS) tables, reflecting the plan membership being largely employed in the industrial sector. Future improvements are in line with 80% (60% for women) of the Long Cohort, subject to a minimum underpin of 1% p.a.

The assumptions are that a member currently aged 65 will live on average for a further 20.3 years if they are male and for a further 23.7 years if they are female. For a member who retires in 2036 at age 65, the assumptions are that they will live for a further 22.8 years after retirement if they are male and for a further 26.0 years after retirement if they are female.

The mortality assumptions are in line with those adopted for the triennial valuation results as at 31 December 2008.

Sensitivities

Sensitivities around movements in the principal assumptions of the discount rate, inflation rate and mortality are discussed in the Finance Director's review on page 28.

Balance Sheet disclosures

The amount recognised in the Balance Sheet arising from net liabilities in respect of defined benefit plans is as follows:

	31 December 2011 £m	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m
Plan liabilities	**(1,076.7)**	(1,039.4)	(1,033.5)	(939.7)	(148.4)
Plan assets	**959.0**	919.8	864.4	810.5	123.2
Limit on pension plan surplus	**–**	–	–	(14.1)	–
Net liabilities	**(117.7)**	(119.6)	(169.1)	(143.3)	(25.2)

Notes to the financial statements continued

23. Retirement benefit obligations (continued)
The five year history of experience adjustments is as follows:

	31 December 2011 £m	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m
Experience adjustments on plan liabilities	**(72.4)**	(23.8)	(130.9)	70.7	1.2
Experience adjustments on plan assets	**35.3**	37.6	41.0	(78.9)	2.3

The plan liabilities and assets at 31 December 2011 were split by plan as follows:

	FKI UK Plan £m	McKechnie UK Plan £m	FKI US Plan £m	US Retiree Benefit Plans £m	Other plans £m	**Total £m**
Plan liabilities	(679.7)	(154.5)	(228.7)	(0.9)	(12.9)	**(1,076.7)**
Plan assets	600.3	157.5	195.2	—	6.0	**959.0**
Net (liabilities)/assets	(79.4)	3.0	(33.5)	(0.9)	(6.9)	**(117.7)**

This amount is presented in the Balance Sheet:

	31 December 2011 £m	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m
Net liabilities					
— unfunded plans	**11.2**	21.0	24.2	45.2	4.1
— funded plans	**106.5**	98.6	144.9	84.0	21.1
Limit on pension plan surplus	**—**	—	—	14.1	—
	117.7	119.6	169.1	143.3	25.2

Expected returns and fair value of assets:

	Expected rates of return		Fair value of assets	
	31 December 2011 %	31 December 2010 %	**31 December 2011 £m**	31 December 2010 £m
Equity instruments	**7.0**	8.4	**348.7**	411.1
Debt instruments	**3.8**	5.1	**514.2**	430.5
Other assets	**4.4**	3.4	**96.1**	78.2
Weighted average/total	**5.0**	6.4	**959.0**	919.8

The expected return on plan assets at 31 December 2011 is based on market expectations at 1 January 2012 for returns on assets over the entire life of the obligation.

There is no self investment (other than in relevant tracker funds) either in the Group's own financial instruments or property or other assets used by the Group.

23. Retirement benefit obligations (continued)

Movements in the present value of defined benefit obligations during the year:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
At beginning of year	**1,039.4**	1,033.5
Disposal of businesses	**(41.1)**	—
Disposal of pension plan	**—**	(18.3)
Current service cost	**0.6**	4.3
Interest cost	**52.8**	57.3
Actuarial losses	**72.4**	23.8
Benefits paid	**(47.7)**	(52.8)
Plan curtailments	**(0.8)**	(16.5)
Currency losses	**1.1**	8.1
At end of year	**1,076.7**	1,039.4

Movements in the fair value of plan assets during the year:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
At beginning of year	**919.8**	864.4
Disposal of businesses	**(30.5)**	—
Disposal of pension plan	**—**	(22.3)
Settlement contribution on disposal	**—**	4.9
Expected return on assets	**52.3**	53.2
Actuarial gains	**35.3**	37.6
Contributions	**28.8**	27.5
Benefits paid	**(47.7)**	(52.8)
Currency gains	**1.0**	7.3
At end of year	**959.0**	919.8

The actual return on plan assets was a gain of £87.6 million (2010: gain of £90.8 million).

Notes to the financial statements continued

23. Retirement benefit obligations (continued)

Income Statement disclosures

Amounts recognised in the Income Statement in respect of these defined benefit plans are as follows:

	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Continuing operations		
Included within headline[2] operating profit:		
— current service cost	**0.4**	3.9
— net effects of curtailments and settlements	**(0.8)**	(3.4)
Included within net finance costs:		
— interest cost	**52.6**	55.1
— expected return on assets	**(52.3)**	(51.8)
Included within exceptional items:		
— net effects of curtailments and settlements	**—**	(9.1)
Discontinued operations		
Included within headline[2] operating profit:		
— current service cost	**0.2**	0.4
Included within net finance costs:		
— interest cost	**0.2**	2.2
— expected return on assets	**—**	(1.4)

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

Statement of Comprehensive Income disclosures

The amount recognised in the Statement of Comprehensive Income is as follows:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Actuarial losses on plan liabilities	**(72.4)**	(23.8)
Actuarial gains on plan assets	**35.3**	37.6
	(37.1)	13.8

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income is a total loss of £114.5 million (2010: loss of £77.4 million).

24. Financial instruments and risk management

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their fair values at 31 December 2011 and 31 December 2010:

	Energy £m	Lifting £m	Other[1] Industrial £m	Central £m	Discontinued[1] £m	Total £m
31 December 2011						
Financial assets						
Cash and cash equivalents	—	—	—	195.6	—	195.6
Trade receivables	94.0	74.6	24.0	0.1	—	192.7
Derivative financial assets	0.4	0.9	—	0.4	—	1.7
Financial liabilities						
Interest-bearing loans and borrowings	—	—	—	(486.3)	—	(486.3)
Derivative financial liabilities	(8.6)	(1.0)	(0.3)	(5.8)	—	(15.7)
Other financial liabilities	(116.8)	(83.7)	(36.2)	(33.5)	—	(270.2)
31 December 2010						
Financial assets						
Cash and cash equivalents	—	—	—	195.7	—	195.7
Trade receivables	88.4	65.5	18.1	0.2	52.7	224.9
Derivative financial assets	2.3	0.4	0.1	0.5	0.6	3.9
Financial liabilities						
Interest-bearing loans and borrowings	—	—	—	(482.8)	(0.3)	(483.1)
Derivative financial liabilities	(0.6)	(1.0)	—	(10.5)	(0.1)	(12.2)
Other financial liabilities	(105.3)	(79.8)	(37.6)	(40.8)	(85.0)	(348.5)

(1) Restated to include the financial assets and financial liabilities of Dynacast, Brush Traction, Logistex UK, Madico and Weber Knapp within discontinued operations.

