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Årsredovisning
Annual Accounts

för
for

GKN Sweden Holdings AB

556855-8943

Räkenskapsåret
The financial year

2021

Fastställelseintyg/Certificate of Adoption

Undertecknad, styrelseledamot i GKN Sweden Holdings AB intygar att resultaträkningen och balansräkningen fastställts på årsstämma den 30 juni 2022. Årsstämman beslutade att godkänna styrelsens och den verkställande direktörens förslag beträffande det uppkomna resultatet.

Jag intygar också att innehållet i årsredovisningen och revisionsberättelsen stämmer överens med originalen.

The undersigned, Board member of GKN Sweden Holdings AB certifies that the Income Statement and Balance Sheet have been adopted by the Annual General Meeting held on 30 June *2022. The General Meeting decided to adopt the Board of Directors' and the Managing Director's proposal regarding the allocation of the result.*

The undersigned certifies that the contents of the annual report and auditor's report is a true copy of the original document.

Trollhättan, 30 juni 2022

Joakim Andersson

ank=20220711:20220712020033

GKN Sweden Holdings AB
Org nr 556855-8943

Årsredovisning för räkenskapsåret 2021

Styrelsen avger följande årsredovisning.

Innehåll

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Om inte annat särskilt anges, redovisas alla belopp i tusental kronor. Uppgifter inom parentes avser föregående år.

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Förvaltningsberättelse

Information om verksamheten

GKN Sweden Holdings AB, org.nr 556855-8943, skall äga lös och fast egendom och därmed förenlig verksamhet.

Moderföretaget i den största koncernen som GKN Sweden Holdings AB är dotterföretag till är Melrose Industries PLC, England & Wales No. 9800044, med säte i Birmingham, Storbritannien.

Bolaget har inga anställda.

Flerårsjämförelse

Bolagets ekonomiska utveckling i sammandrag.

		2021	2020	2019	2018	2017
Nettoomsättning	tkr	-	-	-	-	-
Resultat efter finansiella poster	tkr	1 294 821	-208 247	-230 217	-254 324	-253 141
Balansomslutning	tkr	7 930 093	6 713 114	6 887 528	7 672 602	7 608 228
Soliditet	%	32,9	19,2	21,1	29,9	30,1

Nyckeltalsdefinitioner framgår av not 1

Viktiga förhållanden och väsentliga händelser

GKN Sweden Holdings AB gör i år en vinst om 1 294 094 tkr (förlust -136 993 tkr).

Coronapandemins utbrott under våren 2020 har inte haft någon direkt påverkan på bolaget. Dock är dotterbolaget GKN Aerospace Sweden AB påverkat, då flygbranschen drabbats hårt. Flygandet och beläggningen i bolagets verkstäder förväntas återhämta sig gradvis under åren 2022-2024 för att 2024 nå den nivå som var före pandemin bröt ut.

Förslag till vinstdisposition

Till årsstämmans förfogande står följande vinstmedel:

Balanserade vinstmedel		1 313 379 346
Årets resultat		1 294 093 593
	kronor	2 607 472 939

Styrelsen föreslår att vinstmedlen disponeras så att
i ny räkning överförs 2 607 472 939

kronor 2 607 472 939

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Resultaträkning

	Not	2021	2020
Rörelsens kostnader			
Övriga externa kostnader		-67	-119
Summa rörelsens kostnader		-67	-119
Rörelseresultat		-67	-119
Resultat från finansiella poster			
Resultat från andelar i koncernföretag	3	1 499 400	-
Övriga ränteintäkter och liknande resultatposter	4	2 247	2 704
Räntekostnader och liknande resultatposter	5	-206 759	-210 832
Summa resultat från finansiella poster		1 294 888	-208 128
Resultat efter finansiella poster		1 294 821	-208 247
Skatt på årets resultat	6	-727	71 254
Årets resultat		1 294 094	-136 993

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Balansräkning	**Not**	**2021-12-31**	**2020-12-31**
Tillgångar			
Anläggningstillgångar			
Immateriella anläggningstillgångar			
Licenser	7	-	-
		0	0
Finansiella anläggningstillgångar			
Andelar i koncernföretag	8	5 672 282	5 672 282
Uppskjuten skattefordran		70 507	28 368
		5 742 789	5 700 650
Summa anläggningstillgångar		5 742 789	5 700 650
Omsättningstillgångar			
Kortfristiga fordringar			
Fordringar hos koncernföretag		2 179 229	1 007 078
Övriga kortfristiga fordringar		1	1
Förutbetalda kostnader och upplupna intäkter		8 074	5 385
		2 187 304	1 012 464
Summa omsättningstillgångar		2 187 304	1 012 464
Summa tillgångar		7 930 093	6 713 114

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Balansräkning	**Not**	**2021-12-31**	**2020-12-31**
Eget kapital och skulder			
Eget kapital			
Bundet eget kapital			
Aktiekapital		50	50
		50	50
Fritt eget kapital			
Balanserad vinst		1 313 380	1 450 373
Årets resultat		1 294 094	-136 993
		2 607 474	1 313 380
Summa eget kapital		2 607 524	1 313 430
Långfristiga skulder	10		
Skulder till koncernföretag		2 545 883	2 545 883
Skulder till moderföretag		2 763 392	2 763 393
Summa långfristiga skulder		5 309 275	5 309 276
Kortfristiga skulder			
Aktuella skatteskulder		-	74 797
Övriga kortfristiga skulder		44	32
Upplupna kostnader och förutbetalda intäkter		13 250	15 579
Summa kortfristiga skulder		13 294	90 408
Summa eget kapital och skulder		7 930 093	6 713 114

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Förändringar i eget kapital

	Aktie-kapital	Fritt eget kapital	Summa eget kapital
	-	-	-
Ingående balans 2020-01-01	**50**	**1 450 373**	**1 450 423**
Årets resultat		-136 993	-136 993
Utdelning	—	-	-
Eget kapital 2020-12-31	**50**	**1 313 380**	**1 313 430**
Ingående balans 2021-01-01	**50**	**1 313 380**	**1 313 430**
Årets resultat	—	1 294 094	1 294 094
Eget kapital 2021-12-31	**50**	**2 607 474**	**2 607 524**

Aktiekapitalet består av 50 000 aktier á kvotvärde 1 kr.

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Noter

Not 1 Redovisnings- och värderingsprinciper

GKN Sweden Holdings ABs årsredovisning har upprättats enligt årsredovisningslagen och Bokföringsnämndens allmänna råd BFNAR 2012:1 Års- och koncernredovisning (K3).
Redovisningsprinciperna är oförändrade i jämförelse med föregående år.

Koncernförhållanden
Företaget är moderföretag men med hänvisning till undantagsreglerna i Årsredovisningslagen 7 kap 2§ upprättas ingen egen koncernredovisning. Det överordnande koncernföretaget Melrose Industries PLC i Birmingham, Storbritannien upprättar koncernredovisning. Moderföretaget i den minsta koncernen som bolaget är dotterföretag till och där koncernredovisning inte är upprättad är GKN Industries Limited.

Inkomstskatter
Aktuella skatter värderas utifrån de skattesatser och skatteregler som gäller på balansdagen. Uppskjutna skatter värderas utifrån de skattesatser och skatteregler som är beslutade före balansdagen. Uppskjuten skattefordran avseende underskottsavdrag eller andra framtida skattemässiga avdrag redovisas i den utsträckning det är sannolikt att avdraget kan avräknas mot överskott vid framtida beskattning.
Fordringar och skulder nettoredovisas endast när det finns en legal rätt till kvittning.
Aktuell skatt, liksom förändring i uppskjuten skatt, redovisas i resultaträkningen om inte skatten är hänförlig till en händelse eller transaktion som redovisas direkt i eget kapital. Skatteeffekter av poster som redovisas direkt mot eget kapital, redovisas mot eget kapital.

Immateriella tillgångar
Immateriella anläggningstillgångar redovisas till anskaffningsvärde minskat med ackumulerade avskrivningar och nedskrivningar.
Avskrivningar görs linjärt över den bedömda nyttjandetiden. Avskrivningstiden för immateriella anläggningstillgångar uppgår till fem år.

Finansiella instrument
Finansiella instrument som redovisas i balansräkningen inkluderar övriga fordringar och låneskulder. Instrumenten redovisas i balansräkningen när GKN Sweden Holdings AB blir part i instrumentets avtalsmässiga villkor.
Finansiella tillgångar tas bort från balansräkningen när rätten att erhålla kassaflöden från instrumentet har löpt ut eller överförts och företaget har överfört i stort sett alla risker och förmåner som är förknippade med äganderätten.

Finansiella skulder tas bort från balansräkningen när förpliktelsen har reglerats eller på annat sätt upphört.

Övriga fordringar
Fordringar redovisas som omsättningstillgångar med undantag för poster med förfallodag mer än 12 månader efter balansdagen, vilka klassificeras som anläggningstillgångar. Fordringar tas upp till det belopp som förväntas blir inbetalt efter avdrag för individuellt bedömda osäkra fordringar. Fordringar som är räntefria eller som löper med ränta som avviker från marknadsränta och har en löptid överstigande 12 månader redovisas till ett diskonterat nuvärde och tidsvärdeförändringen redovisas som ränteintäkt i resultaträkningen.

Låneskulder
Låneskulder redovisas initial till anskaffningsvärde efter avdrag för transaktionskostnader. Skiljer sig det redovisade beloppet från det belopp som ska återbetalas vid förfallotidpunkten periodiseras mellanskillnaden som räntekostnad över lånets löptid med hjälp av instrumentets effektivränta. Härigenom överensstämmer vid förfallotidpunkten det redovisade beloppet med det belopp som ska återbetalas.

Nedskrivningsprövning av finansiella anläggningstillgångar
Vid varje balansdag bedömer GKN Sweden Holdings AB om det finns någon indikation på nedskrivningsbehov i någon utav de finansiella anläggningstillgångarna. Nedskrivning sker om värdenedgång bedöms vara bestående.

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Aktier och andelar i dotterföretag
Aktier och andelar i dotterföretag redovisas till anskaffningsvärde efter avdrag för eventuella nedskrivningar. I anskaffningsvärdet ingår köpeskillingen som erlagts för aktierna samt förvärvskostnader. Eventuella kapitaltillskott och koncernbidrag läggs till anskaffningsvärdet när de uppkommer. Utdelning från dotterföretag redovisas som intäkt.

Bokslutsdispositioner
Förändringar av obeskattade reserver redovisas som bokslutsdispositioner i resultaträkningen. Koncernbidrag redovisas som bokslutsdispositioner.

Nyckeltalsdefinitioner
Soliditet
Eget kapital och obeskattade reserver (med avdrag för uppskjuten skatt) i förhållande till balansomslutningen.

Not 2 Transaktioner med närstående

Uppgifter om moderföretaget
Moderföretag i den största koncern där GKN Sweden Holdings AB är dotterföretag och koncernredovisning upprättas av Melrose Industries PLC i Birmingham, Storbritannien.
Moderföretaget i den minsta koncernen som bolaget är dotterföretag till och där koncernredovisning inte är upprättad är GKN Industries Limited.

Inköp och försäljning mellan koncernföretag
Inga inköp eller försäljningar har gjorts mellan koncernföretag.

Not 3 Resultat från andelar i koncernföretag

	2021	2020
Utdelningar	1 499 400	-
Summa	1 499 400	0

Not 4 Övriga ränteintäkter och liknande resultatposter

	2021	2020
Ränteintäkter	2 247	2 704
Summa	2 247	2 704
Varav avseende koncernföretag	2 247	2 704

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Not 5 Räntekostnader och liknande resultatposter

	2021	2020
Övriga räntekostnader och liknande resultatposter	-206 759	-210 832
Summa	-206 759	-210 832
Varav avser koncernföretag:	-205 164	-210 831

Not 6 Skatt på årets resultat

	2021	2020
Aktuell skatt	-	42 886
Uppskjuten skatt	-727	28 368
Skatt på årets resultat	-727	71 254
Redovisat resultat före skatt	1 294 821	-208 247
Skatt beräknad enligt gällande skattesats (20,6%/21,4%)	-266 733	44 565
Skatteeffekt av ej avdragsgilla kostnader	-	-13
Skatteeffekt av ej skattepliktig utdelning	308 876	-
Skatt hänförlig till tidigare års redovisade resultat	-42 870	28 368
Effekt av ändrad skattesats	-	-1 666
Redovisad skattekostnad	-727	71 254

Not 7 Licenser

	2021-12-31	2020-12-31
Ingående anskaffningsvärden	160 501	160 501
Utgående ackumulerade anskaffningsvärden	160 501	160 501
Ingående avskrivningar	-160 501	-160 501
Utgående ackumulerade avskrivningar	-160 501	-160 501
Utgående restvärde enligt plan	0	0

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Not 8 Andelar i koncernföretag

	2021-12-31	2020-12-31
Ingående ackumulerade anskaffningsvärden	5 750 900	5 750 900
Utgående ackumulerade anskaffningsvärden	5 750 900	5 750 900
Ingående ackumulerade nedskrivningar	-78 618	-78 618
Utgående ackumulerade nedskrivningar	-78 618	-78 618
Utgående redovisat värde	5 672 282	5 672 282

	Säte	Reg no	Kapital-andel %	Rösträtts-andel %	Antal aktier	Bokfört värde 21-12-31	Bokfört värde 20-12-31
GKN Aerospace Sweden AB	Trollhättan	556029-0347	100	100	1 400 000	5 672 282	5 672 282
Summa						5 672 282	5 672 282

Not 9 Förslag till disposition av resultatet

	2021-12-31
Till årsstämmans förfogande står följande vinstmedel:	
Balanserade vinstmedel	1 313 379
Årets resultat	1 294 094
	2 607 473
Styrelsen föreslår att vinstmedlen disponeras så att	
i ny räkning överförs	2 607 473
	2 607 473

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Not 10 Långfristiga skulder

	2021-12-31	2020-12-31
Räntebärande skulder		
Långfristiga skulder		
Skulder till koncernföretag	2 545 883	2 545 883
Skulder till moderföretag	2 763 392	2 763 393
Summa	5 309 275	5 309 276

Förfallotider

Den del av långfristiga skulder som förfaller till betalning senare än ett men inom fem år efter balansdagen:		
Skulder till moderföretag	2 763 392	2 763 393
	2 763 392	2 763 393
Den del av långfristiga skulder som förfaller till betalning senare än fem år efter balansdagen:		
Skulder till koncernföretag	2 545 883	2 545 883
	2 545 883	2 545 883
Summa	5 309 275	5 309 276

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Not 11 Väsentliga händelser efter räkenskapsårets slut

Kriget i Ukraina som bröts ut i februari 2022 har inte haft och kommer troligen inte ha någon direkt påverkan på bolaget. Dock kan dotterbolaget GKN Aerospace Sweden AB påverkas av kriget genom högre bränslepris och problem med materialtillgång samt ökad efterfrågan på militära flygplan. Konsekvenserna är i nuläget svåra att kvantifiera.

Trollhättan, 2022-06-27

Joakim Andersson
Ordförande

Alexander Andersson

Vår revisionsberättelse har lämnats 2022-06-28

Deloitte AB

Åsa Löfqvist
Auktoriserad revisor

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Deloitte.

REVISIONSBERÄTTELSE

Till bolagsstämman i GKN Sweden Holdings AB
organisationsnummer 556855-8943

Rapport om årsredovisningen

Uttalanden

Vi har utfört en revision av årsredovisningen för GKN Sweden Holdings AB för räkenskapsåret 2021-01-01 - 2021-12-31.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av GKN Sweden Holdings ABs finansiella ställning per den 2021 och av dess finansiella resultat för året enligt årsredovisningslagen. Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen.

Grund för uttalanden

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet *Revisorns ansvar*. Vi är oberoende i förhållande till GKN Sweden Holdings AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens ansvar

Det är styrelsen som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen ansvarar även för den interna kontroll som den bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag.

Vid upprättandet av årsredovisningen ansvarar styrelsen för bedömningen av bolagets förmåga att fortsätta verksamheten. Den upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om styrelsen avser att likvidera bolaget, upphöra med verksamheten eller inte har något realistiskt alternativ till att göra något av detta.

Revisorns ansvar

Våra mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller misstag och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

Som del av en revision enligt ISA använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Dessutom:

- identifierar och bedömer vi riskerna för väsentliga felaktigheter i årsredovisningen, vare sig dessa beror på oegentligheter eller misstag, utformar och utför granskningsåtgärder bland annat utifrån dessa risker och inhämtar revisionsbevis som är tillräckliga och ändamålsenliga för att utgöra en grund för våra uttalanden. Risken för att inte upptäcka en väsentlig felaktighet till följd av oegentligheter är högre än för en väsentlig felaktighet som beror på misstag, eftersom oegentligheter kan innefatta agerande i maskopi, förfalskning, avsiktliga utelämnanden, felaktig information eller åsidosättande av intern kontroll.
- skaffar vi oss en förståelse av den del av bolagets interna kontroll som har betydelse för vår revision för att utforma granskningsåtgärder som är lämpliga med hänsyn till omständigheterna, men inte för att uttala oss om effektiviteten i den interna kontrollen.
- utvärderar vi lämpligheten i de redovisningsprinciper som används och rimligheten i styrelsens uppskattningar i redovisningen och tillhörande upplysningar.
- drar vi en slutsats om lämpligheten i att styrelsen använder antagandet om fortsatt drift vid upprättandet av årsredovisningen. Vi drar också en slutsats, med grund i de inhämtade revisionsbevisen, om huruvida det finns någon väsentlig osäkerhetsfaktor som avser sådana händelser eller förhållanden som kan leda till betydande tvivel om bolagets förmåga att fortsätta verksamheten. Om vi drar slutsatsen att det finns en väsentlig osäkerhetsfaktor, måste vi i revisionsberättelsen fästa uppmärksamheten på upplysningarna i årsredovisningen om den väsentliga osäkerhetsfaktorn eller, om sådana upplysningar är otillräckliga, modifiera uttalandet om årsredovisningen. Våra slutsatser baseras på de revisionsbevis som inhämtas fram till datumet för revisionsberättelsen. Dock kan framtida händelser eller förhållanden göra att ett bolag inte längre kan fortsätta verksamheten.
- utvärderar vi den övergripande presentationen, strukturen och innehållet i årsredovisningen, däribland upplysningarna, och om årsredovisningen

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återger de underliggande transaktionerna och händelserna på ett sätt som ger en rättvisande bild.

Vi måste informera styrelsen om bland annat revisionens planerade omfattning och inriktning samt tidpunkten för den. Vi måste också informera om betydelsefulla iakttagelser under revisionen, däribland de eventuella betydande brister i den interna kontrollen som vi identifierat.

Rapport om andra krav enligt lagar och andra författningar

Uttalanden

Utöver vår revision av årsredovisningen har vi även utfört en revision av styrelsens förvaltning för GKN Sweden Holdings AB för 2021-01-01 - 2021-12-31 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter ansvarsfrihet för räkenskapsåret.