Credit risk

The Group considers its maximum exposure to credit risk to be as follows:

	Energy £m	Lifting £m	Other[1] Industrial £m	Central £m	Discontinued[1] £m	Total £m
31 December 2011						
Financial assets						
Cash and cash equivalents	—	—	—	195.6	—	195.6
Trade receivables	94.0	74.6	24.0	0.1	—	192.7
Derivative financial assets	0.4	0.9	—	0.4	—	1.7
31 December 2010						
Financial assets						
Cash and cash equivalents	—	—	—	195.7	—	195.7
Trade receivables	88.4	65.5	18.1	0.2	52.7	224.9
Derivative financial assets	2.3	0.4	0.1	0.5	0.6	3.9

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

The Group's principal financial assets are cash and cash equivalents, trade receivables and derivative financial assets which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk on cash and cash equivalents and derivative financial instruments is limited because the counter-parties are banks with high credit-ratings assigned by international credit-rating agencies. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Note 16 provides further details regarding the recovery of trade receivables.

Notes to the financial statements continued

24. Financial instruments and risk management (continued)

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the Group's net debt and equity balance.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 19, after deducting cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

Liquidity risk

The Group's policy for managing liquidity rate risk is set out in the Finance Director's review.

Fair values

The Directors consider that the financial assets and liabilities have fair values not materially different to the carrying values.

Foreign exchange contracts

As at 31 December 2011, the Group held foreign exchange forward contracts to mitigate expected exchange fluctuations on cash flows on sales to customers and purchases from suppliers. These instruments operate as cash flow hedges unless the amounts involved are small. The terms of the material currency pairs with total principals in excess of Sterling £1 million equivalent are as follows:

	31 December 2011 Selling currency millions	**31 December 2011 Average hedged rate**	31 December 2010 Selling currency millions	31 December 2010 Average hedged rate
Sell Australian Dollar/Buy Sterling	**AUD 4.3**	**GBP/AUD 1.60**	AUD 4.6	GBP/AUD 1.69
Sell Canadian Dollar/Buy Sterling	**CAD 4.3**	**GBP/CAD 1.60**	CAD 6.1	GBP/CAD 1.62
Sell Canadian Dollar/Buy US Dollar	**CAD 1.9**	**USD/CAD 0.99**	—	—
Sell Chinese Renminbi/Buy US Dollar	**CNY 10.3**	**USD/CNY 6.43**	—	—
Sell Czech Koruna/Buy Euro	**—**	**—**	CZK 160.0	EUR/CZK 24.89
Sell Euro/Buy Chinese Renminbi	**EUR 2.3**	**EUR/CNY 8.74**	—	—
Sell Euro/Buy Czech Koruna	**EUR 16.8**	**EUR/CZK 24.59**	EUR 41.5	EUR/CZK 25.34
Sell Euro/Buy Sterling	**EUR 24.4**	**GBP/EUR 1.15**	EUR 16.4	GBP/EUR 1.18
Sell Euro/Buy US Dollar	**EUR 2.8**	**EUR/USD 1.38**	EUR 1.4	EUR/USD 1.34
Sell Hong Kong Dollar/Buy Sterling	**HKD 21.7**	**GBP/HKD 12.11**	—	—
Sell Norwegian Krone/Buy Euro	**NOK 28.1**	**EUR/NOK 7.86**	—	—
Sell Norwegian Krone/Buy Sterling	**NOK 56.9**	**GBP/NOK 9.13**	NOK 11.7	GBP/NOK 9.58
Sell Polish Zloty/Buy Sterling	**—**	**—**	PLN 10.3	GBP/PLN 4.70
Sell Singapore Dollar/Buy US Dollar	**—**	**—**	SGD 5.2	USD/SGD 1.37
Sell South African Rand/Buy Euro	**ZAR 34.7**	**EUR/ZAR 10.51**	ZAR 30.2	EUR/ZAR 9.78
Sell South African Rand/Buy Sterling	**—**	**—**	ZAR 16.4	GBP/ZAR 11.54
Sell Sterling/Buy Czech Koruna	**GBP 87.1**	**GBP/CZK 28.55**	GBP 32.2	GBP/CZK 29.89
Sell Sterling/Buy Euro	**GBP 35.5**	**GBP/EUR 1.15**	GBP 11.8	GBP/EUR 1.17
Sell Sterling /Buy US Dollar	**GBP 1.1**	**GBP/USD 1.58**	GBP 1.3	GBP/USD 1.57
Sell UAE Dirham/Buy Sterling	**—**	**—**	AED 7.5	GBP/AED 5.64
Sell US Dollar/Buy Canadian Dollar	**USD 4.9**	**USD/CAD 0.99**	USD 13.8	USD/CAD 1.04
Sell US Dollar/Buy Chinese Renminbi	**USD 1.6**	**USD/CNY 6.43**	USD 16.3	USD/CNY 6.56
Sell US Dollar /Buy Czech Koruna	**USD 4.2**	**USD/CZK 18.50**	USD 4.2	USD/CZK 19.06
Sell US Dollar/Buy Euro	**USD 6.4**	**EUR/USD 1.38**	USD 7.1	EUR/USD 1.36
Sell US Dollar/Buy Malaysian Ringgit	**—**	**—**	USD 8.0	USD/MYR 3.15
Sell US Dollar/Buy Singapore Dollar	**—**	**—**	USD 14.0	USD/SGD 1.35
Sell US Dollar/Buy Sterling	**USD 79.8**	**GBP/USD 1.59**	USD 67.5	GBP/USD 1.54

The foreign exchange contracts all mature between January 2012 and August 2013.

The fair value of the contracts at 31 December 2011 was a net liability of £8.3 million (31 December 2010: net asset of £1.5 million).

24. Financial instruments and risk management (continued)

Commodity swap contracts

As at 31 December 2011, the Group held a number of copper swap contracts that were designated as cash flow hedges. These swap contracts lock the Group into fixed copper prices to protect against fluctuations in the market price of copper. The terms of the contracts are:

Commodity swaps	Commodity	Total quantity	Maturity	Pricing
Group pays	Copper	150 tonnes	04 January 2012	Fixed price of US Dollar 8,809 per tonne
Group receives	Copper	150 tonnes	04 January 2012	Average LME price for the month
Group pays	Copper	150 tonnes	02 February 2012	Fixed price of US Dollar 7,698 per tonne
Group receives	Copper	150 tonnes	02 February 2012	Average LME price for the month
Group pays	Copper	150 tonnes	02 March 2012	Fixed price of US Dollar 7,405 per tonne
Group receives	Copper	150 tonnes	02 March 2012	Average LME price for the month
Group pays	Copper	170 tonnes	03 April 2012	Fixed price of US Dollar 7,395 per tonne
Group receives	Copper	170 tonnes	03 April 2012	Average LME price for the month
Group pays	Copper	60 tonnes	02 May 2012	Fixed price of US Dollar 7,323 per tonne
Group receives	Copper	60 tonnes	02 May 2012	Average LME price for the month
Group pays	Copper	60 tonnes	06 June 2012	Fixed price of US Dollar 7,327 per tonne
Group receives	Copper	60 tonnes	06 June 2012	Average LME price for the month
Group pays	Copper	50 tonnes	03 July 2012	Fixed price of US Dollar 7,330 per tonne
Group receives	Copper	50 tonnes	03 July 2012	Average LME price for the month

The fair value of the contracts at 31 December 2011 was £nil (31 December 2010: net asset of £0.2 million).

Hedge of net investments in foreign entities

Included in interest-bearing loans at 31 December 2011 were the following amounts which were designated as hedges of net investments in the Group's subsidiaries in Europe and the USA and were being used to reduce the exposure to foreign exchange risks.

Borrowings in local currency:

	31 December 2011 £m	31 December 2010 £m
US Dollar	**390.1**	388.5
Euro	**48.6**	50.3

Interest rate sensitivity analysis

A one percentage point rise in market interest rates for all currencies would increase/(decrease) profit before tax by the following amounts assuming the net debt as at the Balance Sheet date was outstanding for the whole year:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Sterling	**0.4**	(0.1)
US Dollar	**(0.3)**	—
Euro	**(0.2)**	(0.2)
	(0.1)	(0.3)

Interest rate risk management

The Group's policy for managing interest rate risk is set out in the Finance Director's review.

In January 2009, the Group entered into a number of interest rate swaps to hedge US $546.0 million of US Dollar denominated bank debt into fixed rates of interest. Under the terms of these swaps the Group will pay an average rate of 2.1% p.a. plus a 2.0% margin annually in arrears and receive 3 month US Dollar LIBOR plus 2.0% quarterly in arrears. These swaps were all due to mature in January 2013.

Notes to the financial statements continued

24. Financial instruments and risk management (continued)

In April 2009, the Group also took out an interest rate swap to hedge €33.3 million of Euro denominated debt into fixed rates of interest. The swap is structured in a similar way to the US Dollar interest rate swaps with the Group paying 2.6% plus a 2.0% margin annually in arrears and receiving 3 month EURIBOR plus 2.0% quarterly in arrears. This swap was due to mature in April 2013.

A corresponding amount of debt drawn under the £500 million term loan is matched with these swaps.

These interest rate swaps have been designated as cash flow hedges and were highly effective throughout 2011. The fair value of the contracts at 31 December 2011 was a net liability of £5.7 million (31 December 2010: net liability of £10.0 million).

In February 2012, the Group closed out the swap arrangements which were entered into in 2009 and entered into a number of new interest swaps to hedge US $231.0 million, €42.0 million and £105.0 million denominated bank debt. These swaps mature in January 2017. Under the terms of these swaps, the Group will pay annually in arrears 1.0% for US Dollar swaps, 1.1% for Euro swaps and 1.1% for Sterling swaps plus a margin of 1.5%. These interest rate swaps have been designated as cash flow hedges.

Foreign currency risk

The Group's policy for managing foreign currency risk is set out in the Finance Director's review on pages 29 and 30.

Foreign currency sensitivity analysis

Currency risks are defined by IFRS 7 as the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates.

The following table details the transactional impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the (decrease)/increase in Group operating profit caused by a 10 cent strengthening of the US Dollar and Euro against Sterling and a 10% strengthening of the Czech Koruna against Sterling compared to the year end spot rate. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with a material impact are noted here:

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
US Dollar	**(0.4)**	1.8
Euro	**0.5**	2.7
Czech Koruna	**2.0**	0.7

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the (decrease)/increase in Group equity caused by a 10 cent strengthening of the US Dollar and Euro against Sterling and a 10% strengthening of the Czech Koruna against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with a material impact are noted here:

	31 December 2011 £m	31 December 2010 £m
US Dollar	**(0.7)**	(1.6)
Euro	**2.3**	0.4
Czech Koruna	**0.1**	(0.1)

In addition, the change in equity due to a 10 cent strengthening of the US Dollar and Euro against Sterling for the translation of net investment hedging instruments would be a decrease of £26.8 million (31 December 2010: £26.6 million) and £4.4 million (31 December 2010: £4.7 million) respectively. However, there would be no overall effect on equity because there would be an offset in the currency translation of the foreign operation.

24. Financial instruments and risk management (continued)

Fair value measurements recognised in the Balance Sheet

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contracts.

Commodity swaps are measured using quoted forward commodity prices.

Interest rate swap contracts are measured using yield curves derived from quoted interest rates. The fair value is shown below.

	31 December 2011 Current £m	**31 December 2011 Non-current £m**	**31 December 2011 Total £m**	31 December 2010 Current £m	31 December 2010 Non-current £m	31 December 2010 Total £m
Derivative financial assets						
Foreign currency forward contracts	**1.6**	**—**	**1.6**	3.7	—	3.7
Commodity swaps	**0.1**	**—**	**0.1**	0.2	—	0.2
	1.7	**—**	**1.7**	3.9	—	3.9
Derivative financial liabilities						
Foreign currency forward contracts	**(8.7)**	**(1.2)**	**(9.9)**	(2.2)	—	(2.2)
Commodity swaps	**(0.1)**	**—**	**(0.1)**	—	—	—
Interest rate swaps	**(5.3)**	**(0.4)**	**(5.7)**	(6.1)	(3.9)	(10.0)
	(14.1)	**(1.6)**	**(15.7)**	(8.3)	(3.9)	(12.2)

The fair value of these are derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and they therefore are categorised within Level 2 of the fair value hierarchy set out in IFRS 7.

25. Issued share capital and reserves

Share Capital	**31 December 2011 £m**	31 December 2010 £m
Allotted, called-up and fully paid		
390,961,043 (31 December 2010: 497,586,779) Ordinary Shares of 14/55p each (31 December 2010: 0.2p each)	**1.0**	1.0
34,331,656 (31 December 2010: nil) C Deferred Shares of 75.0p each	**25.7**	—
50,000 (31 December 2010: 50,000) 2009 Incentive Shares of £1 each	**0.1**	0.1
	26.8	1.1

On 8 August 2011 at a General Meeting, shareholders approved resolutions to return capital of £373.2 million to shareholders.