Grund för uttalanden

Vi har utfört revisionen enligt god revisionssed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet *Revisorns ansvar*. Vi är oberoende i förhållande till GKN Sweden Holdings AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt.

Revisorns ansvar

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget, eller
- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionssed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

Som en del av en revision enligt god revisionssed i Sverige använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Granskningen av förvaltningen och förslaget till dispositioner av bolagets vinst eller förlust grundar sig främst på revisionen av räkenskaperna. Vilka tillkommande granskningsåtgärder som utförs baseras på vår professionella bedömning med utgångspunkt i risk och väsentlighet. Det innebär att vi fokuserar granskningen på sådana åtgärder, områden och förhållanden som är väsentliga för verksamheten och där avsteg och överträdelser skulle ha särskild betydelse för bolagets situation. Vi går igenom och prövar fattade beslut, beslutsunderlag, vidtagna åtgärder och andra förhållanden som är relevanta för vårt uttalande om ansvarsfrihet. Som underlag för vårt uttalande om styrelsens förslag till dispositioner beträffande bolagets vinst eller förlust har vi granskat om förslaget är förenligt med aktiebolagslagen.

Göteborg den 28 juni 2022

Deloitte AB

Åsa Löfqvist
Auktoriserad revisor

Buy
Improve
Sell

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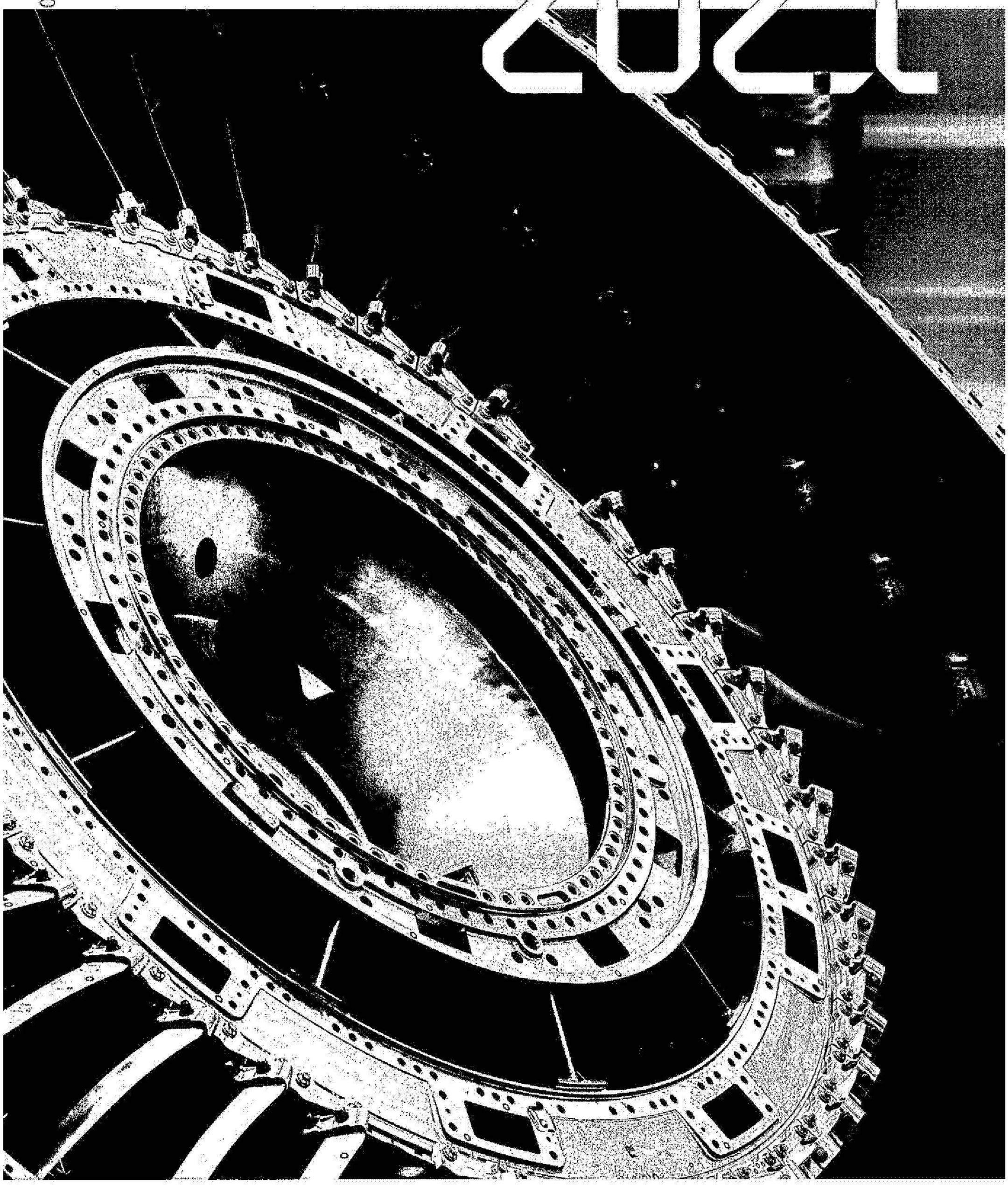
Melrose Industries PLC
Annual Report

2021



Melrose Industries PLC

Acquiring good quality manufacturing businesses, making operational improvements, realising shareholder value at the appropriate time and then returning this value to shareholders, continue to be the fundamentals of the "Buy, Improve, Sell" business strategy that Melrose has followed since being founded in 2003.

Strategic Report

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Cautionary statement

The Strategic Report and certain other sections of this Annual Report and financial statements contain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this Annual Report and financial statements and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Accordingly, readers are cautioned not to place undue reliance on any such forward-looking statements. Subject to compliance with applicable laws and regulations, Melrose does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Annual Report and financial statements. The Strategic Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed. Some financial and other numerical data in this Annual Report and financial statements have been rounded and, as a result, the numerical figures shown as totals may vary slightly from the exact arithmetic aggregation of the figures that precede them.

Highlights for 2021

Tripled

adjusted[1] operating prof

At constant currency, despite global supp challenges, sales were up 2% year-on-ye notably, Group adjusted[1] operating profil to £375 million, showing the substantial b restructuring actions increasingly coming

Significant restructuring

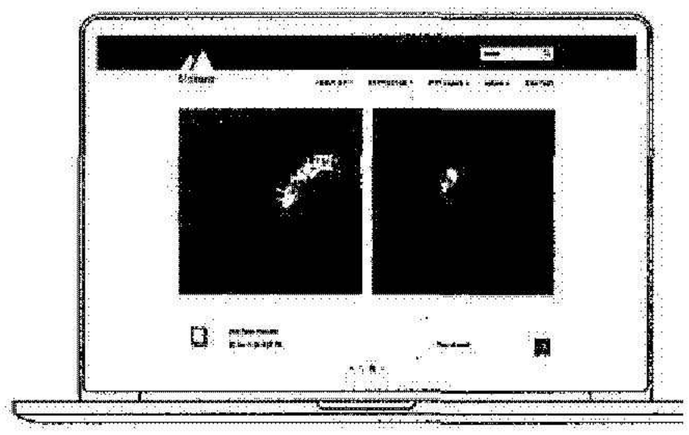
The Group statutory operating loss was £451 million; of the £826 million adjusting only £200 million were cash items, almost relating to restructuring projects.

1.3x leverage[1]

Melrose generated free cash flow[1] of £12 the year, prior to disposal proceeds, with reduced to £0.95 billion and leverage[1] to adjusted[1] EBITDA. All businesses contin be cash positive, therefore fully funding al improvement and restructuring costs, wit generation qualities transformed since ac

Reduction in working capital

Working capital in the GKN businesses h to 3% of sales from 5% at the GKN acqu further opportunities existing to improve inventory levels.



For more information visit
www.melroseplc.net

"It has been another good year for Melrose, with results ahead of expectations with better cash generation and a bigger reduction in net debt and leverage."

ey
e Chairman

ank=20220711:20

every £3

pension schemes are now in surplus
in every £3 of free cash flow[1] since
eing paid into the Group's pension
ereby freeing up more free cash flow[1]

rn to growth

s returned to growth with further benefits
restructuring actions. The Melrose
re actively working to mitigate the current
essures through all necessary means
lly committed to achieving their
ited operating margin targets.

on repaid

n, the opening net debt[1] of £3.4 billion
cquisition has been fully repaid, in less
rs, save cash returned to shareholders
od, helping to protect shareholder value
g the GKN transformation during some
hallenging trading conditions.

ainable
nology

mproved its ESG positioning and reporting
cluding highlighting the substantial benefits
s proprietary sustainable technology. A new
lelrose Sustainability Report will be published,
ne, alongside the 2021 Annual Report.

ce per share

id of 1 pence per share is proposed,
d on last year, giving a full year dividend
per share.

e glossary to the financial statements on pages 203 to 210.

Adjusted[1] revenue

£7.5bn

Adjusted[1] operating profit

£375m

Statutory revenue

£6.9bn

Statutory operating loss

£451m

Divisional performance summary results
(for the year ended 31 December 2021)

	Adjusted[1] revenue £m	Adjusted[1] operating profit/(loss) £m	Statutory revenue £m	Statutory operating profit/(loss) £m
Aerospace	2,543	112	2,538	(196)
Automotive	3,745	172	3,164	(131)
Powder Metallurgy	975	91	948	40
Other Industrial	233	51	233	35
Corporate	–	(51)	–	(199)

Our strategy and business model

Our purpose:

Melrose was founded in 2003 to empower businesses to un
their full potential for the collective benefit of stakeholders
providing shareholders with a superior return on their inves

We have achieved this through the implementation of our "Buy, Improve, Sell" strategy.

Our strategy:

Buy

Good manufacturing businesses whose performance can be improved.

Use low (public market) leverage.

Melrose management are substantial equity investors.

Improve

- Free management from bureaucratic central structures.
- Change management focus, incentivise well.
- Encourage and implement sustainable business practices.
- Set strategy and targets and sign off investments.
- Drive operational improvements and sustainable production.
- Invest in the business and support research and development, particularly sustainable products.
- Focus on profitability, sustainability, and operating cash generation – not growth for the sake of growth.
- Improve products and customer relationships.
- Invest in research and development capabilities, to enable our businesses to develop products that are more sustainable and safer.
- Enable our businesses to help their customers and wider industries transition to a net zero economy by 2050.
- Engage closely and often with key external stakeholders.
- Invest in the workforce, closely monitor health and safety, and secure the financial health of workplace pension schemes.

Sell

- Commercially choose the right time to sell to good homes for the next stage of their development, often between three and five years, but flexible.
- Return value to shareholders from significant disposals.
- Equip businesses with sustainability strategies and strong sustainability targets to drive long-term ESG performance.

Inputs

Industry expertise

Core management group has operated in the UK and the international manufacturing arena for over two decades.

Highly experie management t

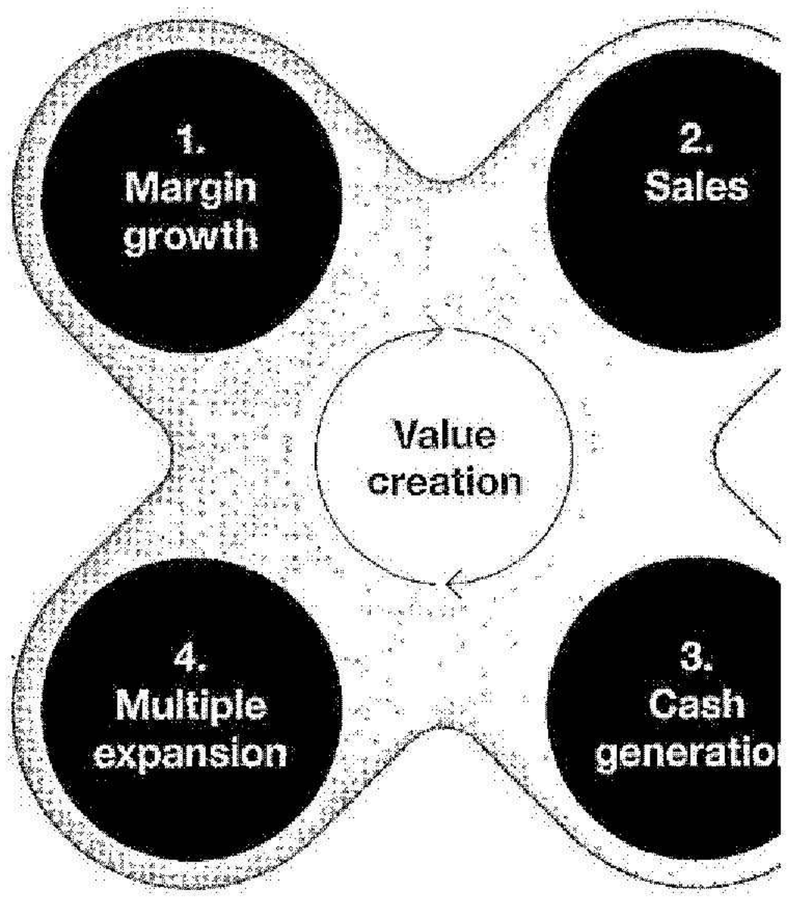
The current team f Melrose in 2003 wi to buying and impr *underperforming* b Since then it has o transactions with a value of over £10 b

Long-term value creation Pages 6 and 7

Long-term value Page 6 and 7

Value creation

Value creation model



Businesses under improvement

Aerospace

Rea Page 1

Automotive

Rea Page 1

Powder Metallurgy

Rea Page 2

Other Industrial

Rea Page 2

Outputs

Shareholder investment and gain
(figures up to 31 December 2021):

Average return on equity across all businesses sold.

2.5x

Cash return to sha since establishme

£5.5bn

07/12/2021 202049

‹ record

Operational efficiency	Effective governance
Our businesses benefit from substantial investment and changed management focus in order to drive growth. Melrose increased the operating margins of businesses sold by between five and nine percentage points.	The Board maintains high standards of corporate governance to ensure that Melrose achieves success for the benefit of the businesses we manage and our shareholders over the long term.

nerated
ıcial returns
ders,
erage return
ıx across the
d to date and
5.5 billion of
olders.

ack record

Long-term value creation Page 6 and 7

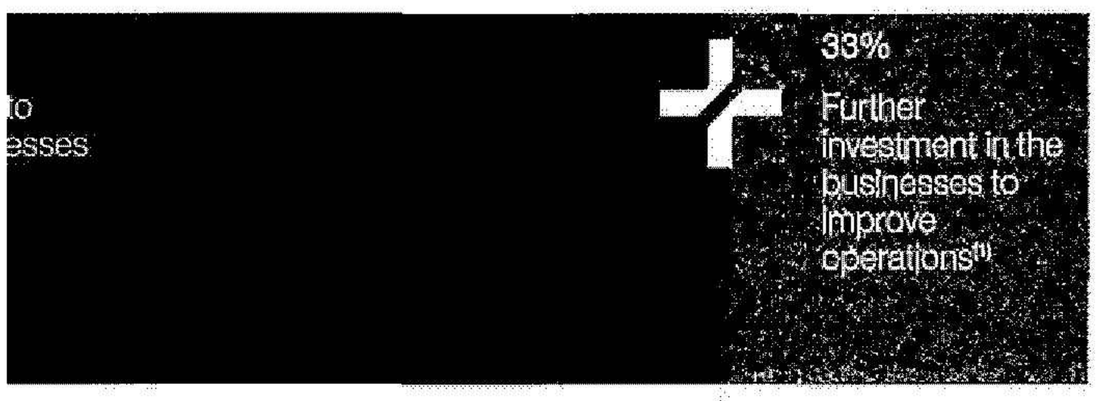
Governance report Page 78

ılrose created value?[1]

owth	Good but underperforming manufacturing businesses whose potential is unrealised.
	Strong track record suggesting growth at least in line with their market.
eration	A key focus is to make significant improvement to cash flows in the businesses we acquire.
xpansion	Multiple expansion is never assumed, but has been achieved on all previous deals (on average +30%) as the businesses have been improved.

e McKechnie,
ınd Elster acquisitions

ıvestment during Melrose ownership for businesses sold



lo
esses

e McKechnie, Dynacast,
Nortek acquisitions

nt

rch and development
er and GKN acquisitions.

on

Spent on climate-related research and development in the last two years.

£300m

Sustainability

The Melrose "Buy, Improve, Sell" model necessarily means that we inherit businesses that are underperforming in a number of different areas, including from a sustainability perspective.

The manufacturing businesses that we acquire often operate in industries that are some of the most difficult to decarbonise. By the very nature of our model, (a) we provide the focus and investment that our businesses need to deliver significant financial returns and sustainability improvements; and (b) our Group sustainability performance and ratings will fluctuate during our investment cycle as we acquire new businesses in need of improvement, and sell businesses that we have improved.

Implementing Melrose Sustainability principles – our decentralised approach

We encourage, support and invest in our businesses to implement the following Melrose Sustainability principles and contribute to a sustainable future for the benefit of our stakeholders, as further detailed in our Sustainability report on pages 54 to 77.

i. Respect and protect the environment.

ii. Continue to invest in and support our businesses as they develop products and services aligned with a net zero future.

iii. Promote diversity, prioritise and nurture the wellbeing and skills development of employees, and support the communities that we are part of.

iv. Exercise robust governance, risk management and compliance.

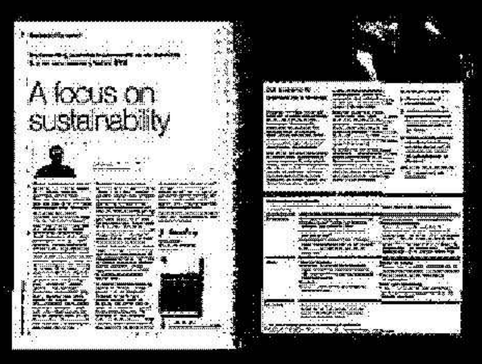
We invest in our businesses to bolster their research and development capabilities, to enable them to make products that are more sustainable and safer, with a focus on helping their customers and their wider industries to transition to a net zero economy by 2050. We encourage our businesses to champion the interests, safety and skills development of their employees. We implement secure pension scheme funding, operational and financial best practice, and lead in promoting diversity. We instil strong ethical values supported by high governance standards, through our Melrose Code of Ethics and Group policies, together with training and internal controls, supported by renewed management and governance structures.

We set meaningful Group sustainability targets, alongside financial metrics, and we provide the strategic investment to achieve them.

Sustained, positive sustainability performance

The success of our "Buy, Improve, Sell" model relies on building better businesses that are positioned to prosper over the longer-term. The sustainability improvements that we promote and encourage among our businesses benefit from our long-term view, and are underpinned by our focus on conducting business with the highest standards of integrity, honesty and transparency.

By implementing a stronger culture of operational and financial improvement, we rebuild our businesses' resources and capabilities, and enable them to pursue commercially attuned sustainability improvement initiatives.



Sustainability report Pages 54 to 77

Shareholder value creation

Melrose has delivered significant returns to shareholders since floating on AIM in 2

Since making its first acquisition in 2005, Melrose has achieved an average annuali return on equity investment of 19%, with an increase in operating margins of betwe five and nine percentage points across businesses sold to date. We have also addr chronic underfunding in pension schemes we have inherited, securing the future fc scheme members.