The return of capital took place by increasing the authorised share capital by £373.2 million through the issue of 497,586,779 redeemable preference C shares ('C Shares') of 75.0p nominal value each and capitalising £220.1 million of the capital redemption reserve and £153.1 million of the share premium account to pay up in full the C Shares. The C Shares were allotted on the basis of one C Share for each Ordinary Share of 0.2p each held on 8 August 2011. Shareholders had the option to receive the cash value inherent in the C Share by way of income or the choice of two capital options. As a result of the elections made by shareholders in respect of the return of capital:

- 461,862,929 C Shares were redeemed and subsequently cancelled with effect from 19 August 2011
- 1,392,194 C Shares will be redeemed on 30 April 2012
- 34,331,656 C Shares were paid a dividend which was paid on 19 August 2011 and these C Shares converted into C Deferred Shares

Both the remaining 1,392,194 C Shares and the 34,331,656 C Deferred Shares carry no voting rights or rights to dividends.

In conjunction with the return of capital, on 9 August 2011 an 11 for 14 share consolidation took place which reduced the issued Ordinary Share capital to 390,961,043 shares of 14/55 pence each.

Redemption of the C Deferred Shares on 30 April 2012 will result in a £25.7 million transfer from share capital into the capital redemption reserve. In addition, the 1,392,194 C Shares will be redeemed and cancelled on 30 April 2012 at a value of £1.1 million which will also be transferred to the capital redemption reserve.

Notes to the financial statements continued

25. Issued capital and reserves (continued)

The rights of each class of share are described in the Directors' report.

Own shares

The Trustee of the Melrose PLC Employee Benefit Trust ('EBT') holds 500 2009 Incentive Shares of £1 each (31 December 2010: 500). The Melrose PLC EBT also holds 19,862 Ordinary Shares of 14/55p each in Melrose PLC (31 December 2010: 25,279 Ordinary Shares of 0.2p each) relating to unallocated shares following the crystallisation of the Original Incentive Scheme in August 2007. The FKI EBT holds 124,232 Ordinary Shares of 14/55p each in Melrose PLC (31 December 2010: 158,114 Ordinary Shares of 0.2p each) which arose upon disposal of its FKI plc shares when FKI plc was acquired by Melrose PLC.

Hedging and translation reserves

The hedging and translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the foreign exchange movements of instruments designated as net investment hedges and cash flow hedges.

Hedging and translation reserves	Note	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2010		(0.1)	71.7	71.6
Currency translation on net investments		—	8.0	8.0
Losses on cash flow hedges		(7.8)	—	(7.8)
Taxation adjustments to equity		(0.2)	—	(0.2)
Transfer to Income Statement on cash flow hedges		(0.5)	—	(0.5)
Transfer to Income Statement on disposal of foreign operations		—	(0.1)	(0.1)
At 31 December 2010		(8.6)	79.6	71.0
Currency translation on net investments		0.4	(17.7)	(17.3)
Losses on cash flow hedges		(0.1)	—	(0.1)
Taxation adjustments to equity		1.5	—	1.5
Transfer to Income Statement on cash flow hedges		(5.1)	—	(5.1)
Transfer to Income Statement on disposal of foreign operations	9	—	(52.6)	(52.6)
At 31 December 2011		**(11.9)**	**9.3**	**(2.6)**

26. Cash flow statement

	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Reconciliation of operating profit to cash generated by continuing operations		
Headline[2] operating profit from continuing operations	**180.8**	147.0
Adjustments for:		
Depreciation of property, plant and equipment	**22.5**	23.3
Amortisation of computer software	**0.6**	0.7
Restructuring costs paid and decrease in other provisions	**(32.2)**	(29.2)
Operating cash flows before movements in working capital	**171.7**	141.8
(Increase)/decrease in inventories	**(20.4)**	12.2
Increase in receivables	**(16.9)**	(34.7)
Increase in payables	**14.0**	28.2
Cash generated by operations	**148.4**	147.5
Tax paid	**(22.9)**	(23.7)
Interest paid	**(26.0)**	(25.6)
Defined benefit pension contributions paid	**(24.9)**	(25.5)
Net cash from operating activities from continuing operations	**74.6**	72.7

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

26. Cash flow statement (continued)

Cash flow from discontinued operations	Year ended 31 December 2011 £m	Restated[1] year ended 31 December 2010 £m
Cash generated from discontinued operations	**24.3**	51.0
Tax paid	**(3.8)**	(3.5)
Interest paid	**–**	(0.3)
Defined benefit pension contributions paid	**(3.9)**	(2.0)
Net cash from operating activities from discontinued operations	**16.6**	45.2
Purchase of property, plant and equipment	**(4.9)**	(6.6)
Proceeds from disposal of property, plant and equipment	**–**	0.1
Interest received	**0.5**	–
Dividends paid to non-controlling interests	**(0.2)**	(0.2)
Net cash used in investing activities from discontinued operations	**(4.6)**	(6.7)
Net movement in borrowing	**(0.3)**	(0.5)
Net cash used in financing activities from discontinued operations	**(0.3)**	(0.5)

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

Net debt reconciliation

	At 31 December 2010 £m	Cash flow £m	Disposals £m	Other non-cash movements £m	Foreign exchange difference £m	**At 31 December 2011 £m**
Cash	195.7	(371.2)	374.4	–	(3.3)	**195.6**
Debt due within one year	(0.3)	0.3	–	(27.7)	–	**(27.7)**
Debt due after one year	(482.8)	–	–	25.2	0.1	**(457.5)**
Net debt	(287.4)	(370.9)	374.4	(2.5)	(3.2)	**(289.6)**

27. Commitments and contingencies

Future total minimum rentals payable under non-cancellable operating leases were as follows:

	31 December 2011 £m	31 December 2010 £m
Amounts payable:		
Within one year	**7.7**	11.2
After one year but within five years	**16.8**	27.7
Over five years	**10.3**	20.6
	34.8	59.5

Capital commitments

At 31 December 2011, there were commitments of £18.9 million (31 December 2010: £7.2 million) relating to the acquisition of new plant and machinery.

Notes to the financial statements continued

28. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group did not enter into any significant transactions in the ordinary course of business with joint ventures during the current or prior year.

Sales to and purchases from Group companies are priced at arm's length transactions and generally are settled on 30 day terms.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24: "Related party disclosures". Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration report on page 59.

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Short-term employee benefits	**3.0**	3.1
Share-based payments	**1.6**	1.6
	4.6	4.7

29. Post Balance Sheet events

There are no post Balance Sheet events which require disclosure.

30. Contingent liabilities

Two Bridon companies that Melrose acquired as part of the acquisition of FKI plc have been sued in U.S. federal court in Houston, Texas, along with their American distributor, Certex USA Inc. ('Certex'), by Noble Drilling Services, Inc. ('Noble'), a purchaser of wire anchor lines that were manufactured by Bridon (prior to its acquisition by Melrose), sold by Certex and used by Noble to moor certain of its mobile, semisubmersible offshore drilling rigs in the Gulf of Mexico. Noble alleges that certain ropes were defective and broke during Hurricane Ike in 2008 when they should not have. Noble claims approximately US $104 million in damages, based upon allegations of product defect which the court has ruled are governed by Louisiana law. Bridon believes Noble's damages are grossly inflated and that the purported defect with the product did not cause the claimed damages rather Noble's use of the product in violation of industry requirements did so. Bridon intends vigorously to defend against the claims asserted against it at trial and has robust defences to all allegations.