Shareholder investment and gain (figures up to 31 December 2021)

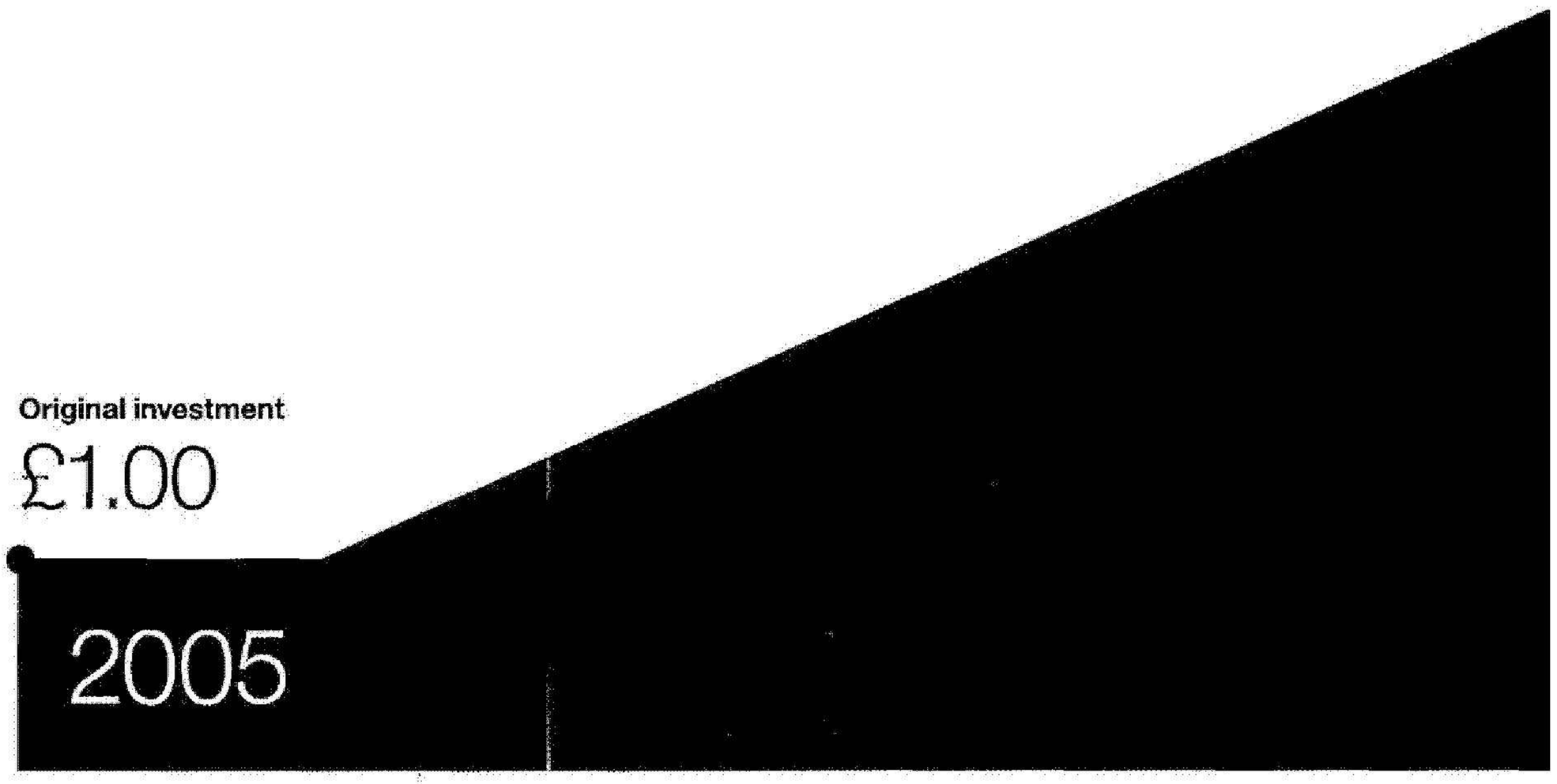
£5.5bn
Cash return to shareholders since establishment

2.5x
Average return on equity across all businesses sold

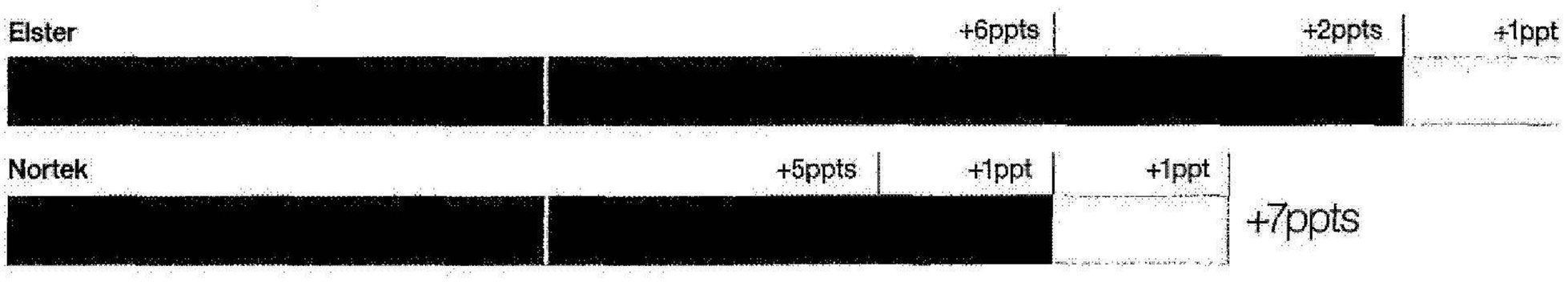
19%
Average annual return or investment since the first

Track record for £1 invested in Melrose — As at 31 December 2021

Investment in May 2005 with all dividends reinvested since (Total shareholder return)[1]

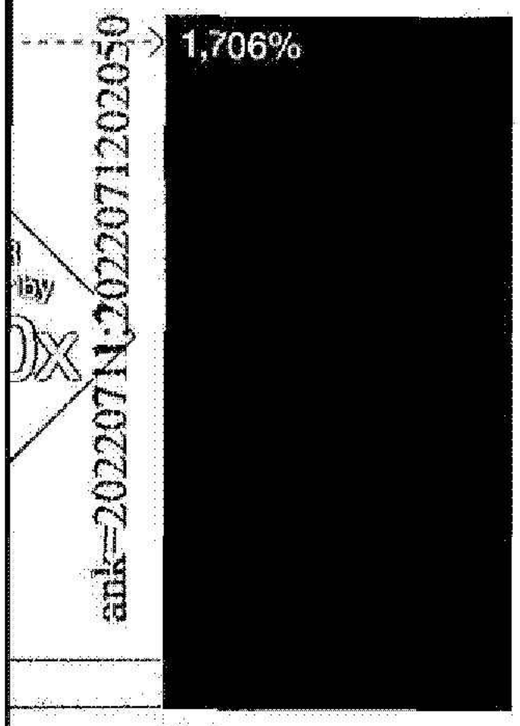


How Elster and Nortek operating margin improved[3]



(1) Source: Datastream Total Shareholder Return Index.
(2) Since Melrose's first acquisition (May 2005).
(3) Nortek adjusted operating margin up to 31 December 2021.

eholder return (TSR)[1][2]



Gross return

£18.06

on original £1 investment

021

capex and restructuring
ommercial actions.
t savings.
nargin sales channels.

Responsible approach to investing

Substantial improvements for all UK pension schemes under ownership

Responsible stewardship (figures up to 31 December 2021)

£1 in every £3

The GKN UK pension schemes are now in surplus helped by £1 in every £3 of free cash flow[1] since acquisition being paid into the Group's pensions schemes, thereby freeing up more free cash flow[1] in the future.

- GKN UK schemes now in accounting surplus of £172 million[2], equivalent funding surplus of c.£100 million.
- The Group's gross pension plan liabilities have reduced by 25% during the year, including £379 million of gross liabilities transferred with businesses disposed and £368 million following a successful buyout of the pensioners of the GKN UK 2016 scheme.

Schemes for current businesses

The Melrose funding commitment made on acquisition of GKN has been fulfilled ahead of time. Ongoing annual payments are halved to £30 million and no funding requirement from future disposal proceeds.

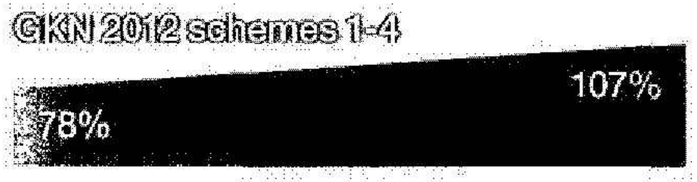
Acquisition commitment	Significantly increased contributions in Melrose ownership	Improved investment strategy and other	At 31 December 2021
Up to £1 billion	→ £0.35 billion	→ £0.75 billion	→ £0.1 billion surplus

For the GKN schemes, we were proactive, transparent and constructive in agreeing commitments with pension trustees during the acquisition of GKN. We committed to providing up to £1 billion of funding contributions; to doubling annual contributions to £60 million; to making £150 million upfront contributions and to further contributions on sales of businesses.

So far we have:

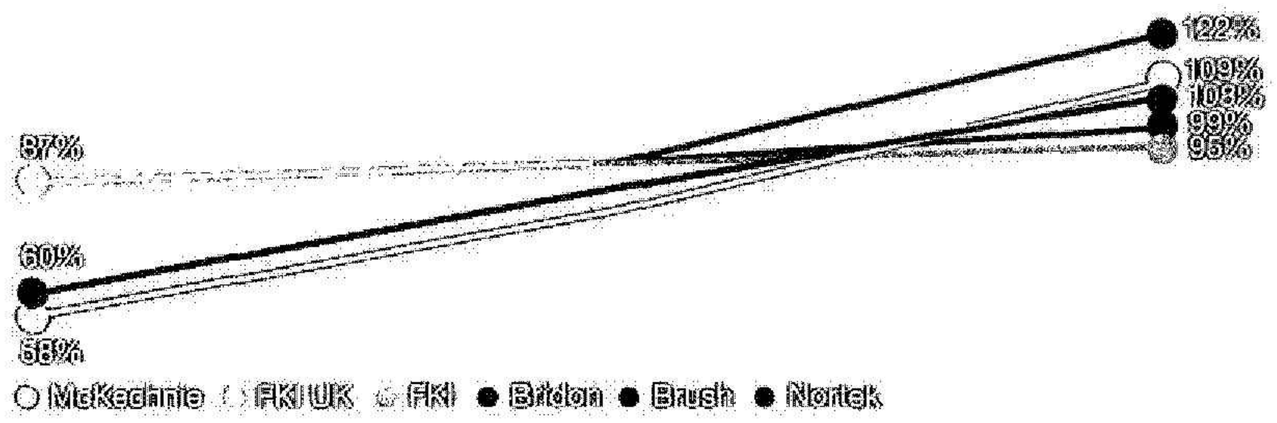
- Eliminated the GKN UK defined benefit pension scheme accounting deficit.
- Applied more secure funding targets of Gilts +25 basis points (GKN 2016) and Gilts +75 basis points (GKN 2012 schemes 1-4) to achieve more prudent funding targets.
- Rebalanced the GKN schemes across the GKN divisions, to avoid overburdening any one business and to provide stability and better security for members.
- Having funded the GKN 2016 scheme to 115%, we arranged a buyout with an appropriate insurer that secures the futures of over 8,000 pensioners' member benefits.

GKN 2012 schemes 1-4



Schemes for businesses sold

Whilst under Melrose ownership, we improve contributions and provide better security to our businesses' pension schemes towards fully funded upon departure from the Group.



Promoting strong sustainability principles

Our Sustainability report (see pages 54 to 77) highlights the investment, support and encouragement we provide to our businesses, and the Group sustainable targets we have set, to enable and drive them to pursue relevant improvements in relation to environmental, social and governance ("ESG") matters. We are publishing alongside this Annual Report a standalone Sustainability Report to provide a full overview.

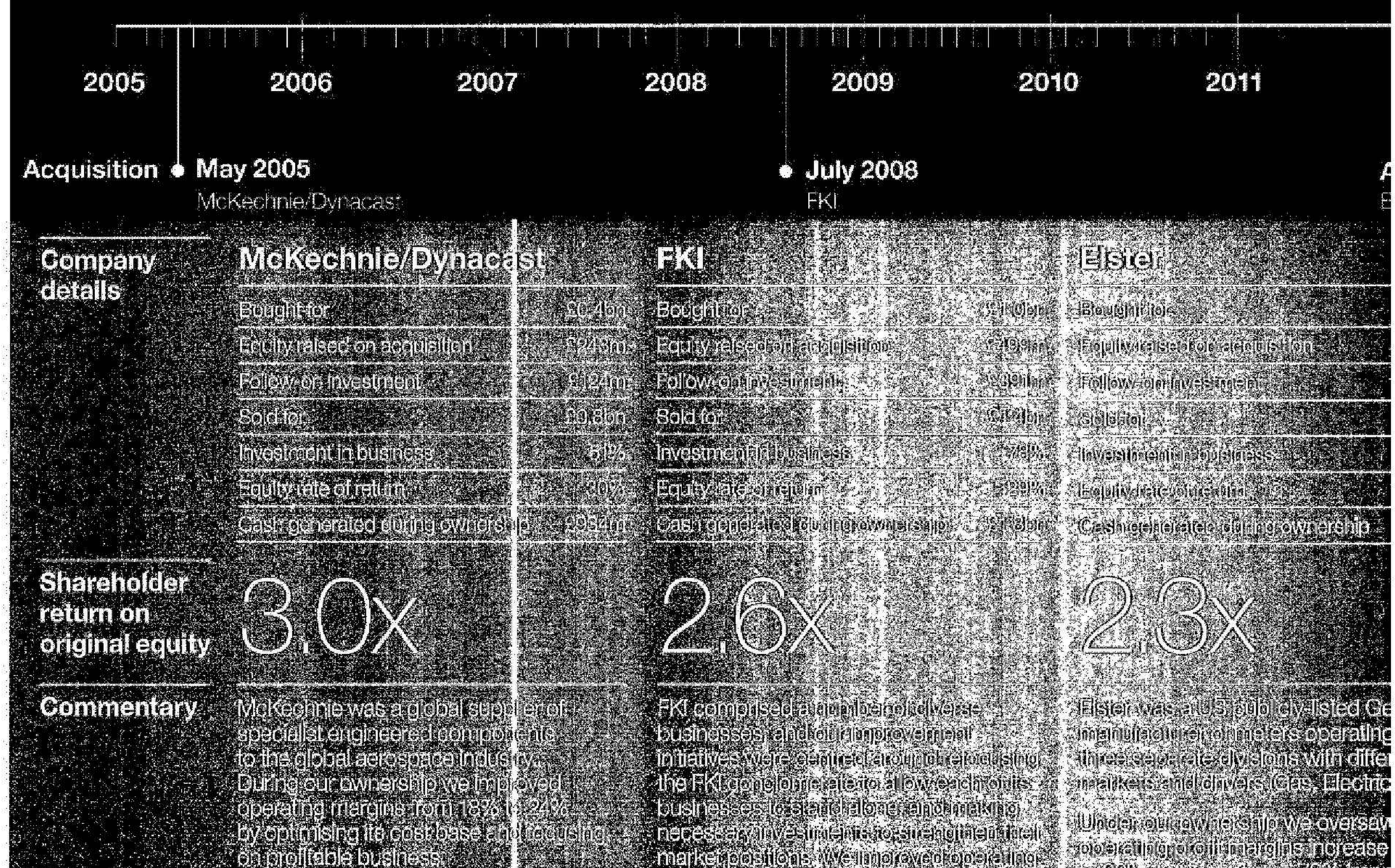
c.£1.2bn spent on research and development for Nortek, Elster and GKN acquisitions, of which over **£300m** has been spent on climate-related research and development in the last two years.

(1) Described in the glossary to the financial statements on pages 209 to 210.
(2) Includes a surplus of £179 million relating to the GKN UK Group Pension Schemes (numbers 1-4) and a deficit of £7 million relating to the GKN UK Post Employment Medical Scheme.

"Buy, Improve, Sell" – A history of success

July 2007
Returned to shareholders following the disposal of McKechnie Aerospace
£220m

August 2011
Returned to shareholders following the disposal of Dynacast
£373m

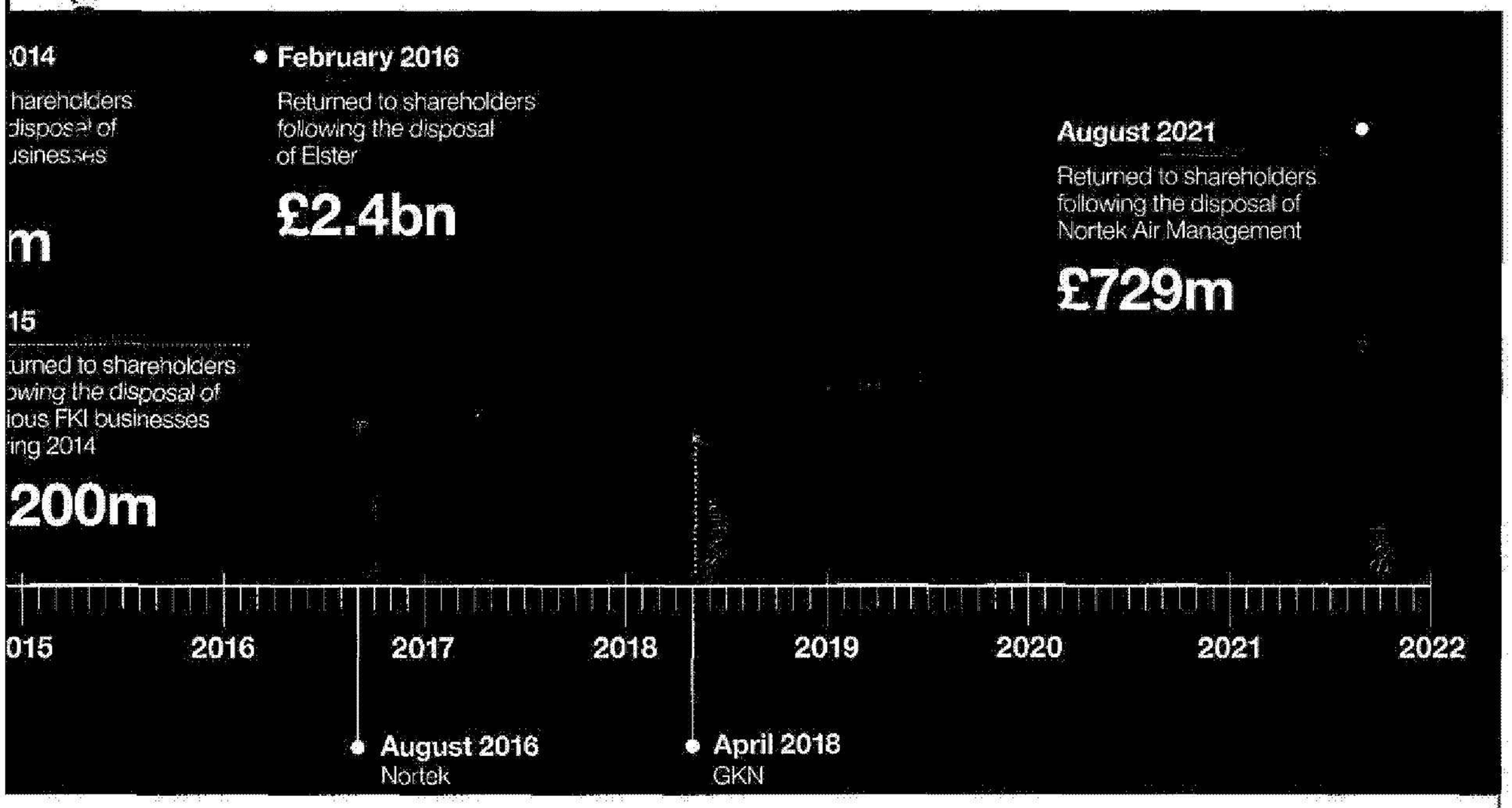


Company details	McKechnie/Dynacast	FKI	Elster
Bought for	£0.4bn	Bought for	£1.0bn
Equity raised on acquisition	£243m	Equity raised on acquisition	£419m
Follow on investment	£124m	Follow on investment	£38m
Sold for	£0.8bn	Sold for	£1.4bn
Investment in business	5.1y	Investment in business	4.8y
Equity rate of return	40%	Equity rate of return	25%
Cash generated during ownership	£954m	Cash generated during ownership	£1.8bn
Shareholder return on original equity	**3.0x**	**2.6x**	**2.3x**
Commentary	McKechnie was a global supplier of specialist engineered components to the global aerospace industry. During our ownership we improved operating margins from 16% to 24% by optimising its cost base and focusing on profitable business. Dynacast was a global provider of precision die cast components for a wide variety of industries. During our ownership we improved operating margins from 11% to 16% by successfully aligning capacity with customers and installing a success driven organisational culture. Overall we generated over £700m of net cash proceeds from the businesses versus an equity investment of approximately £240 million, resulting in a return of 3.0x on shareholders' investment. This includes direct returns to shareholders after disposals of £220 million in 2007 and £373 million in 2011.	FKI comprised a number of diverse businesses and our improvement initiatives were centred around refocusing the FKI operating model to allow each of its businesses to stand alone and making necessary investments to strengthen their market positions. We improved operating margins from 10% to 15% during our ownership and have since sold all of the businesses. Overall we generated over £1.3bn of net cash proceeds from the businesses versus an equity investment of approximately £500 million, resulting in a return of 2.6x on shareholders' investment. This includes direct returns to shareholders after disposals of £595 million in 2014 and £200 million in 2015.	Elster was a US publicly listed Ge manufacturer of meters operating three separate divisions with differ markets and drivers (Gas, Electric Under our ownership we oversaw operating profit margins increase to 22%, representing a 7.9% impr in just three years. This was achie focusing each business on perfor and market, customers and ope We significantly expanded on an optimisation programme announ by Elster before our acquisition an significantly exceeded expectatio Overall we generated over £2.5b cash proceeds from Elster versus investment of approximately £1.2 resulting in a return of 2.3x on sha investment. This includes direct re shareholders after disposal of a businesses to Honeywell for £3.3 in 2015.

continues to build on its track record of increasing ising the value in its ses and returning the s to its shareholders.

Adjusted[1] operating margin improvement

Company	Entry	Exit	Improvement	
McKechnie	18%	24%	>30%	+6ppts
Elster	13%	22%	>70%	+9ppts
Dynacast	11%	16%	>40%	+5ppts
FKI	10%	15%	>50%	+5ppts
Nortek	9%	16%	>70%	+7ppts



	£2.2bn
n acquisition	£1.6bn
tment[2]	£0.35bn
	£3.1bn
usinesses	22%
turn	19%
luding ownership	£0.8bn

GKN

Bought for	£8.3bn
Equity raised on acquisition	£6.8bn
Follow-on investment[3]	£2.2bn
Investment[4] as % of initial equity	32%
Cash generated during ownership	£0.8bn

ution, Nortek was a global up, manufacturing innovative nit, security, home automation c and productivity solutions. fragmented operations and d underperformance, we identified ful-class product ranges and that were underperforming but which through further uld become well placed targeting market needs.

e ownership, we almost ting profit margins from ils was achieved by each ongoing a significant , freed from the restrictions centralised group structure, by material, targeted research and development, ity improvements.

We converted Nortek Control into a technology business through a mix of organic and acquisition actions, while we refocused and completely revitalised the product portfolio of Broan Nutone that reawakened a sleeping giant previously drifting into decline. Most notably, we were instrumental in Nortek Air Management developing and commercialising the revolutionary Statepoint Liquid Cooling technology, capable of delivering 90% water and 30% energy savings for cooling systems servicing the booming data centre market, it quickly became a clear benchmark for the industry. As a result, Nortek Air Management enjoys an enviable and growing order book and customer list that includes all the key global technology companies.

During the year we sold Nortek Air Management and Nortek Control, and with Ergotron the only remaining business within the Group from the Nortek acquisition, we remain on the path to doubling shareholders' investment.

GKN, upon our acquisition, was a multinational group of businesses making predominantly aerospace and automotive components. Upon taking control we immediately set about decentralising the businesses, and refocusing them on profitable sales rather than solely on growth. The GKN businesses now make up three distinct divisions within Melrose: Aerospace, Automotive and Powder Metallurgy. Against the backdrop of the ongoing market recovery, with existing improvement projects largely complete for Automotive and Powder Metallurgy and well progressed for Aerospace, there is strong belief in significant further profit improvement as they deliver their stated operating margin targets. We are therefore in good shape to deliver strong returns and realise shareholder value.

See pages 12 to 29 to find out more about our progress in improving the GKN businesses so far, and our plans for 2022.

lossary to the financial statements on pages 208 to 210.
mber 2021.
value for businesses not yet sold.

(3) Up to 31 December 2021.

Justin Dowley
Non-executive Chairman

2021 — A year in review

Melrose is trading ahead of expectations, with better profit margins, better earnings per share and significantly lower net debt – building the Group's encouraging momentum

Calendar year 2021

Melrose performed well in 2021. Despite COVID-19 and well-publicised industry supply chain issues, sales for the Group grew by 2% year-on-year at constant currency[1]; and the benefits from improvement actions are increasingly evident in these results, which are ahead of expectations. The statutory revenue for the Melrose Group was £6,883 million (2020: £7,132 million), with adjusted[2] operating profit increasing to £375 million (2020: £141 million), which is triple prior year at constant currency[1], and is based on a statutory operating loss of £451 million (2020: £487 million).

All businesses have returned to growth and seen an increase in sales towards the end of the year, with GKN Aerospace up 18% in the second half year-on-year and GKN Automotive sales up 12% from the third quarter to the fourth. In tandem, improvement actions have increased adjusted operating profit margins at GKN Aerospace by 4 percentage points, while more than doubling those at GKN Automotive and GKN Powder Metallurgy, with plenty more to come as the recovery continues and the full benefits of current and completed projects are delivered.

We have enjoyed another year of good cash performance across the Group, while continuing to invest heavily in sustainable technology and restructuring improvements. We achieved strong free cash flow[2] generation, which has been a feature throughout our ownership of the GKN businesses. Along with disposal proceeds, it has enabled us to repay all of the £3.4 billion of net debt[2] drawn to fund the GKN acquisition. Thus year-end net debt is broadly equivalent to the money refunded to shareholders via dividend and the recent return of capital. We have reduced net debt to below £1 billion, which has resulted in a very comfortable level of leverage equal to 1.3x adjusted EBITDA[2], significantly below the Group's long-term average.

Further details of these results are contained in the Chief Executive's review and Finance Director's review and I would like to thank all employees for their efforts this year.

M&A

It was a busy year from a transac perspective as well. We sold app a fifth of the Group, including Bru piece of the FKI acquisition whicl great contributor to the Melrose t achieving 2.6 times shareholders' We also sold three of the four bus from the Nortek acquisition in 20 us firmly on the path to double sh investment again. In each case, t businesses were sold to good ho are already building on the impro achieved under our ownership.

Pensions

Melrose is also rightly proud of its record in addressing pensions ch in the businesses we buy and GK been no different. We have delive commitments to trustees early, o a large pension deficit we inherite £1 billion to bring the UK scheme fully funded this year. This has be despite the challenges of COVID- without detracting from our invest the businesses and repayment of

Mindful of our commitment and as to our responsible stewardship, th performance of the businesses ha to invest a third of the free cash flo by the Group into the pension sch our ownership, helping to secure t pension scheme members and im position of our shareholders. Giver nature of these schemes this natur more cash flow in the future.

Dividend

The Board is pleased to be able t to its progressive policy by propo dividend for 2021 of 1 pence per 0.75 pence). Combined with the 2 dividend of 0.75 pence per share, represents a total dividend for the of 1.75 pence per share (2020: 0.

(1) Adjusted results for the year ended 2020 at a constant currency showing adjusted revenue of £7,351 million and adjusted operating profit of £122 million.
(2) Described in the glossary to the financial statements on pages 203 to 210.

ve realised gains for shareholders by doubling the value of and significantly outperforming all Group cash generation , which has de-risked the route to value realisation from GKN.

ve transformed the GKN businesses to increase their full al including investing in sustainable technology and properly their pension schemes. With the benefits of significant turing increasingly coming through, combined with the strong eneration, Melrose is positioned to create, and realise, ant value for shareholders."

dend will be paid on 20 May e shareholders on the register 22, subject to approval at eneral Meeting ("AGM") 22.

capital

e Brush and Nortek sales, we £729 million return of capital ers in September last year. We the time that, due to lingering n the market, we had been in determining the amount of order to ensure a strong balance event of further volatility.

ate at that time that should these nprove sufficiently, we would e a second return of capital this ance our capital structure more traditional Melrose approach. der markets still remain below ndemic levels, there is a visible very. We have enjoyed a strong during the year, with a balance sheet, reset cost bases ne businesses and another flow performance that further rage, even with fully funding the structuring and improvement king the UK pension scheme rplus.

ne Melrose model, to return m disposals to shareholders, vould have made a second to rebase our capital structure ese results. However, the very agic events unfolding in Ukraine, ck on effects for the world at this stage are uncertain and le, have led the Board to keep the return under review at present. ecognises that this is a very position and hopes that the be resolved as quickly as which case the intention would he return without further delay.

Board matters

In keeping with the Board's succession planning, co-founder and Executive Vice-Chairman David Roper and Non-executive Director Archie Kane retired last year and we welcomed to the Board Heather Lawrence and Victoria Jarman. This year, Liz Hewitt will reach the end of her tenure with us and retire from the Board at the close of the AGM in May.

Liz has been a valued member of the Board and all Board committees at various stages during her time with Melrose, most importantly serving as chairman of the Audit Committee for the past five years, as well as holding the position of Senior Independent Director for much of that time, which will be taken up by David Lis on her departure. It has been a period of success and change for the Company and we are very grateful for her tireless efforts. We will miss her and wish her all the best for her continuing roles elsewhere.

Purpose, strategy and sustainability

Melrose was founded in 2003 to empower businesses to unlock their full potential for the collective benefit of stakeholders, whilst providing shareholders with a superior return on their investment. This has been delivered through Melrose's "Buy, Improve, Sell" strategy, which means we buy good quality manufacturing businesses that are underperforming their potential and then invest heavily to improve performance and productivity as they become stronger, better businesses under our stewardship. At the appropriate time, we then find them good owners for the next stage of their development and return the proceeds to shareholders.

Sustainability has always been an important part of this improvement strategy and Melrose has welcomed the increased focus it has received in recent years as an opportunity to demonstrate its commitment as an active participant across a range of key areas. The Melrose centre is small with a tiny carbon footprint, which we nonetheless fully offset. The primary focus is on our businesses under our decentralised model.

This year, we have published our targets aligned to our materiality analysis, including short, medium and long-term objectives for the reduction of greenhouse gas emissions, transition to renewable electricity and reduction in waste that will help drive a transformation in the sustainability of their own production.

We also recognise the place of our businesses in the wider economy. Our strategy means we inherit underperforming businesses. We provide the focus and investment which enables our businesses to be active participants in addressing these issues, whether it be through GKN Automotive's position at the heart of the electric vehicle transition, or investing in the establishment of the hydrogen economy through the UK hydrogen production start up HiiROC and the hydrogen storage business GKN Hydrogen. GKN Aerospace is at the forefront of the development of technologies to achieve zero emissions aviation with projects like the hydrogen propulsion system H2GEAR, or electric aircraft currently in testing phases like Eviation Alice, Joby and Vertical.

Melrose sees this as a key part of improving a business during our ownership and environmental, social and governance ("ESG") priorities are an important part of our "Buy, Improve, Sell" strategy. We see no reason why these improvements cannot be implemented whilst improving returns for our shareholders. It is a journey and there remains plenty of improvement for us to deliver, but it has been nonetheless pleasing to see our improvement to date being recognised by several of the key benchmarking agencies, including MSCI who have given us an "A" rating and Sustainalytics who have placed us in the top quartile of our peers. This year we are publishing our inaugural standalone Sustainability Report alongside our Annual Report and I refer you to that for further details.

J Dowley

Justin Dowley
Non-executive Chairman
3 March 2022

Chief Executive's review

Simon Peckham
Chief Executive

Against the backdrop of continued turbulence in connection with the global pandemic, 2021 provided the opportunity to demonstrate the strength of the Melrose "Buy, Improve, Sell" model.

Over the course of the year, we sold approximately 20% of the Group. Having overseen the complete reshaping of Brush, the power generation and distribution business, we sold it to a good home for the next stage of its development. It was the last business held from the FKI acquisition and its sale caps a successful acquisition for shareholders, who enjoyed a 2.6 times return on their original FKI investment.

Except for Ergotron, all the businesses from the Nortek acquisition were also sold during the year, putting the Company on track to double shareholders' investment in that acquisition. Under our ownership, operating margins of these businesses were approximately doubled while we invested heavily in their transformation.

We converted Nortek Control into a technology business through a mix of organic and acquisition actions, while we refocused and completely revitalised the product portfolio of Broan Nutone that reawakened a sleeping giant previously drifting into decline. Most notably, we were instrumental in Nortek Air Management developing and commercialising the revolutionary Statepoint Liquid Cooling technology, capable of delivering 90% water and 30% energy savings for cooling systems servicing the booming data centre market, it quickly became a clear benchmark for the industry. As a result, Nortek Air Management enjoys an enviable and growing order book and customer list that includes all the key global technology companies.

These are examples of the strong targeted investments we make in businesses under our ownership during the "Improve" phase. We are well progressed in this phase for the GKN businesses with restructuring spend during 2021 of over £190 million in addition to investing £200 million in research and development in the businesses and bringing the GKN UK pension schemes to be fully funded. Critical to this rate of investment has been that each of the GKN businesses has been cash generative throughout our ownership and again this year, with cash conversion equal to 110%[1]. This has enabled us to repay all the debt drawn down as part of the GKN acquisition, net of the amount used to fund dividends and last year's return of capital to shareholders.

This is a fantastic result achieved largely in a severe global downturn and shows the outperformance achievable under the Melrose model as we move to realise the potential of the GKN businesses.

For GKN Automotive and GKN Pc Metallurgy, a healthy initial market from the pandemic in the first qua was soon overtaken by the impac shortage of semiconductors on th automotive sector. Although dema indicators remained strong throug supply constraints hampered proc until beginning to ease very late in supply constraints continue to eas sales growth in coming years to si meet pent-up demand and suppc they rebuild their inventory levels.

Despite these market challenges, Automotive business wins and G Metallurgy sales volumes for the increased ahead of the market gr 3.4%. In GKN Powder Metallurgy was by more than double as they their market share. Alongside this both businesses more than doub as volumes began to return on a reduced cost base, which include initial benefits from major rationali There is still plenty of margin impr come for both businesses as mai continues and the full benefit of re projects flow through to results o course of the coming year. The in rising global inflation is also being managed through pricing, procur productivity, and we remain confi achieving our margin targets as s constraints ease.

GKN Automotive is also seeing m from the accelerating transition tc vehicles, and is converting its dec long experience in the sector into wins on e-Drive platforms for both solutions and core sideshaft proc electric vehicles. It was a busy ye production launches and include award of the first fully outsourced system for a major German manu

(1) Before capital expenditure and restructuring costs.

a fantastic result achieved largely in a severe
downturn and shows the outperformance
able under the Melrose model as we move to
the potential of the GKN businesses."

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hina, GKN Automotive is now a
seven of the top ten global electric
orms[1] and has an order book
ning the market in the shift to
cles. This was part of
ly £5 billion in life of programme
ecured, of which over a third are
ery electric vehicles, representing
the business. This demonstrates
utomotive is both gaining market
eeping pace with the faster than
ctric vehicle transition.

ed in its Capital Markets Day
l Powder Metallurgy has largely
s restructuring projects and has
hydrogen storage business, to
focus on its core powder, sinter
businesses. This has enabled
on its electric vehicle transition
ich is well on the way to
has exited some low margin
s and is developing a number
opportunities for e-motors and
nology for electric vehicles. In
additive manufacturing business
grow and explore opportunities
ponent production.

rospace, the continued pandemic
l restrictions held back the pace
t recovery. This started to ease
ack half of the year, having a
act on sales which grew 18%
in the second half. Alongside
the business into Civil, Engines
segments, GKN Aerospace has
ancing of its market exposure
single aisle aircraft segment,
ccounts for 39% of Civil sales
gment of the aerospace sector
g the recovery. Engines continues
enefit of exceptionally strong
lows from its key platforms.

let the extended market volatility
l Aerospace from making further
its improvement plans and it has
strong year of cash generation,
conversion rate of 124%[2].

All major restructuring projects from our acquisition plan are now underway, with a refreshed executive team driving hard to deliver the stated 12% operating margin target. While the full run rate benefits are not expected until 2023 or beyond, the business has already achieved an increase of 4 percentage points in operating margins for the year on flat sales.

Looking more broadly across the Group, we have successfully reduced working capital, which now sits at 3% of sales for the GKN businesses, compared to 5% at the time of acquisition. There remains more improvement available, particularly in GKN Aerospace. We continue to invest heavily in technology, with a particular focus on sustainability. GKN Aerospace's network of Global Technology Centres is key to this, with significant success in the development of decarbonising technology like the H2GEAR hydrogen propulsion system and the creation of the first prototype of emission free aircraft such as the Eviation Alice.

Ergotron had another good year, with sales growth of 15% and a return to premium levels of operating margins of 25%. Finally, GKN Powder Metallurgy's hydrogen storage business was spun off as a standalone business in the Group, in order to maximise its potential within the emerging hydrogen economy.