In a separate case previously consolidated with the Noble action before the same court, the lessee of the rigs, Anadarko Petroleum Corp. ('Anadarko') opportunistically sued Noble, Bridon and Certex claiming that the rigs that employed these ropes were unseaworthy. Bridon's (and Noble's) legal and factual analysis of Anadarko's claim was that it was meritless and this analysis was endorsed by the court when it ruled in summary judgment on 2 March 2012 to dismiss Anadarko's claims in full, enter final judgment to that effect, and administratively close the case.

Discovery concluded on 15 December 2011 and the trial of Noble's claims is scheduled for later this year. Any appeal thereafter could itself be expected to take well over a year and Bridon considers it already has a number of strong grounds for appeal in the event of an adverse ruling.

Bridon has an insurance programme providing coverage of up to £105 million (US $163 million at 31 December 2011) that may be available to respond should the Noble claim succeed and Bridon is currently in discussions with its insurers in relation to the extent of this coverage. In recognition of the inherent risk associated with US litigation, Bridon has increased the legal provision to US $40 million in respect of this claim.

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

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

Auditor's report on the Company financial statements

Independent auditor's report to the members of Melrose PLC

We have audited the Company financial statements of Melrose PLC for the year ended 31 December 2011 which comprise the Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Company financial statements.

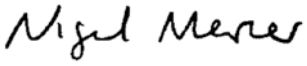
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Melrose PLC for the year ended 31 December 2011.

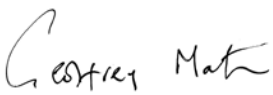


Nigel Mercer, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
7 March 2012

Company Balance Sheet for Melrose PLC

	Notes	31 December 2011 £m	31 December 2010 £m
Fixed assets			
Investment in subsidiaries	3	**1,153.3**	891.9
Tangible fixed assets	4	**–**	0.1
		1,153.3	892.0
Current assets			
Debtors	6	**772.0**	1,109.9
Derivative financial instruments	5	**0.4**	–
Current tax assets		**3.2**	–
Cash at bank and in hand		**68.2**	–
		843.8	1,109.9
Creditors: amounts falling due within one year			
Creditors	7	**(456.2)**	(193.2)
Bank loans	8	**(27.7)**	–
Bank overdrafts		**–**	(4.9)
Derivative financial instruments	5	**(5.4)**	(6.1)
		(489.3)	(204.2)
Net current assets		**354.5**	905.7
Total assets less current liabilities		**1,507.8**	1,797.7
Creditors: amounts falling due after more than one year			
Bank loans	8	**(457.5)**	(482.8)
Derivative financial instruments	5	**(0.4)**	(3.9)
Provision for liabilities	9	**(15.3)**	(12.5)
Net assets		**1,034.6**	1,298.5
Capital and reserves			
Issued share capital	10	**26.8**	1.1
Share premium account	11	**126.0**	279.1
Merger reserve	11	**285.1**	285.1
Capital redemption reserve	11	**346.4**	220.1
Retained earnings	11	**256.1**	523.1
Hedging reserve	12	**(5.8)**	(10.0)
Shareholders' funds	13	**1,034.6**	1,298.5

The financial statements were approved by the Board of Directors on 7 March 2012 and were signed on its behalf by:



Geoffrey Martin
Group Finance Director

Simon Peckham
Chief Operating Officer

Registered number: 4763064

Notes to the Company Balance Sheet

1. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention, except for the revaluation of certain financial instruments which are recognised at fair value, and in accordance with applicable United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' statement of going concern on page 48 of the Directors' report.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured at the fair value of the consideration paid. Any premium is ignored.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are accounted for on an accruals basis in the Profit and Loss Account using the effective interest rate method and are added to the carrying amount of the investment to the extent that they are not settled in the period in which they arise.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value. The initial cost of an asset comprises its purchase price or construction cost, and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation of fixtures and fittings is calculated on a straight-line basis over the useful economic life of the assets being three to twelve years. The estimated useful lives are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Profit and Loss Account in the year the item is derecognised.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash in hand and current balances with banks and similar institutions and short-term deposits which are readily convertible to cash and are subject to insignificant risks of changes in value.

Derivative financial instruments and hedging

Derivative financial instruments are initially recognised in the Balance Sheet at cost and subsequently remeasured to their fair value. The method of recognising the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and qualifies for hedge accounting. On the date a derivative contract is entered into, the Company designates derivatives which qualify as hedges for accounting purposes as either a) a hedge of the fair value of a recognised asset or liability (fair value hedge), or b) a hedge of a forecast transaction or firm commitment (cash flow hedge) or c) a hedge of a net investment in a foreign operation.

Changes in the fair value of derivatives which are fair value hedges and that are highly effective are recognised in the Profit and Loss Account, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of derivatives in cash flow hedges are recognised in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or liability, the gains and losses previously included in equity are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in equity are transferred to the Profit and Loss Account and classified as revenue or expense in the same period in which the forecasted transaction affects the Profit and Loss Account.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The Company hedges certain net investments in foreign operations with foreign currency borrowings. All foreign exchange gains or losses arising on translation are recognised in equity and included in cumulative translation differences and are recycled through the Profit and Loss Account upon derecognition of the hedged item.

Notes to the Company Balance Sheet continued

1. Significant accounting policies (continued)

Certain derivative instruments, while providing effective economic hedges under the Company's policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for cash flow hedge accounting are recognised immediately in the Profit and Loss Account along with any ineffectiveness on cash flow and net investment hedges.

Share-based payments

The Company has applied the requirements of FRS 20: 'Share-based payments'. The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black–Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Cash Flow Statement

The Company has taken advantage of the exemption from preparing a Cash Flow Statement under the terms of FRS 1 (Revised): 'Cash Flow Statements' because it prepares a consolidated Cash Flow Statement which is shown on page 65 of the Group financial statements.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the year end or, if hedged, at the forward contract rate. Transactions in foreign currencies are translated into Sterling at the exchange rates ruling at the dates of the transactions or, if hedged, at the forward contract rate. Profits and losses on exchange arising in the normal course of trading and realised exchange differences arising on the conversion of foreign currency assets and liabilities are recognised within the Profit and Loss Account.

2. Profit for the year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own Profit and Loss Account for the year. Melrose PLC reported a profit for the financial year ended 31 December 2011 of £156.1 million (2010: £519.7 million). The Company paid a dividend of £52.8 million (2010: £43.8 million) during the year and in addition, the shareholders authorised a return of capital of £373.2 million of which £372.1 million was paid during the year. Further details are provided in the Directors' report on pages 38 to 49.