Outlook

GKN Automotive and GKN Powder Metallurgy are both well progressed in their Melrose improvement plans and saw the start of some recovery momentum in the final quarter of 2021, close to that seen in the first half. Early signs in the new year show this recovery continuing, and as the constraints of the semiconductor shortage ease further, focus will start to move towards realisation of this value. The aviation market continues to navigate pandemic travel restrictions with our businesses expecting growth for the coming year albeit still below pre-pandemic levels.

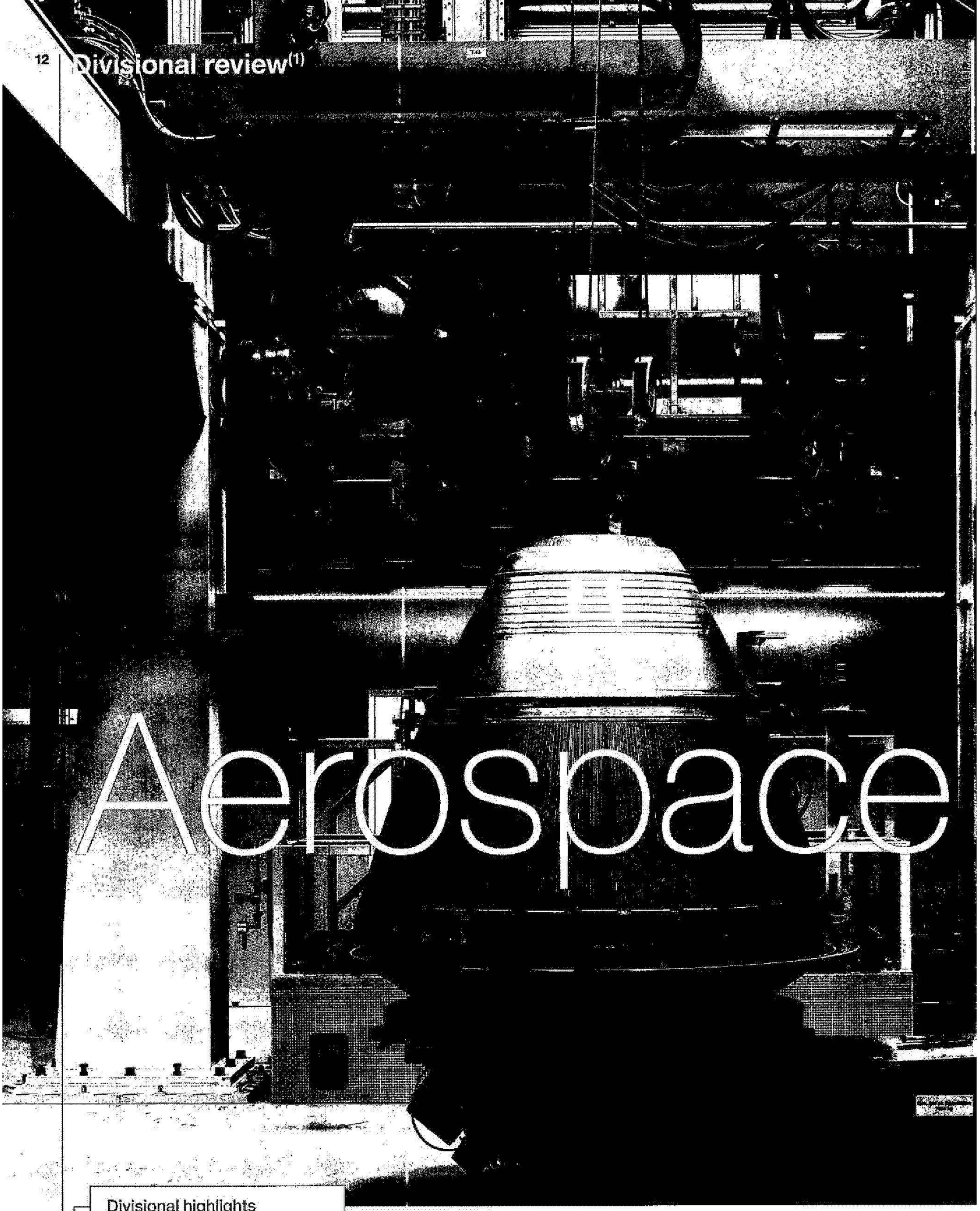
There is a heavy focus on improvement in GKN Aerospace in 2022 and we are confident this will position the business for a strong future, which we will elaborate on more fully at a Capital Markets Day to be held on 8 June 2022.

For all businesses, the impact of rising global inflation is a key focus for the year and our management teams remain very focused on ensuring inflation does not affect our businesses' performance, albeit with a potential time lag this year. We are mindful of the very recent events in Ukraine, which our businesses are being proactive in addressing to ensure minimal disruption. Against the backdrop of the ongoing market recovery, with existing improvement projects largely complete for GKN Automotive and GKN Powder Metallurgy and well progressed for GKN Aerospace, there is strong belief in significant further profit improvement as they deliver their stated operating margin targets. We are therefore in good shape to deliver strong returns and realise shareholder value.

Further details of the trading performance of the businesses are contained in the following Divisional reviews.

Simon Peckham
Chief Executive
3 March 2022

electrified vehicle platforms refers to full hybrid or battery electric propulsion systems.
expenditure and restructuring costs.



Aerospace

Divisional highlights

GKN Aerospace has seen adjusted[2] operating margins improve by 4 percentage points and growth return with sales in the second half of 2021 up 18%[3] on 2020. Under new leadership, it has materially advanced the restructuring of its cost base and operations, with all required significant restructuring projects now underway.

The underlying qualities of the GKN Aerospace businesses are being improved including the accelerated development of new sustainable technologies. The Group will also benefit from exceptionally strong long-term future cash flows in Engines. An Aerospace Capital Market Day is to be held on 8 June 2022 to explain its exciting full shareholder value potential.

Strong market positions

- Leading global tier one supplier on major civil and defence platforms.
- Attractive engine portfolio with strong long-term cash flows.

Growth underway

- Civil market recovery underway, led by narrowbody.
- Increasing demand in attractive aftermarket and repair work.

Margins expandi

- All required restruct projects now under
- Adjusted[2] operating 2020: 0.5% → 2 Target 12%[4].

Sustainable tech

- Improving existing fl efficiency.
- Developing next ger of greener aircraft.

(1) All growth metrics are collated at constant currency.
(2) Described in the glossary to the financial statements on pages 203 to 210.
(3) Based on existing businesses at 31 December 2021.
(4) 10% margin target on a partial market recovery and 12% margin target on a recovery to pre-COVID-19 revenue.

GKN AEROSPACE

erospace is a world-leading multi-technology
actrrer of airframe and engine structures and
cal nterconnection systems for the global aerospace
y, across both civil and defence platforms.

ospace.com

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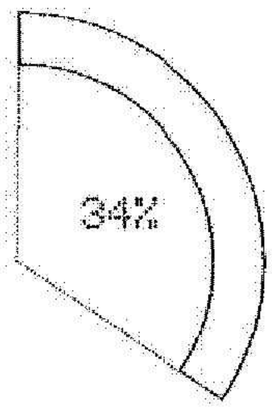
of Melrose[1]



revenue

evenue

operating profit

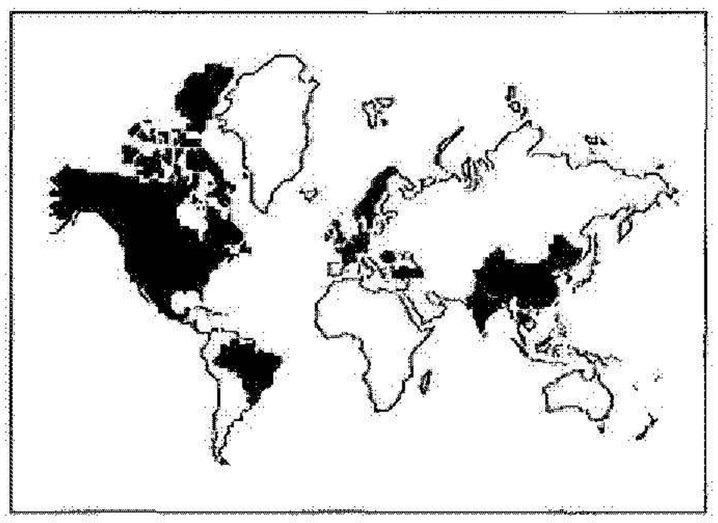
perating loss

With operations in 12 countries, GKN Aerospace is a global leader based on technological innovation, advanced processes and engineering excellence, while its products enable aircraft to fly safely and more efficiently. GKN Aerospace is structured according to its three core customer markets – Civil Airframe, Defence Airframe and Engines. Its technology is used throughout the aerospace industry: from high-use single aisle aircraft and the world's longest haul passenger planes, through to business jets, helicopters, the world's most advanced fighter jets and space launchers.

GKN Aerospace continued to feel the effects of COVID-19 during 2021. While passenger flight hours improved against 2020, global travel restrictions remained prevalent, delaying the recovery of air travel. In total, sales across the Civil Airframe and Civil Engines businesses both made good progress, particularly in the second half which saw an 18% year-on-year increase in GKN Aerospace sales, but remained well below pre-pandemic levels.

Having acted swiftly to reduce its cost base in 2020 in response to COVID-19, GKN Aerospace took further steps to adjust to its new commercial environment at the start of 2021 and improved its profitability, achieving adjusted[2] operating margins of 4.4%.

Operational geographies



4

Global technology centres

12

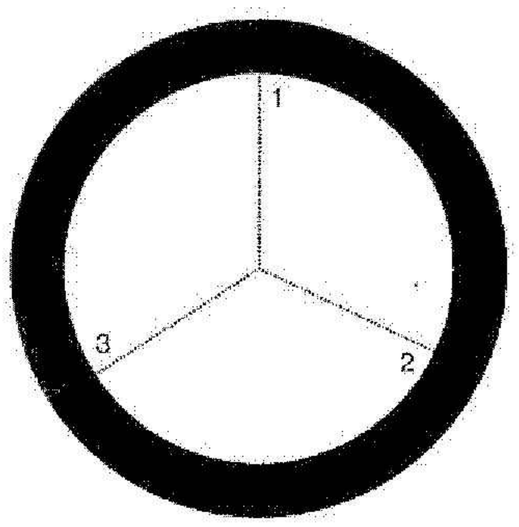
Countries with GKN Aerospace manufacturing locations, serving over 90% of the world's aircraft and engine manufacturers

isted[2] 2021 revenue for continuing businesses.
he glossary to the financial statements on
210.

Divisional review[1]

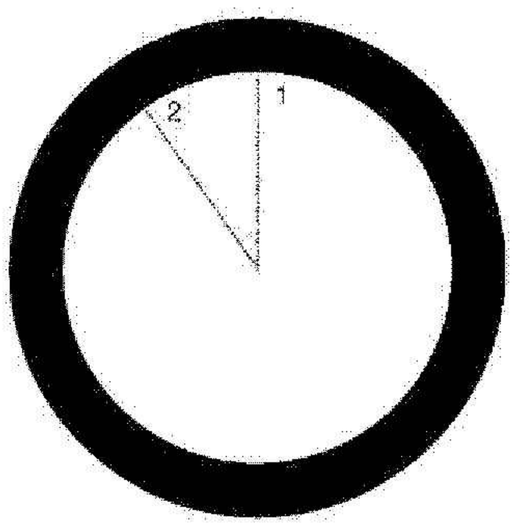
Continued

Revenue by business[2]



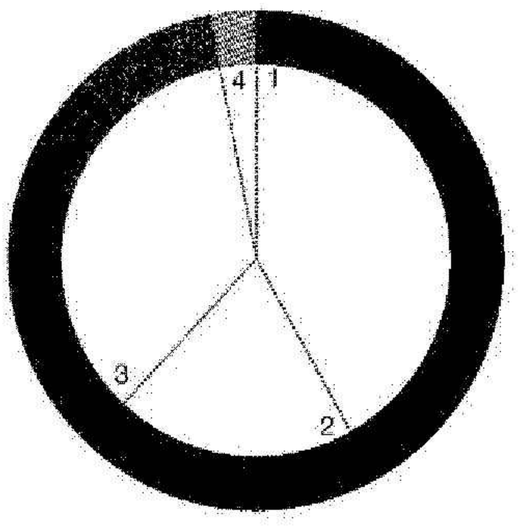
1 Civil[3]	32%
2 Engines	34%
3 Defence[3]	34%

Revenue by source[2]



1 OE	90%
2 Aftermarket	10%

Revenue by production



1 Europe	42%
2 UK	20%
3 North America	35%
4 Asia and rest of world	3%

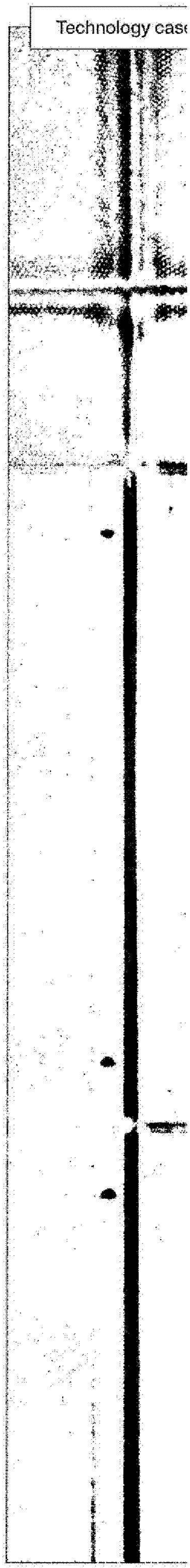
(1) All growth metrics are collated at constant currency.
(2) Based on existing businesses at 31 December 2021.
(3) Civil and Defence relates to the airframes and components businesses.

All major restructuring projects from our acquisition plan are now underway and the margin increase reflects the initial benefits of a number of initiatives in line with its 'One Aerospace' approach, including reducing management layers, increasing its customer focus and simplifying its operating structure as it embedded its global Lean Operating Model, to reduce process variation and improve operational efficiency. This is now showing benefits in quality and delivery performance, with substantial further opportunities ahead.

Supply chain management has been a strong focus, securing savings and delivery improvements, as well as responsiveness to ensure minimal disruption from situations such as the recent events in Ukraine. There has been some further progress on improving working capital efficiency, which has contributed to the strong cash generation during the year, but again plenty more improvement is still to come.

GKN Aerospace also sharpened its focus through a series of global footprint projects. On the Civil side, it divested two non-core businesses in the Netherlands, as well as completing the planned closure of two subscale sites. In Engines, initiatives to consolidate major product families between the two Nordic sites in Sweden and Norway are well advanced, leveraging the expertise of each site and creating advanced Centres of Excellence. Each of these steps simplified and focused GKN Aerospace during 2021, reducing costs and increasing productivity. Further global footprint optimisation projects are now underway and will be delivered in 2022. This includes significant work required to address profitability issues in the US Defence business and we have recently announced the closure of the St Louis, US site. This closure will involve exiting approximately £140 million of sales relating to less profitable contracts by 2023.

Despite challenging markets, GKN Aerospace made progress commercially, securing good awards in Civil Airframes for electrical wiring interconnection systems and complex structures components such as empennage and wings. Market dynamics have helped weight the mix of Civil components further towards the single-aisle aircraft market, which is seeing faster recovery and preparing for a significant increase in production rates. Engines further deepened its exposure to core capabilities with key customers, including additive manufacturing, fan blade repair and composites. Focus has been on higher margin, design to build opportunities and growing its attractive aftermarket business. Engines will also benefit from the exceptionally strong future cash flows generated by its key risk and revenue sharing partnership ("RRSP") platforms.



Advanced Engines technology targets 25% efficiency improvement

GKN Aerospace's world-leading Engines business fulfilled a major milestone in 2021, with the development of a range of brand new technologies to optimise the next generation of aircraft engines. GKN Aerospace successfully delivered a ground-breaking Intermediate Compressor Case ("ICC") to the Rolls-Royce UltraFan™ engine demonstrator programme, which is aiming to achieve a 25% improvement in fuel efficiency over the first generation of Trent engines.

The ICC structure is situated between an engine's compressor cases, and carries the rotor gas loads to the engine casing and thrust mounts. The development, manufacture and testing of GKN Aerospace's latest ICC will demonstrate and validate a range of new technologies, including a low-cost and robust 'sectorised' fabrication concept with castings. This approach makes use of an innovative welding method based on computer simulations and model-based design methods. It also incorporates optimised bleed system aerodynamics and acoustics, as well as shorter duct design and 3D printing of attaching parts.

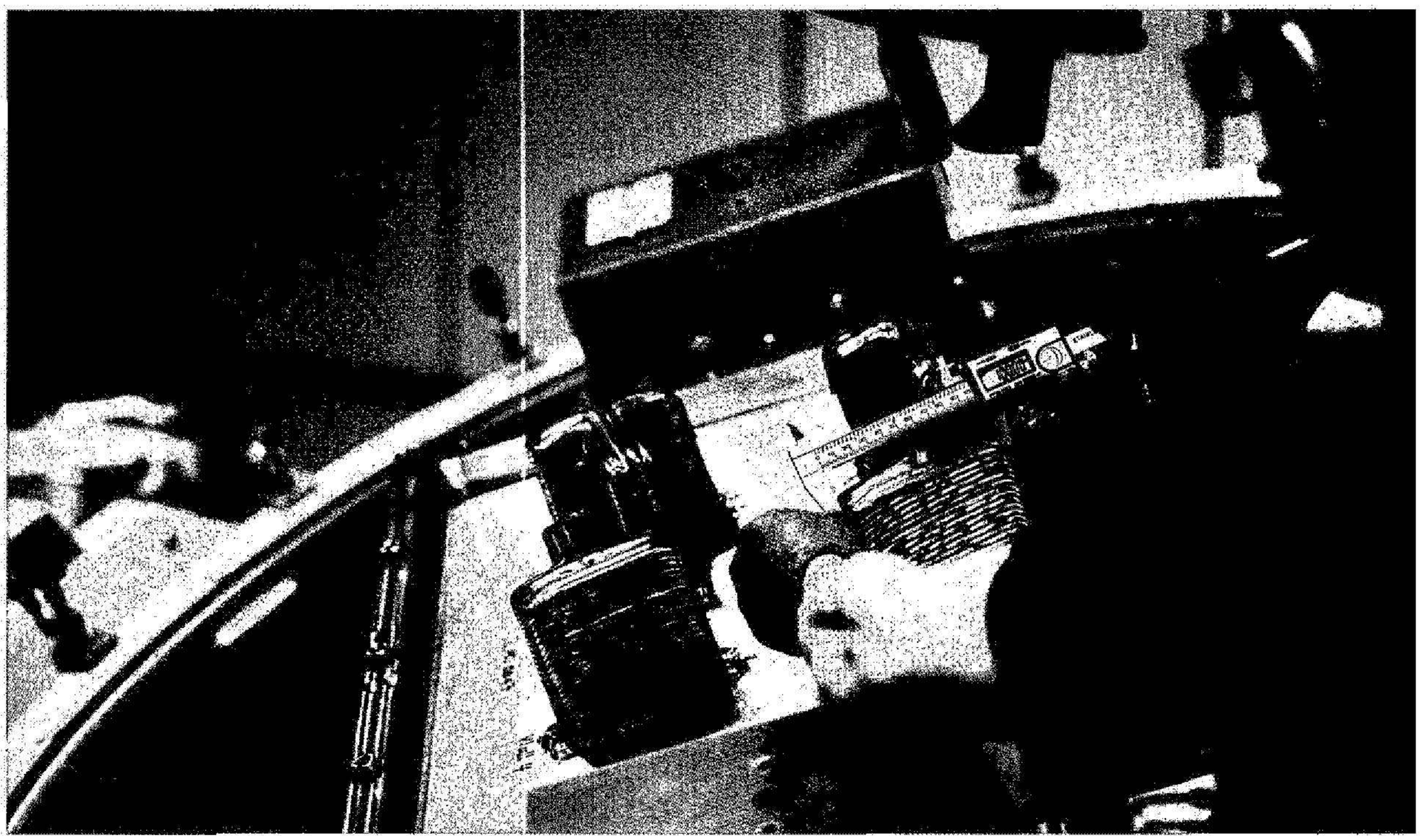
GKN Aerospace's additive manufacturing expertise in electron beam melting has enabled it to efficiently create and incorporate over 15 individual components into the ICC duct design, optimising the ICC's design through cutting-edge manufacturing technologies and methods.

GKN Aerospace is a Rolls-Royce Core Partner in the European Clean Sky 2 programme, with responsibility for design and manufacture of the ICC. UltraFan™ is Rolls-Royce's next generation engine family and features a new engine core architecture and introduces a geared design. The aim is full engine ground test during 2022, with flight-testing to follow.

Clean Sky 2 is the largest European aeronautics research programme, developing innovative, cutting-edge technology aimed at reducing CO_2 emissions and noise levels produced by aircraft. Funded by the EU's Horizon 2020 programme and Europe's aviation industry, Clean Sky 2 contributes to strengthening European aero-industry collaboration, global leadership and competitiveness.

Divisional review(1)

Continued

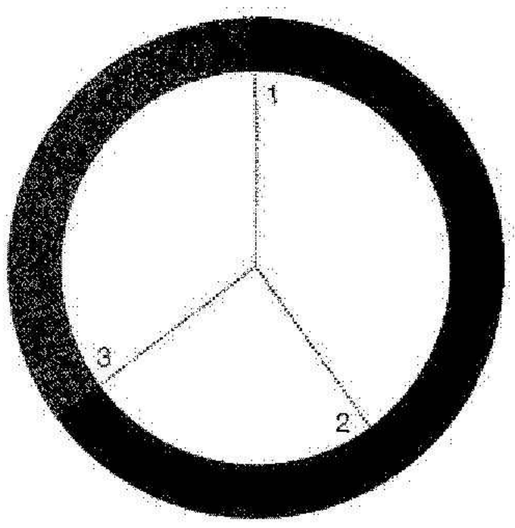


During 2021, GKN Aerospace took a further step forward in its sustainability strategy. Investment was made in technology to support and enable this strategy to both achieve reductions in energy, material and waste in our current factories, as well as enable improvements in efficiency and revolutionary capabilities in next generation aircraft and engine platforms, which will assist the future of zero emission flight. At the forefront of this strategy is a new network of Global Technology Centres ("GTCs"), to develop and demonstrate capability, drive collaboration and accelerate technological breakthroughs in each of its businesses. In 2021 GKN Aerospace opened its £32 million UK GTC in Bristol, as well as its Dutch GTC in Hoogeveen, to complement the Swedish and US hubs that are already established.

GKN Aerospace is now developing the next generation of lighter and more sustainable aerostructures and engine products, as well as lightweight additive manufacturing solutions and future zero-emission propulsion systems. Putting this technology strategy into action, GKN Aerospace established its position at the forefront of four major European propulsion programmes during 2021. Two of these – the £54 million H2GEAR project in the UK and H2JET in Sweden – are groundbreaking hydrogen projects aiming to develop propulsion systems to power aircraft using liquid hydrogen, eliminating carbon dioxide emissions.

(1) All growth metrics are collated at constant currency.

Civil airframes and components



1 Narrowbody	39%
2 Widebody	24%
3 Regional	37%

Through collaboration in the European Clean Sky 2 programme, GKN Aerospace also delivered the first Intermediate Compressor Case for the Rolls-Royce UltraFan™ engine demonstrator, which is expected to achieve significant fuel efficiency improvements compared with current engines.

There were also notable achievements in more sustainable aerostructures solutions. During 2021, GKN Aerospace manufactured and delivered the first fully integrated wings, tail and wiring system for Eviation's Alice electric aircraft, as well as producing and delivering the first composite fixed trailing edge for Airbus' "Wing of Tomorrow" project, both from its new UK GTC. All of these projects form important ingredients on the sector's path to achieve net zero greenhouse gas emissions by 2050 and helped establish GKN Aerospace's position as a sustainability leader in the aviation industry.

Outlook

Despite the recent unrest in Ukrai
Aerospace expects the recovery
aviation sector to continue in 202
benefit both the Civil and Engines
While uncertainty remains, and th
some way to go to reach pre-pan
GKN Aerospace is well placed to
significant ramp-up of single-aisle
production which is already unde
The defence market outlook rema
which will support the Defence se
it implements its improvement pr

Underpinned by the restructuring
undertaken and with its position c
growth platforms and further opti
come, GKN Aerospace is well pla
as the market recovery continues
well on track to unlock its potentia
business has already demonstrat
earnings momentum and it has a
achieving its targeted 12% operat
when sales return to pre-pandem
Looking further ahead, GKN Aerc
technology investment and exper
enable it to be a leader in the sust
transformation of civil aviation, cre
opportunities and profitable grow
to come.

ends

space

ntinued disruption from the pandemic, flight hours steadily hroughout the year, rising 26% to 2020. During 2021 the v the first significant new orders isle aircraft since the onset of nic, with plans for single-aisle so announced.

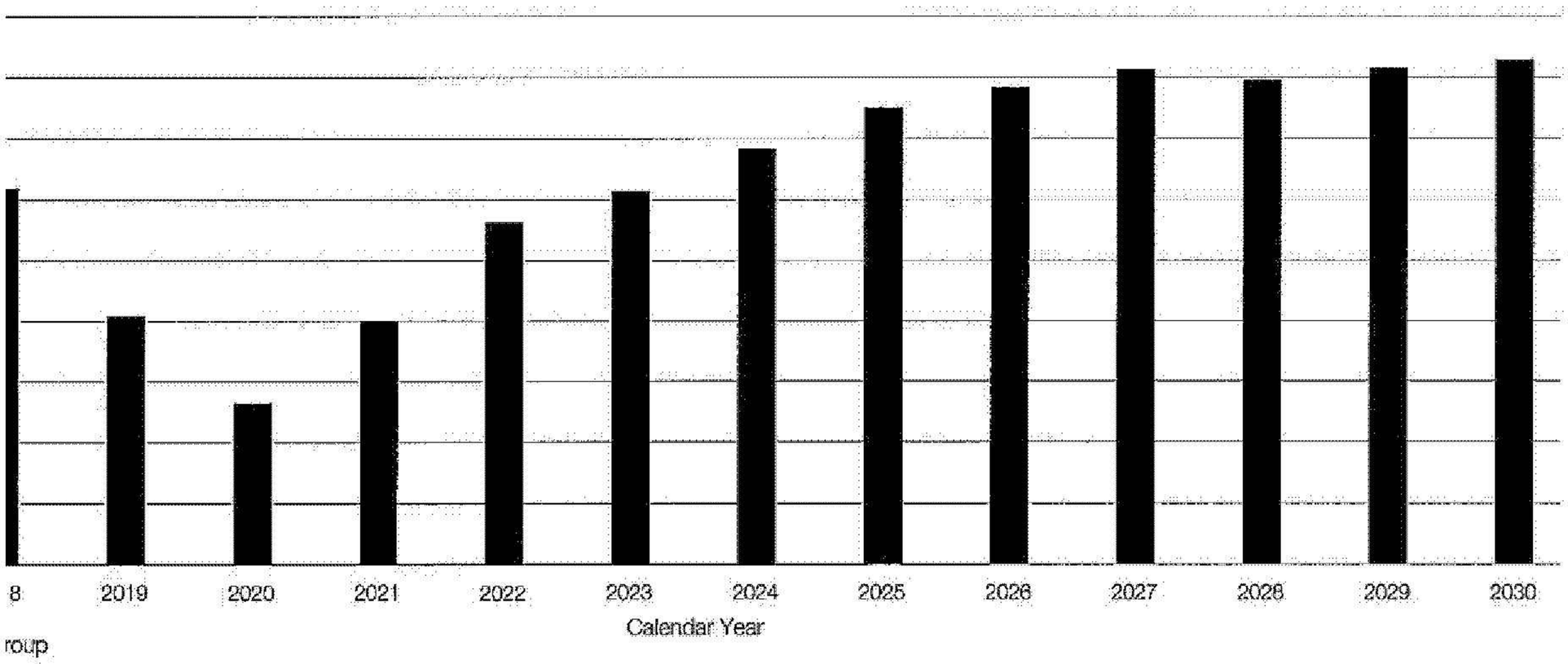
lated spending remained able in 2021, and this is o continue within the US, UK er the coming years, with new es expected to offer significant es. A close watch is being kept eloping situation in Ukraine.

mate change continued to priority for policy makers, nd the aerospace industry, ed focus on how to reach 2050.

GKN Aerospace has responded to these trends, by:

- Enhancing and simplifying its 'One Aerospace' model to drive increased efficiency and accountability in the business, and improve profitability at reduced production rates. In addition, the business focused on preparing key sites to ensure they are well-placed to meet growing customer demand in the single-aisle market as and when current market challenges begin to ease.
- Maintaining and strengthening its position on key Defence programmes, while continuing to develop leading technologies to secure positions on next generation platforms. This includes further progressing its collaboration with Team Tempest in the UK, and close customer partnerships in the US around Future Vertical Lift.
- Continuing its focus on building a truly sustainable business. In 2021 GKN Aerospace set ambitious targets for cutting Greenhouse gas emissions, adopting renewable electricity and cutting waste to landfill, in alignment with the Melrose Group's sustainability targets. In addition, the business has commenced major research and development and collaboration programmes focused on zero-emissions aircraft, including both the Eviation Alice and the Vertical VA-X4 electric aircraft, as well as multiple GKN Aerospace-led future propulsion system projects.

/ Forecast – Deliveries



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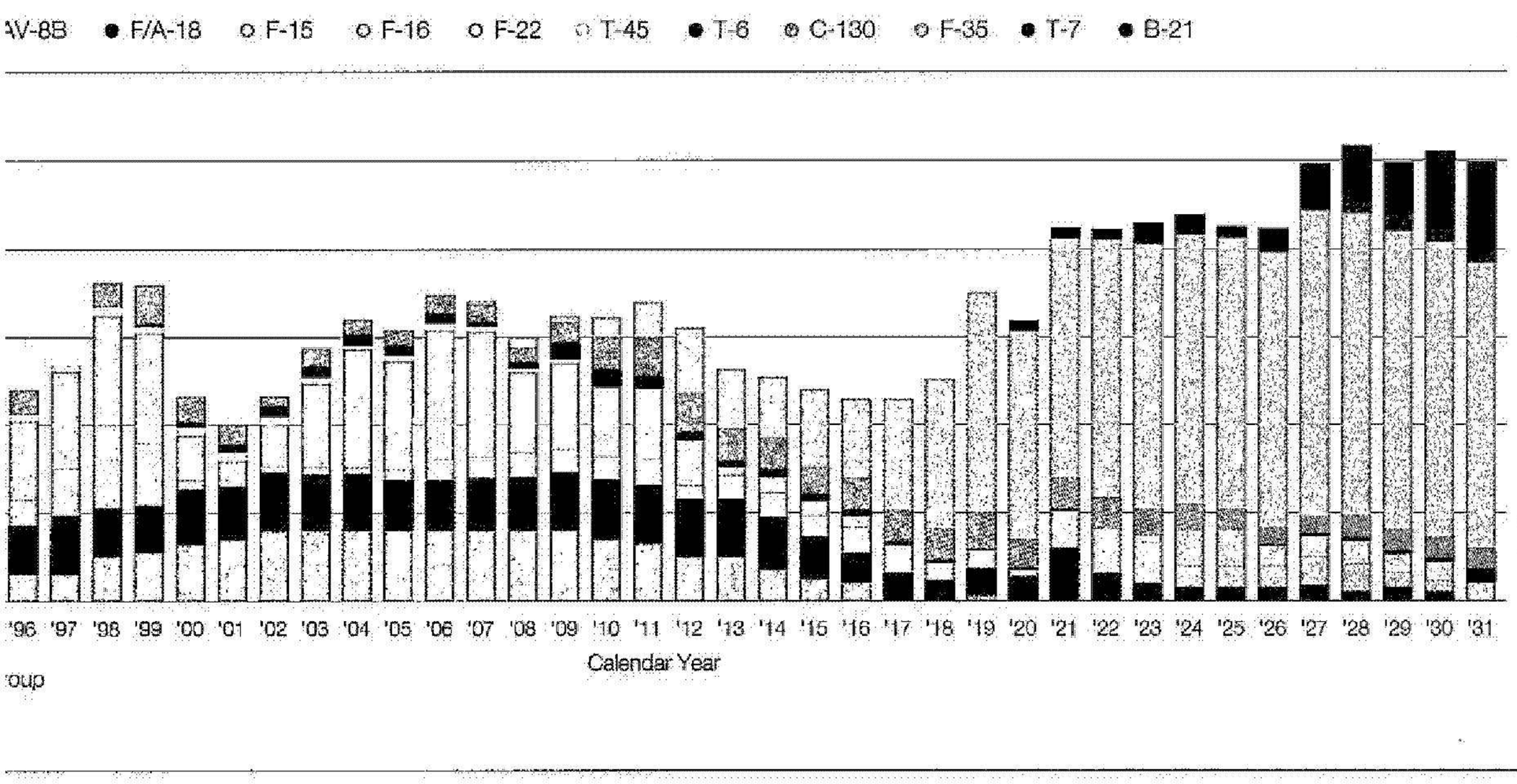
Fixed Wing Aircraft Deliveries



oup

Divisional review[1]

Continued

Divisional highlights

GKN Automotive ended the year positively with 2021 fourth quarter sales up 12% on the third quarter, being almost back to levels seen in the first half of the year. Sales in early 2022 have started similarly positively, consistent with the most recent industry data.

In 2021, adjusted[2] operating margins for GKN Automotive more than doubled despite the well-publicised supply challenges. During 2022, the full run rate benefits from the required restructuring projects in GKN Automotive will materialise giving the opportunity to realise this shareholder value.

Life of programme business wins of c.£5 billion in GKN Automotive in 2021, of which more than one third are for pure electric vehicles ("BEV"), confirm that GKN Automotive is both gaining market share and keeping pace with the faster than expected market conversion to electric vehicles. Importantly, these share gains are being achieved at terms consistent with its higher margin target.

Strong market positions

- #1 in Driveline with ICE, hybrid and electric vehicle technology leadership.
- Supplies 90% of OEMs, 50% of global vehicles.

Growth underway

- Underlying demand strong but constrained by supply chain.
- Electrification providing increased growth.

Margins expand

- Restructuring acc nearing completio
- Adjusted[2] operati 2020: 2.2% → Target >10%.

Sustainable tecl

- Leading electric ve system technology
- Significant investm range of e-Drive ca of greener aircraft.

(1) All growth metrics are collated at constant currency.
(2) Described in the glossary to the financial statements on pages 203 to 210.

GKN AUTOMOTIVE

utomotive is a leading supplier of driveline technologies
global automotive industry and a trusted partner to
% of the world's car manufacturers for electrification,
el drive programmes and new vehicle concepts.

motive.com

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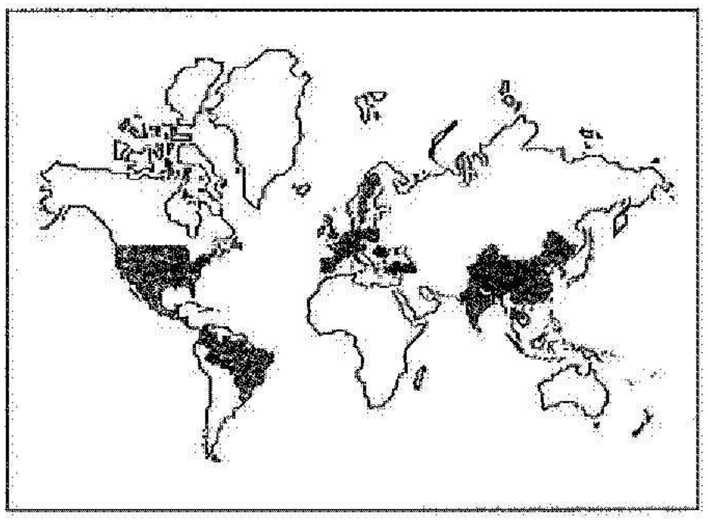
GKN Automotive is the trusted partner for most of the world's automotive OEMs, specialising in developing, manufacturing, and supplying leading drive systems for conventional and electric vehicles through its Driveline and ePowertrain divisions. Headquartered in the UK and operating in 20 countries, it also has a leading presence in China thanks to its long-standing joint venture, Shanghai GKN HUAYU Driveline Systems Co Limited, with local partner HASCO.

GKN Automotive's Driveline division is a global leader that demonstrates strength in depth and breadth, with an extensive portfolio of drive system products that combine value with technological leadership spanning all light vehicle types, from high-volume low-cost to premium models for both conventional and electrified propulsion systems. The ePowertrain division offers solutions for all electrified vehicles and is a go-to technology partner for Global OEMs with decades of experience. Its ability to fully integrate e-Drive systems derives from its all-wheel drive heritage and leadership.

The ongoing COVID-19 pandemic, global supply chain disruption, and industry-wide semiconductor shortage significantly stalled the predicted market recovery in 2021. Even with very robust underlying demand, global light vehicle production grew just 3.4% compared to last year, which was well below initial growth projections of 13% at the start of the year and that left production 13% below pre-pandemic levels. Despite these market challenges, GKN Automotive sales grew by 4% year-on-year due to strong growth in its e-Drive business, which both gained market share and kept pace with the faster than anticipated transition to electric vehicles and reflects the expansion of GKN Automotive's addressable content per vehicle as a result of electrification.

In 2021, the Driveline division accelerated its shift towards electrification by further adapting its portfolio to match the changing demands of new-energy vehicles. The business completed 48 new programme launches and continued to secure a significant share of new business wins on electrified vehicle platforms, reinforcing the division's industry-leading position through its premium core products. The ePowertrain division is increasingly benefitting from light vehicle electrification and delivering impressive growth. In 2021, the business saw the production launch of 12 new programmes across 11 different global brands powered by GKN Automotive technology.