The Company has unused tax losses of approximately £7.3 million (31 December 2010: £19.7 million) available to carry forward and offset against future profits. No deferred tax asset has been recognised in respect of these losses due to uncertainty over future taxable profits arising in the foreseeable future.

The estimated value of the deferred tax asset not recognised at a tax rate of 25% (31 December 2010: 27%) is £1.8 million (31 December 2010: £5.3 million).

The auditor's remuneration for audit services to the Company is disclosed in note 7 to the Group consolidated financial statements.

3. Investment in subsidiaries

	£m
At 1 January 2011	891.9
Additions	354.7
Disposal	(93.3)
At 31 December 2011	**1,153.3**

The increase in investments during the year occurred following subsidiary reorganisations which resulted in an increase in the investment in FKI Limited and a new investment in Melrose PFG Company Number 1 Limited. Dynacast Holdings Limited and Dynacast International Limited were both disposed by the Company during the year as a result of the Group's disposal of the Dynacast business and resulted in a profit on disposal of £29.4 million. Melrose Management Resources Limited was liquidated during the year.

The Company has investments in the following subsidiaries which principally affected the profits and net assets of the Group. The following subsidiaries are directly owned by Melrose PLC:

Subsidiaries	Country of incorporation	Principal activity	Holding %
FKI Limited	Great Britain	Holding company	100
Melrose Overseas Holdings Limited	Great Britain	Holding company	100
Melrose UK Holdings Limited	Great Britain	Holding company	100
McKechnie Holdings (UK) Limited	Great Britain	Holding company	100
Eachairn Aerospace Holdings Limited	Great Britain	Holding company	100
McKechnie EP Holdings Limited	Great Britain	Holding company	100
Melrose North America Inc	USA	Holding company	100
Melrose PFG Company Number 1 Limited	Great Britain	Holding company	100

Other significant indirectly owned subsidiaries of the Group are:

Subsidiaries	Country of incorporation	Principal activity	Equity interest %
Energy			
Brush Electrical Machines Limited	Great Britain	Engineering company	100
Brush HMA B.V	Netherlands	Engineering company	100
Brush SEM s.r.o.	Czech Republic	Engineering company	100
Brush Transformers Limited	Great Britain	Engineering company	100
Harrington Generators International Limited	Great Britain	Engineering company	100
Hawker Siddeley Switchgear Limited	Great Britain	Engineering company	100
Marelli Motori SpA	Italy	Engineering company	100
Generator and Motor Services of Pennsylvania LLC	USA	Engineering company	100
Lifting			
Bridon-American Corporation	USA	Engineering company	100
Bridon International GmbH	Germany	Engineering company	100
Bridon International Limited	Great Britain	Engineering company	100
Bridon New Zealand Limited	New Zealand	Engineering company	100
Crosby Canada Inc	Canada	Engineering company	100
Crosby Europe N.V.	Belgium	Engineering company	100
The Crosby Group LLC	USA	Engineering company	100
Other Industrial			
McKechnie Engineered Plastics Limited	Great Britain	Engineering company	100
McKechnie Specialist Products Limited	Great Britain	Engineering company	100
The Harris Waste Management Group Inc	USA	Engineering company	100
Truth Hardware Corporation	USA	Engineering company	100
Group			
FKI Engineering Limited	Great Britain	Holding company	100
FKI Industries Inc	USA	Holding company	100
McKechnie Management Services Limited	Great Britain	Management services company	100

Notes to the Company Balance Sheet continued

4. Tangible fixed assets

	Fixtures and fittings £m
Cost	
At 1 January 2011 and 31 December 2011	**0.7**
Depreciation	
At 1 January 2011	0.6
Charge for the period	0.1
At 31 December 2011	**0.7**
Net book value	
At 31 December 2011	**–**
At 31 December 2010	0.1

5. Derivative financial instruments

	31 December 2011 Current £m	31 December 2011 Non-current £m	31 December 2011 Total £m	31 December 2010 Current £m	31 December 2010 Non-current £m	31 December 2010 Total £m
Derivative financial assets						
Foreign currency forward contracts	**0.4**	**–**	**0.4**	–	–	–
	0.4	**–**	**0.4**	–	–	–
Derivative financial liabilities						
Interest rate swaps	**(5.3)**	**(0.4)**	**(5.7)**	(6.1)	(3.9)	(10.0)
Foreign currency forward contracts	**(0.1)**	**–**	**(0.1)**	–	–	–
	(5.4)	**(0.4)**	**(5.8)**	(6.1)	(3.9)	(10.0)

Details of the foreign currency forward contracts and the interest rate swaps are provided in note 24 to the Group consolidated financial statements on pages 101 to 105.

6. Debtors

	31 December 2011 £m	31 December 2010 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	**771.3**	1,109.7
Prepayments	**0.7**	0.2
	772.0	1,109.9

The Directors consider that the carrying amounts owed by Group undertakings approximate to their fair value.

7. Creditors

	31 December 2011 £m	31 December 2010 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	**437.4**	172.6
Accruals and other payables	**17.7**	20.6
Redeemable preference C shares	**1.1**	–
	456.2	193.2

The Directors consider that amounts owed to Group undertakings approximate to their fair value.

As described in note 10, the 1,392,194 redeemable preference C shares will be redeemed on 30 April 2012 at a value of £1.1 million.

8. Bank loans

	Interest rate %	Final maturity	**31 December 2011 £m**	31 December 2010 £m
Non-current bank loans				
Denominated in the following currencies:				
Bank borrowings – US Dollar loan	LIBOR + 1.35%	April 2013	**390.1**	388.5
Bank borrowings – Euro loan	EURIBOR + 1.35%	April 2013	**48.6**	50.3
Bank borrowings – Sterling loan	LIBOR + 1.35%	April 2013	**22.3**	50.0
			461.0	488.8
Unamortised finance costs			**(3.5)**	(6.0)
			457.5	482.8

	Interest rate %	Final maturity	**31 December 2011 £m**	31 December 2010 £m
Current bank loans				
Bank borrowings – Sterling loan	LIBOR + 1.35%	April 2013	**27.7**	–

During 2011, the Company utilised a £750 million multi-currency committed bank facility that provided term loan and revolving credit facilities through to 22 April 2013. A number of Group companies act as guarantors to this facility. Drawdowns bear interest at interbank rates of interest plus a margin determined by reference to the Group's performance under its debt cover covenant ratio and ranges between 1.25% and 2.35%. The margin as at 31 December 2011 was 1.35% (31 December 2010: 1.50%).

Throughout the year, the Company remained compliant with all covenants under these facilities. The term loan facility is fully drawn down having originally been set at £500 million. In 2009, the Company repaid and cancelled US $80 million of this term loan facility following the disposal of the Logistex business.

On 22 December 2011, the Company agreed a new five year banking facility. On 31 January 2012, all amounts outstanding on the original facility were repaid using surplus cash in the Group at that time and by partially utilising the new facility.