Operational geographies



Global technology centres

Countries – Global production footprint

f Melrose[1]

evenue

venue

perating profit

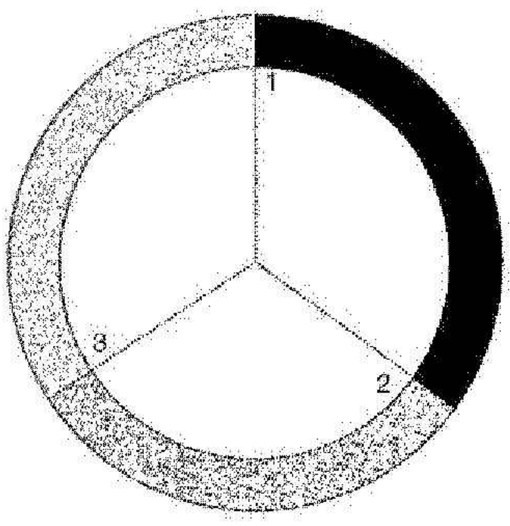
ierating loss

ed[2] 2021 revenue for continuing businesses.
e glossary to the financial statements on
10.

Divisional review[1]

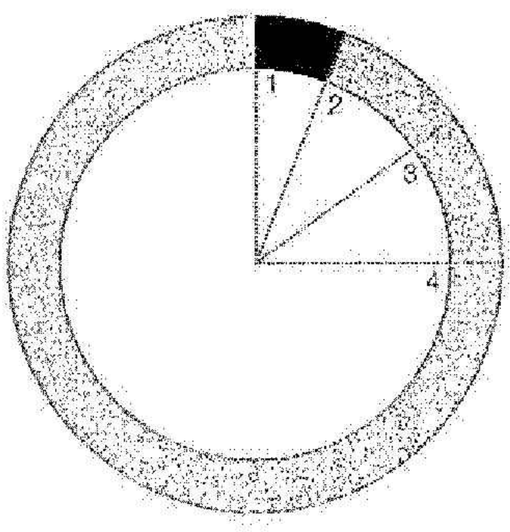
Continued

Revenue by destination



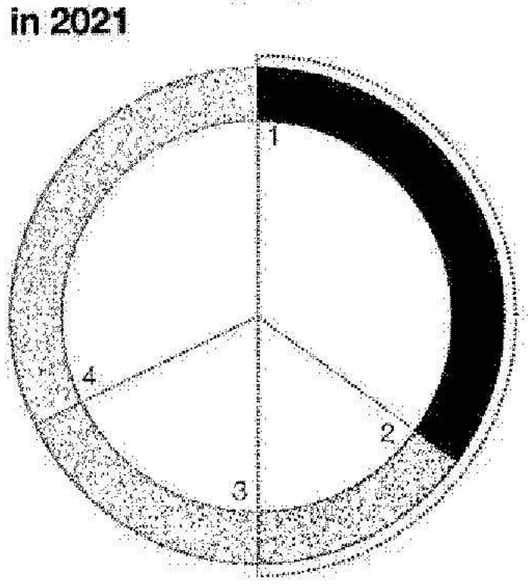
1 Europe	35%
2 North America	31%
3 Asia and rest of world	34%

Revenue by vehicle type



1 BEC & FCEV	6%
2 Full hybrid	9%
3 Mild hybrid	10%
4 ICE	75%

c.£5bn life of programme business wins in 2021



1 BEC & FCEV	35%
2 Full hybrid	15%
3 Mild hybrid	18%
4 ICE	32%

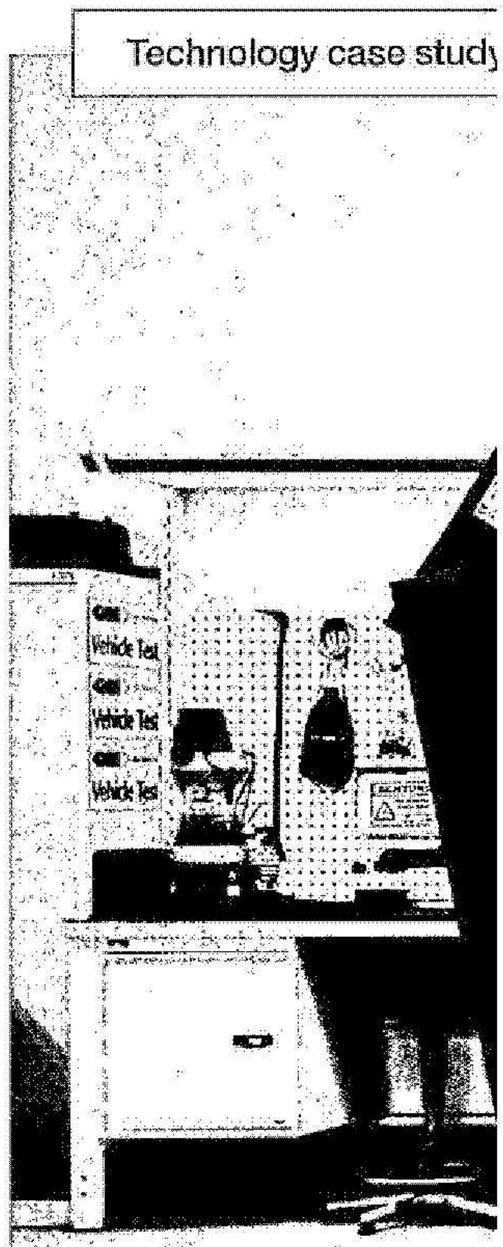
(1) All growth metrics are collated at constant currency.
(2) References to electrified vehicle platforms refers to full hybrid or battery electric propulsion systems.
(3) Before capital expenditure and restructuring costs.

The next generation of e-Drive systems is now in development with a focus on reduced weight and increased efficiency and power density. With deep expertise across all elements of e-Drive, a heritage of manufacturing excellence and a global footprint, ePowertrain is a leading development partner for major leading electrified vehicle manufacturers, featuring components on seven of the top ten global platforms outside of China. New business wins in 2021 included the award of the first fully outsourced 3-in-1 system for one of the major German manufacturers.

The total business being won also remains strong, with approximately £5 billion of life of programme revenue secured in new contracts throughout 2021. The propulsion split of those business awards reflects the continuing focus on electrification, with approximately 50% of the secured life of programme revenues attributable to electrified vehicle platforms[2]. A healthy proportion of electric vehicle orders are for core Driveline products, with an increased specification due to the elevated torque requirements of electrified vehicles. For e-Drive products, the business has the flexibility to be able to supply any part of the assembly, from sub-components to full 3-in-1 systems, and is selective in choosing programmes to develop capabilities and scale. The business being won on electric vehicle platforms is also on terms consistent with GKN Automotive's higher margin target, partly as a result of its premium core product becoming more in demand as the transition accelerates.

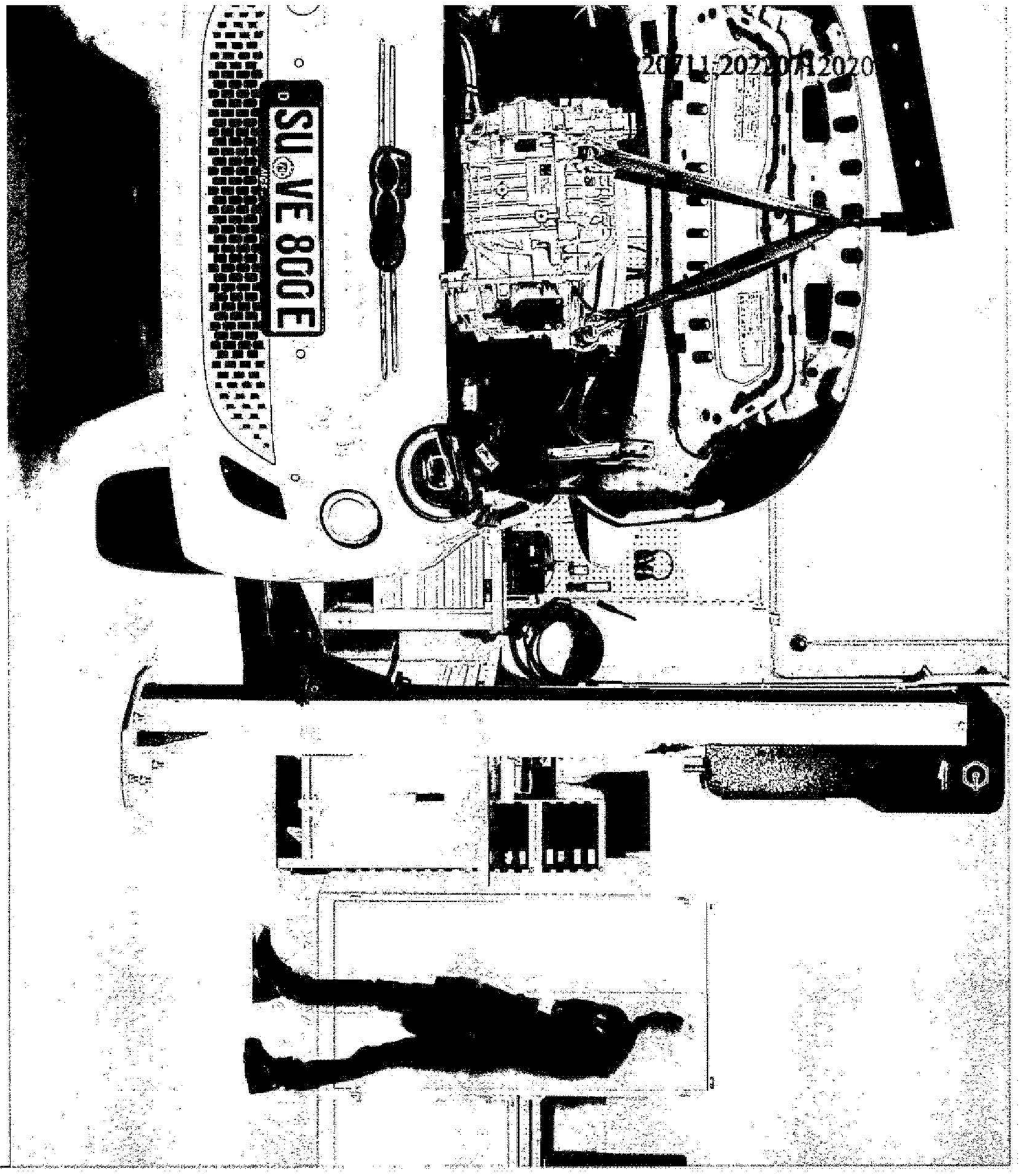
Despite the ongoing COVID-19 challenges and industrial inefficiencies related to sector demand fluctuations and supply constraints, GKN Automotive delivered an impressive operating margin expansion. Partly in response to the market challenges outlined above, the business has strengthened its supply chain, maintained close relationships with customers and suppliers and streamlined its operations, which also enables it to minimise disruption from events such as the recent unrest in Ukraine. Disciplined execution of its full potential transformation programme and continued strict cost control more than doubled operating profit margins to 4.6% for the full year. A continued focus on working capital and rigorous cash management throughout 2021 resulted in strong cash generation for the business, that has enabled it to be self-funding, with a cash conversion rate of 96%[3].

Technology case study



Cutting-edge Advanced and Controlled high-spe system, in collaboration System Design and Not University

Since the revolutionary GKN A constant velocity joint enabled generation of front-wheel drive 50 years ago, GKN Automotiv continues as a pioneer of futu Over the last 20 years, GKN A technological advancements h to drive systems to enable elec technology where it continues field in pursuit of developing t efficient electric drive unit poss Automotive's engineers based Innovation Centre in Abingdon cutting-edge Advanced Cont Controlled high-speed e-Drive system collaboration with Driv Design and Nottingham Unive programme is partly funded by Skills Fund and GKN Automot Advanced Propulsion Centre. increase the e-Drive system's and improve system efficiency reducing weight and material



During 2021, GKN Automotive further signalled its intent to remain one of the leading innovators of next generation e-Drive systems by announcing the launch of the Advanced Research Centre. This world-class collaboration with the University of Nottingham and Newcastle University focuses on the development of ultra-high efficiency electric drive units for future electric vehicles. GKN Automotive's investment in its UK Advanced Research Centre, which is co-located across three leading engineering facilities, is supported through the Melrose Skills Fund, aims to develop and promote UK engineering capability in automotive electrification as well as help strengthen research and development in the UK.

GKN Automotive has invested over £200 million in advanced e-Drive development since 2019. This investment is delivering innovations that are essential, not just for the growth of the business, but for the decarbonisation of the automotive industry.

- Integrated advanced cooling and lubrication

A real key for unlocking system performance and efficiency.

- Enhanced motor control for highest efficiency and lowest noise, vibrations and harshness

Advanced software algorithms that contribute significantly to differentiating system performance.

To accelerate the advanced cooling element of this programme, GKN Automotive is sharing its expertise within the Jaguar Racing Formula E team. In a sport centred around efficiency, there is a distinct need for smaller, lighter, more powerful e-Drive systems. It is better directed, efficient, advanced cooling that keeps component temperature under control and protects the crucial system efficiency that gives drivers an energy advantage by the end of the race.

This ability to have smaller, lighter e-Drive systems is not just essential for progression on the racetrack but also on the road. Advanced cooling on future road vehicles will lead to increased range and enhanced performance for electric vehicle drivers, bringing weight, packaging and cost benefits

efficiency of electric drive units
benefits for a battery electric
ling increased performance and
erm cost. Higher efficiency brings
nicle range for a given battery
ge being a key obstacle for
anding to make the switch to
tric vehicle. Equally, higher
ring opportunities for car makers
smaller batteries whilst still
lisked vehicle range, hence
ote cost, complexity and weight.

uses on improvements to four
s of an electric drive system:

ed, high-speed motor with
ige efficiency

et, highly efficient unit requiring
aterials (reduced use of copper
rth magnets) and as a result
st as well as packaging benefits

an carbide inverter with
witching frequency

gh system efficiency as well
g faster battery charging.

Divisional review[1]

Continued

The improvement programme has made a major contribution to this performance, delivering approximately £60 million of cost savings in 2021 through initiatives covering procurement, operational efficiency, and fixed cost optimisation. A major part of the programme in 2021 was the continued execution of the new industrial strategy, most notably the conclusion of plant closures in Korea, Germany and the US, the sale and reindustrialisation of a facility in Italy, and the agreement of terms to close the Birmingham site in the UK in the first half of 2022. This contributed to the strong operating results in 2021 and leaves the business well positioned to benefit as the market continues its recovery.

Outlook

It is expected that the past two years of supply restrictions will lead to sustained demand for new light vehicles amongst consumers. While some of last year's market headwinds are expected to continue into 2022, global light vehicle production volumes are nonetheless expected to recover, with increasing electric vehicle penetration. GKN Automotive will benefit from this electrification trend through higher content value and technology differentiation opportunity for both divisions. There is a strong pipeline of over 60 launches across both the divisions during 2022, with the focus for Driveline on margin expansion and ePowertrain on growth and next generation technology.

GKN Automotive's robust operating performance in 2021 provides a strong platform for the business going into 2022. The restructuring initiatives undertaken during extremely volatile market conditions provide every reason to be optimistic about further operating margin expansion, healthy cash generation and profitable order book growth during the coming year. Inflationary pressures look set to persevere across raw materials, energy and labour, with the business fully focused to offset their impact and being proactive in addressing any potential disruption caused by the recent unrest in Ukraine. We are confident that the impact of inflation can be overcome by management actions so that, with its adjusted cost base and as full run rate benefits unfold, GKN Automotive's 10% plus operating margin target will be achieved.

7 of top 10

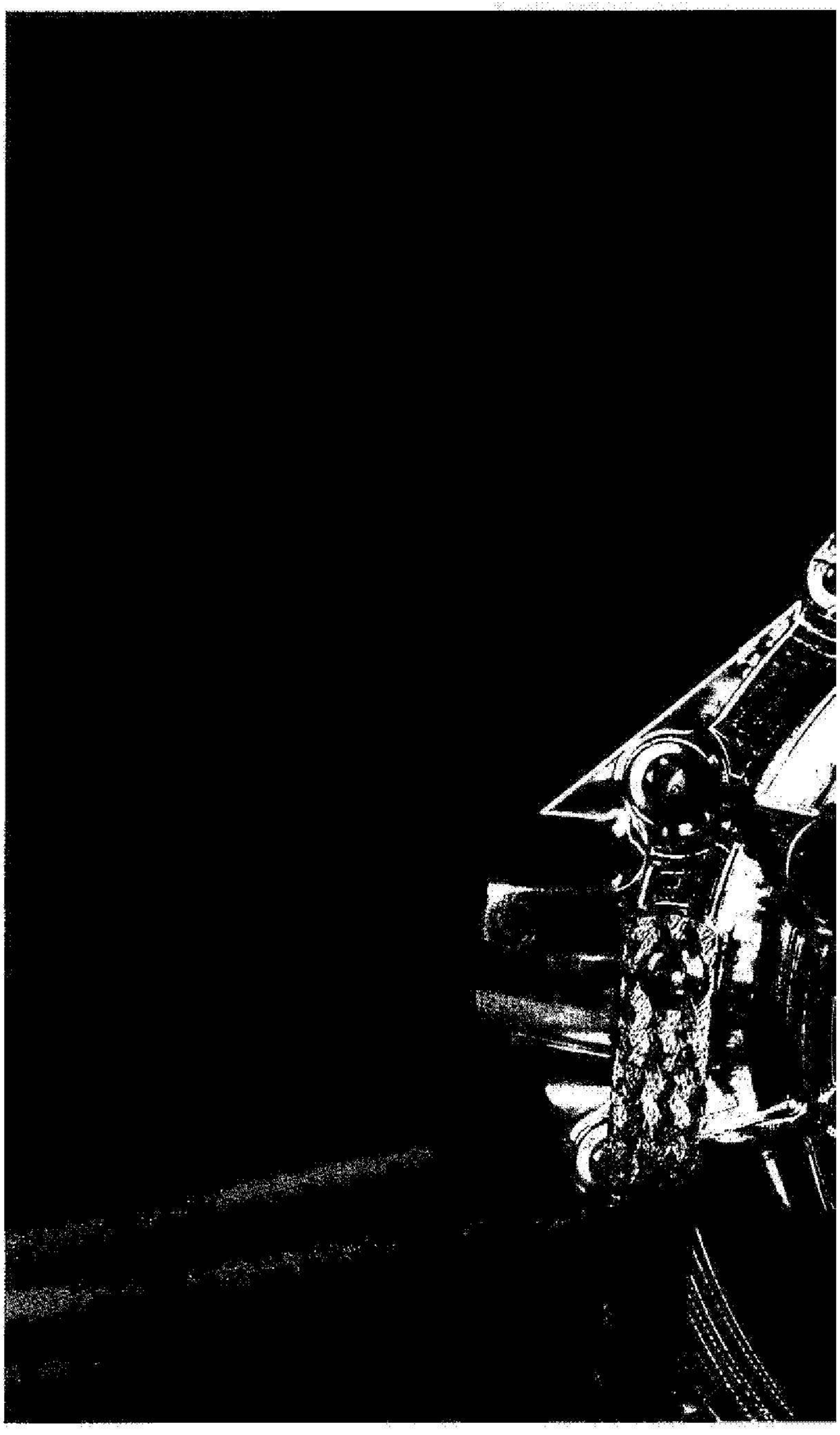
Supplier on 7 of top 10 BEV and PHEV global programmes

c.£5bn

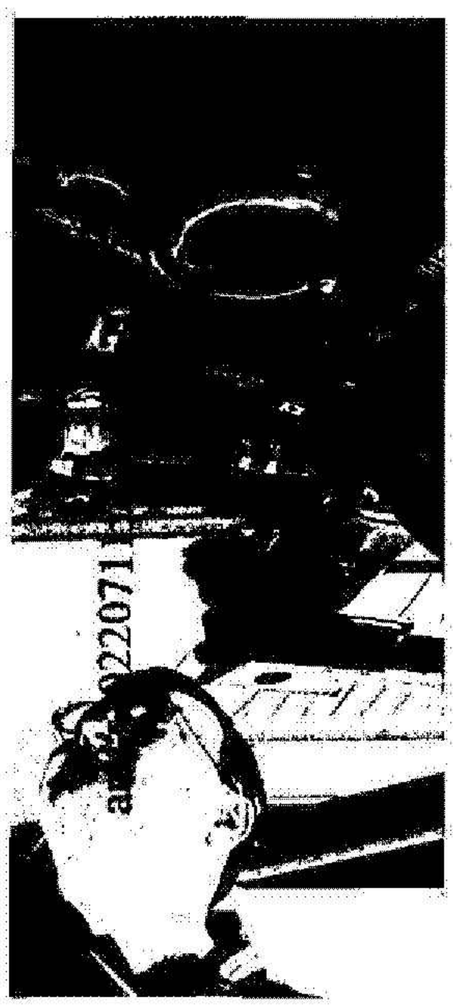
Life of programme business wins in 2021, of which more than one third are for BEVs