The new facility is a £600 million, multi-currency, committed, revolving credit facility. A number of Group companies continue to act as guarantors under the new facility. Drawdowns bear interest at interbank rates of interest plus a margin determined by reference to the Group's performance under its debt cover covenant ratio and ranges between 1.20% and 2.00%.

The interest rate re-pricing profile of financial liabilities, after taking into account hedging interest rate derivatives, is described in note 24 of the Group consolidated financial statements.

9. Provisions for liabilities

	Incentive plan related £m
At 1 January 2011	12.5
Additional provision in the year	5.0
Utilised	(2.2)
At 31 December 2011	**15.3**

The provision relates to cash long term incentive plans for divisional senior management and is expected to result in cash expenditure in the next three to four years.

Notes to the Company Balance Sheet continued

10. Issued share capital

Share Capital	31 December 2011 £m	31 December 2010 £m
Allotted, called up and fully paid		
390,961,043 (31 December 2010: 497,586,779) Ordinary Shares of 14/55p each (31 December 2010: 0.2p each)	**1.0**	1.0
34,331,656 (31 December 2010: nil) C Deferred Shares of 75.0p each	**25.7**	–
50,000 (31 December 2010: 50,000) 2009 Incentive Shares of £1 each	**0.1**	0.1
	26.8	1.1

On 8 August 2011 at a General Meeting, shareholders approved resolutions to return capital of £373.2 million to shareholders.

The return of capital took place by increasing the authorised share capital by £373.2 million through the issue of 497,586,779 redeemable preference C shares ('C Shares') of 75.0p nominal value each and capitalising £220.1 million of the capital redemption reserve and £153.1 million of the share premium account to pay up in full the C Shares. The C Shares were allotted on the basis of one C Share for each Ordinary Share of 0.2p each held on 8 August 2011. Shareholders had the option to receive the cash value inherent in the C Share by way of income or the choice of two capital options. As a result of the elections made by shareholders in respect of the return of capital:

- 461,862,929 C Shares were redeemed and subsequently cancelled with effect from 19 August 2011
- 1,392,194 C Shares will be redeemed on 30 April 2012
- 34,331,656 C Shares were paid a dividend which was paid on 19 August 2011 and these C Shares converted into C Deferred Shares

Both the remaining 1,392,194 C Shares and the 34,331,656 C Deferred Shares carry no voting rights or rights to dividends.

In conjunction with the return of capital, on 9 August 2011 an 11 for 14 share consolidation took place which reduced the issued Ordinary Share capital to 390,961,043 shares of 14/55 pence each.

Redemption of the C Deferred Shares on 30 April 2012 will result in a £25.7 million transfer from share capital into the capital redemption reserve. In addition, the 1,392,194 C Shares will be redeemed and cancelled on 30 April 2012 at a value of £1.1 million which will also be transferred to the capital redemption reserve.

The rights of each class of share are described in the Directors' report on pages 40 to 42.

Own shares

The Trustee of the Melrose PLC Employee Benefit Trust ('EBT') holds 500 2009 Incentive Shares of £1 each (31 December 2010: 500). The Melrose PLC EBT also holds 19,862 Ordinary Shares of 14/55p each in Melrose PLC (31 December 2010: 25,279 Ordinary Shares of 0.2p each) relating to unallocated shares following the crystallisation of the Original Incentive Scheme in August 2007. The FKI EBT holds 124,232 Ordinary Shares of 14/55p each in Melrose PLC (31 December 2010: 158,114 Ordinary Shares of 0.2p each) which arose upon disposal of its FKI plc shares when FKI plc was acquired by Melrose PLC.

11. Reserves

Reserves	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Retained earnings £m
At 1 January 2010	279.1	285.1	220.1	45.4
Dividend paid	–	–	–	(43.8)
Profit for the year	–	–	–	519.7
Credit to equity for equity-settled share-based payments	–	–	–	1.8
At 31 December 2010	279.1	285.1	220.1	523.1
Issue of redeemable preference C shares	(153.1)	–	(220.1)	–
Dividends paid	–	–	–	(52.8)
Return of capital	–	–	–	(372.1)
Preference C shares redeemed	–	–	346.4	–
Profit for the year	–	–	–	156.1
Credit to equity for equity-settled share-based payments	–	–	–	1.8
At 31 December 2011	**126.0**	**285.1**	**346.4**	**256.1**

Details of share-based payments are given in note 22 to the Group consolidated financial statements.

12. Hedging reserve

	£m
At 1 January 2010	0.8
Losses on cash flow hedges	(10.8)
At 31 December 2010	(10.0)
Gains on cash flow hedges	4.2
At 31 December 2011	**(5.8)**

13. Reconciliation of movements in shareholders' funds

	£m
At 1 January 2010	831.6
Dividends paid	(43.8)
Profit for the year	519.7
Decrease in hedging reserve	(10.8)
Credit to equity for equity-settled share-based payments	1.8
At 31 December 2010	1,298.5
Dividends paid	(52.8)
Return of capital	(372.1)
Creation of redeemable preference C shares	(1.1)
Profit for the year	156.1
Increase in hedging reserve	4.2
Credit to equity for equity-settled share-based payments	1.8
At 31 December 2011	**1,034.6**

14. Related party transactions

The Company has taken the exemption in FRS 8: 'Related party transactions' not to disclose intercompany balances and transactions in the year.

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK, SOLICITOR, ACCOUNTANT, FUND MANAGER OR OTHER APPROPRIATE INDEPENDENT FINANCIAL ADVISER.

If you have sold or otherwise transferred all of your shares in Melrose PLC you should send this document 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 delivery to the purchaser or transferee.

Notice is hereby given that the ninth Annual General Meeting of the Company will be held at Barber-Surgeons' Hall, Monkwell Square, Wood Street, London, EC2Y 5BL at 11.00 am on 9 May 2012 for the following purposes. Resolutions 1 to 13 will be proposed as ordinary resolutions and resolutions 14 to 16 as special resolutions.

Ordinary resolutions

1. To receive the Company's audited financial statements for the financial year ended 31 December 2011, together with the Directors' report and the auditor's report on those financial statements.
2. To approve the Directors' Remuneration report contained in the Company's Annual Report and financial statements for the year ended 31 December 2011.
3. To declare a final dividend of 8.4p per ordinary share for the year ended 31 December 2011.
4. To re-elect Mr Christopher Miller as a Director of the Company.
5. To re-elect Mr David Roper as a Director of the Company.
6. To re-elect Mr Simon Peckham as a Director of the Company.
7. To re-elect Mr Geoffrey Martin as a Director of the Company.
8. To re-elect Mr Miles Templeman as a Director of the Company.
9. To re-elect Mr Perry Crosthwaite as a Director of the Company.
10. To re-elect Mr John Grant as a Director of the Company.
11. To elect Mr Justin Dowley as a Director of the Company.
12. To reappoint Deloitte LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at which accounts are laid and to authorise the Directors to determine their remuneration.
13. That, in substitution for all existing authorities, the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for, or to convert any security into, shares in the Company:
    (A) up to an aggregate nominal amount of £331,724; and
    (B) comprising equity securities (as defined in section 560(1) of the Companies Act 2006 (the 'Act')) up to an aggregate nominal amount of £663,448 (such amount to be reduced by the aggregate nominal amount of any allotments or grants made under paragraph (A) of this resolution) in connection with an offer by way of a rights issue:
        (i) to ordinary shareholders 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,

    such authorities to apply until the end of the Company's next Annual General Meeting after this resolution is passed (or, if earlier, until the close of business on 30 June 2013) but, in each case, so that the Company may make offers and enter into agreements before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority expires and the Directors may allot shares or grant rights under any such offer or agreement as if the authority had not expired.

Special resolutions

14. That, in substitution for all existing powers and subject to the passing of resolution 13, the Directors be generally empowered to allot equity securities (as defined in the Act) for cash pursuant to the authority granted by resolution 13 and/or to sell ordinary shares in the capital of the Company held by the Company as treasury shares for cash in each case free of the restriction in section 561(1) of the 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 13, 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 ordinary shareholders 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) of equity securities pursuant to the authority granted by paragraph (A) of resolution 13 and/or the sale of treasury shares for cash up to a nominal amount of £49,758,

    such power to apply until the end of the Company's next Annual General Meeting after this resolution is passed (or, if earlier, until the close of business on 30 June 2013) but so that the Company may make offers and enter into agreements before the power expires which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not expired.

15. That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693 of the Act) of ordinary shares in the capital of the Company provided that:

    (A) the maximum aggregate number of ordinary shares authorised to be purchased is 39,096,104 (representing 10% of the issued ordinary share capital);
    (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 at the end of the next Annual General Meeting of the Company following the passing of this resolution (or, if earlier, at the close of business on 30 June 2013);
    (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.

16. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

Registered office
Precision House
Arden Road
Alcester
B49 6HN

Garry Barnes
Company Secretary
7 March 2012

Notes

1. The holders of ordinary shares and 2009 Incentive Shares in the Company are entitled to attend the Annual General Meeting, but only holders of ordinary shares are entitled to vote. The holders of Non-Cumulative Redeemable Preference Shares of 75 pence each and C Deferred Shares of 75 pence each in the capital of the Company shall not be entitled to attend, speak or vote at the Annual General Meeting. A member entitled to attend and vote may appoint a proxy to exercise all or any of their 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 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 Annual 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 ordinary shareholders of the Company.

4. To be entitled to attend and vote at the Annual 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 pm on 4 May 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 7 March 2012, the Company's issued share capital consists of (i) 390,961,043 ordinary shares, carrying one vote each, and (ii) 50,000 2009 Incentive Shares of £1 each, 1,392,194 Non-Cumulative Redeemable Preference Shares of 75 pence each and 34,331,656 C Deferred Shares of 75 pence each in the capital of the Company, each of which shall not carry a right to vote on the resolutions to be considered at the Annual General Meeting. Therefore, the total voting rights in the Company as at 7 March 2012 are 390,961,043.

Notice of Annual General Meeting continued

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. 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 (available via www.euroclear.com/CREST). 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 11.00 am on 4 May 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. Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.

12. Any member holding ordinary shares attending the meeting has the right to ask questions. The Company must answer any such questions 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.

13. A copy of this notice, and other information required by section 311A of the Act, can be found at www.melroseplc.net.

14. You may not use an electronic address provided in either this Notice of Annual General Meeting or any related documents (including the Proxy Form) to communicate with the Company for any purposes other than those expressly stated.

15. The following documents will be available for inspection at the Company's registered office during normal business hours (Saturdays, Sundays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting:

    (A) copies of all service agreements under which Directors of the Company are employed by the Company or any subsidiaries; and
    (B) a copy of the terms of appointment of the non-executive Directors of the Company.

16. You may register your vote online by visiting Equiniti's website at www.sharevote.co.uk. In order to register your vote online, you will need to enter the Task ID, together with your Voting ID and Shareholder Reference Number which are set out on the enclosed Proxy Form. The return of the Proxy Form by post or registering your vote online will not prevent you from attending the Annual General Meeting and voting in person, should you 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 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 11.00 am on 4 May 2012.

Company and shareholder information

As at 31 December 2011 there were 7,995 holders of Ordinary Shares in the Company. Their shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
1–5,000	7,228	90.41	5,409,514	1.38
5,001–50,000	431	5.39	5,976,211	1.53
50,001–100,000	69	0.86	5,162,503	1.32
100,001–500,000	150	1.88	36,684,756	9.38
Over 500,000	117	1.46	337,728,059	86.39
Total	**7,995**	**100.00**	**390,961,043**	**100.00**

Financial calendar 2012

Ex-dividend date for final dividend	4 April 2012(1)
Record date for final dividend	10 April 2012(1)
Annual General Meeting	9 May 2012
Payment of final dividend	14 May 2012
Announcement of interim results	August 2012
Intended payment of interim dividend	November 2012
Preliminary announcement of 2012 results	March 2013

Directors
Christopher Miller
David Roper
Simon Peckham
Geoffrey Martin
Miles Templeman
Perry Crosthwaite
John Grant
Justin Dowley

Company Secretary
Garry Barnes

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Fax: + 44 (0) 1789 761057

Registered number
4763064

Bankers
Bank of America Merrill Lynch
Barclays Bank plc
Commerzbank AG
HSBC Bank PLC
ICBC (London) Plc
J.P. Morgan PLC
Lloyds TSB Bank PLC
Royal Bank of Canada
Santander UK PLC
The Royal Bank of Scotland plc
Wells Fargo Bank International

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EC2Y 9HU

Brokers
Investec
2 Gresham Street
London
EC2V 7QP

J.P. Morgan Cazenove
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EC2R 6DA

Registrars
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Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

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

The Shareholder helpline number is 0871 384 2030 (calls charged at 8p per minute from a BT landline, other provider call costs may vary). If calling from overseas: +44 (0)121 415 7047. Lines are open 8.30 am to 5.30 pm Monday to Friday.

(1) On 23 March 2012, the Board announced an amendment to the dividend timetable that had originally been announced on 7 March 2012. The final dividend payment date of 14 May 2012 remains unchanged and it will be paid to those shareholders on the register on 10 April 2012 (instead of 13 April 2012 as announced previously), subject to approval at the AGM on 9 May 2012. This change has been made in order to prevent the New Ordinary Shares resulting from the proposed conversion of the Existing Incentive Shares (as defined in the circular sent to shareholders on 23 March 2012) qualifying for the proposed final dividend payment.

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