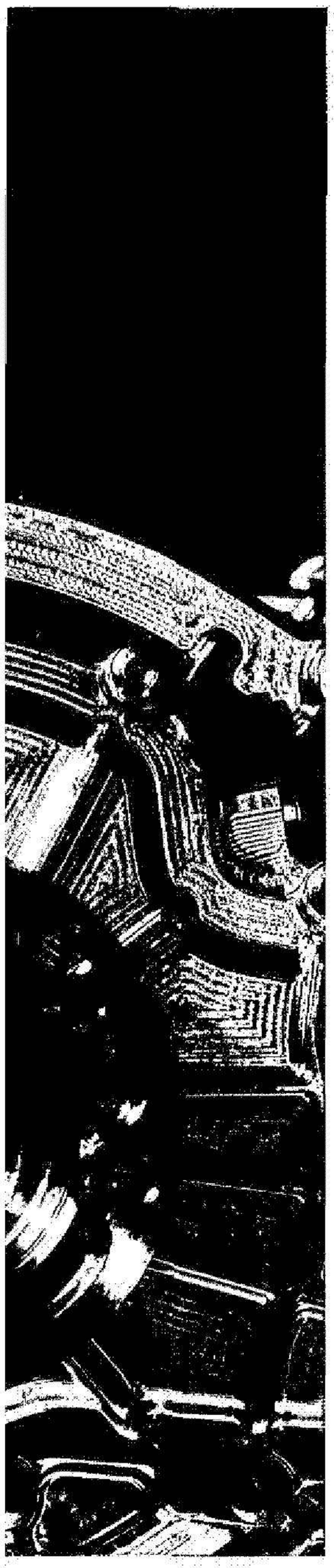
Doubled margin

Adjusted[2] operating margins doubled in the year



(1) All growth metrics are collated at constant currency.
(2) Described in the glossary to the financial statements on pages 203 to 210.





Market trends

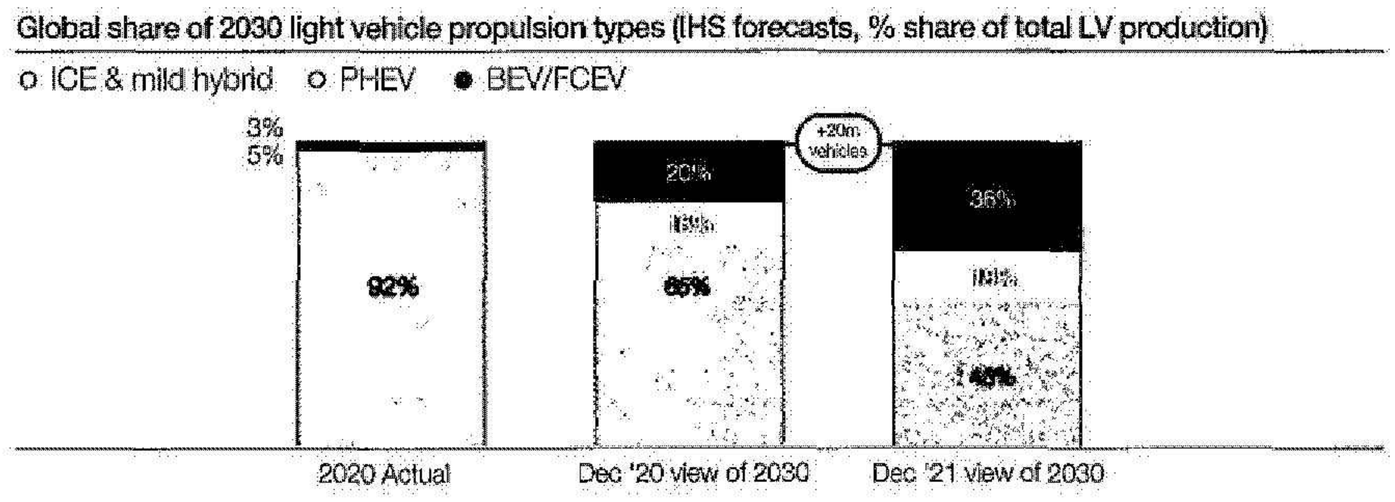
GKN Automotive

The automotive industry is currently facing continued volatility due to a combination of factors impacting both OEMs and suppliers. Some of the most significant impacts include:

- **Pent up demand:** GKN Automotive has a strong belief that there is a very healthy latent demand for new vehicles amongst consumers. Although supply constraints hampered production through most of the year, it is expected that supply constraints will continue to ease in 2022 and that a subsequent return to sales growth will emerge in the coming years in order to meet pent-up demand and support dealers as they rebuild their inventory levels.
- **Accelerated BEV penetration:** COP 26, government incentives, legislative tightening and a continued public sentiment shift have accelerated the adoption of electrification and new mobility solutions, from which GKN Automotive is set to benefit from in both its core and e-Drive businesses.
- **Residual COVID-19 disruption:** pockets of local lockdowns and flare-ups from new variants causing global supply chain and labour challenges.
- **Semi-conductor shortage and in-month call offs:** increased demand for electronics throughout the pandemic, coupled with other supply chain complications, led to a global shortage of semi-conductors in 2021, which constrained the expected recovery in 2021 and is expected to continue to constrain the industry throughout 2022.
- **Inflation:** a combination of COVID-19 related industrial capacity reduction, rebounding demand and ongoing supply chain disruption is leading to a dramatic rise in energy, labour, and raw material prices. Ocean freight rates also increased, with scarce capacity and port congestion.

In response to the challenges outlined above, the business strengthened its supply chain, maintained close relationships with customers and suppliers and streamlined its operations. This delivered strong operating results in 2021 and leaves the business well positioned to benefit as the recovery continues and achieve its margin targets.

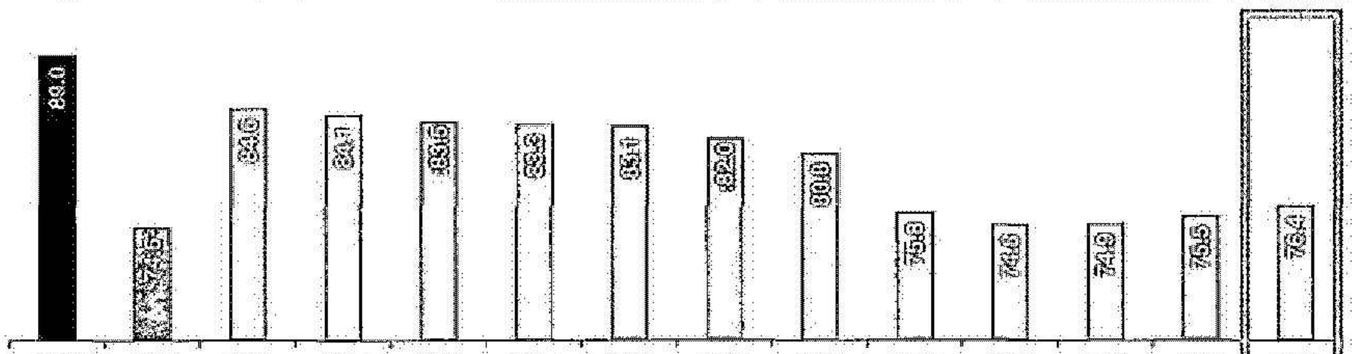
Acceleration of light vehicle electrification



Source: IHS light vehicle production, (Dec '20 & Dec '21)

COVID-19 and semiconductor shortage impacting the industry during 2021

Light vehicle production volume forecasts (IHS monthly forecasts, million vehicles)



Month-on-month forecast change (%)		-0.6%	-0.7%	-0.2%	-0.2%	-1.3%	-1.5%	-6.2%	-1.3%	0.1%	0.8%	1.2%
Forecast 2021 vs. 2020 (%)	13.4%	12.8%	12.0%	11.7%	11.4%	9.9%	8.3%	1.6%	0.3%	0.4%	1.2%	2.5%

Source: IHS light vehicle production forecasts

Powder Metallurgy

Divisional highlights

GKN Powder Metallurgy sales volume grew at more than double the rate of growth in car production in 2021 due to continued significant market share gains.

In 2021, adjusted[2] operating profits for GKN Powder Metallurgy more than doubled despite the well-publicised supply challenges. During 2022, the full run rate benefits from the required restructuring projects in GKN Powder Metallurgy will materialise giving the opportunity to realise this shareholder value.

Strong market positions

- #1 in supply of precision powder metal parts.
- #2 in global powder metal production.

Growth underway

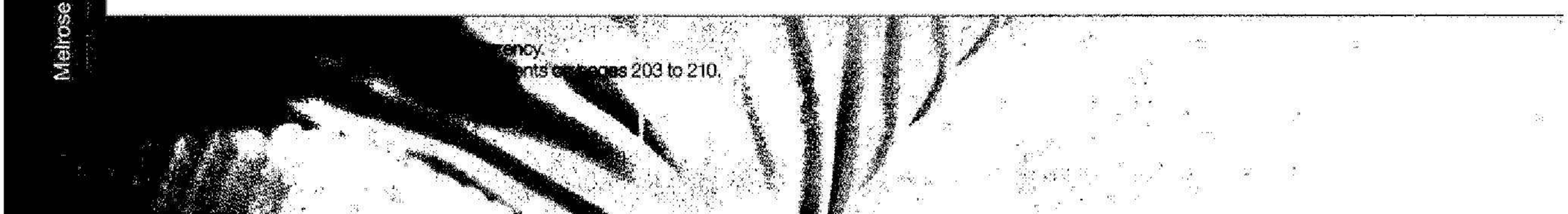
- Sustainable share gains above market.
- Momentum in higher value-add precision components.

Margins expanding

- Restructuring largely c and improving busines
- Adjusted[2] operating r 2020: 4.3% → 202 Target 14%.

Sustainable techno

- Supporting electric veh expansion.
- Commercialising additi manufacturing.



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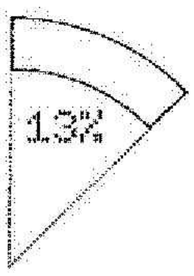
GKN POWDER METALLURGY

owder Metallurgy is a global leader in both precision
r metal parts for the automotive and industrial
s, and the production of metal powder, through
ed vertically integrated business platform.

com

of Melrose[1]

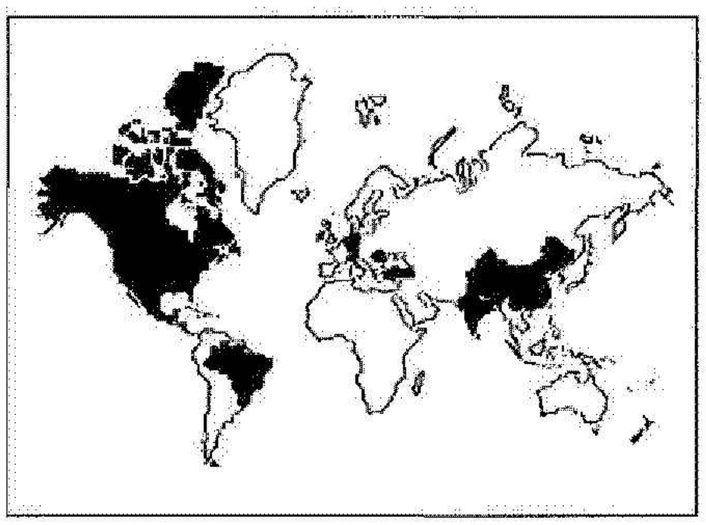


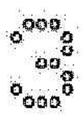
GKN Powder Metallurgy combines the design and production of advanced powder metals with innovative sintering and additive production technologies to create unique metal and polymer products.

The year was marked by a strong improvement in activity levels for GKN Powder Metallurgy across all geographies. The pent-up demand for vehicles and other goods in general, combined with the need by the industry to recover from the low stock levels maintained during the previous year, produced very high demand during the first quarter of the year. This high activity level registered in the first three months was followed by lower and more erratic demand, primarily from the automotive industry caused by the semiconductors supply issue. For the full year, GKN Powder Metallurgy achieved a revenue growth of 13% compared with the previous year. Although revenue levels remain below pre-pandemic levels, sales volume growth for the business in 2021 was double the production growth of the wider market, highlighting the increased market share achieved by the business.

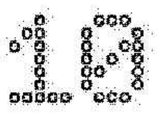
As part of the improvement plan, the core business has been streamlined, resulting in the divestment in May 2021 of a non-core low margin structural plant in the US, and the planned Canada plant closure, which is set to be concluded during 2022. In addition, the closure of a Sinter Metals site in Germany was communicated in November. Having taken it through the initial development phase, GKN Hydrogen, the hydrogen storage business, was also separated into a standalone business under direct Melrose management at the end of the year.

Operational geographies



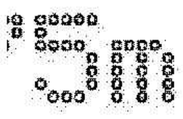


Global technology centres



Countries – Global production footprint

evenue



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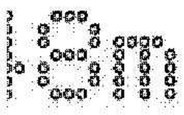
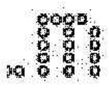
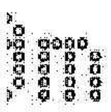


perating profit



perating loss



ted[1] 2021 revenue for continuing businesses.
e glossary to the financial statements
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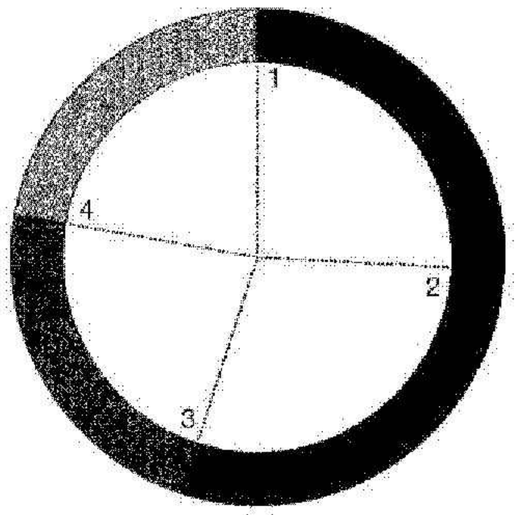
Divisional review[1]

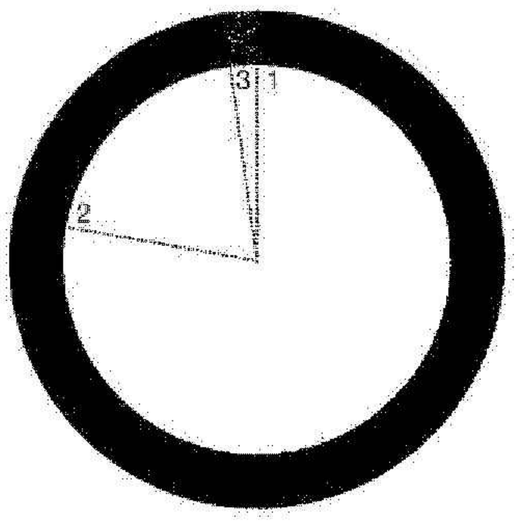
Continued

Revenue by market type[2]



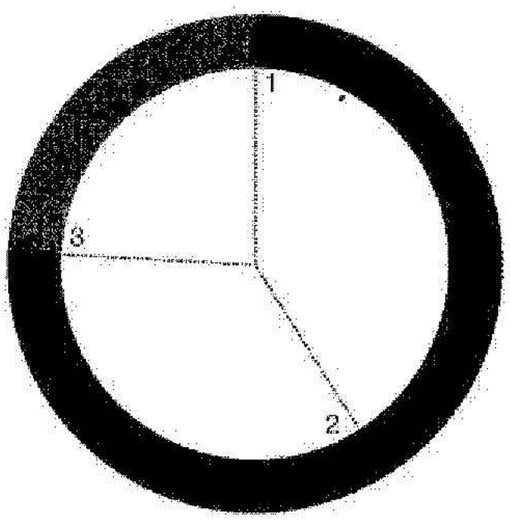
1 Automotive components	26%
2 Transmission	29%
3 Engine	23%
4 Industrial	22%

Revenue by segment[2]



1 OneSinter	78%
2 Powder	20%
3 Additive	2%

Revenue by destination[2]



1 North America	41%
2 Europe	35%
3 Asia and rest of world	24%

Furthermore, while the year was also characterised by a significant increase in input costs, primarily coming from the cost of commodities, notably metal scrap, copper, nickel and molybdenum, the pass-through mechanisms largely protected the financial performance. The business was also proactive in exiting lower margin sales, particularly on ICE platforms.

These actions have contributed to GKN Powder Metallurgy's very strong performance, with adjusted operating margins for the full year expanding to 9.3% and adjusted operating profit up 162%. This improvement came from the stronger activity level, primarily during the first quarter, tight cost management during the lower activity months and the realisation of benefits arising from restructuring activities initiated during prior years.

Another year of strong cash generation saw the business achieve a cash conversion rate of 107%[3], reflecting the sustainable improvements achieved in working capital. The business made significant investment in new technologies and continued the development of the core business during the year. A key focus has been the development of the transition plan for the switch to electric vehicles. As well as innovative solutions like the launch of an electric pump for hybrid transmission vehicles, the business is well progressed in harnessing its unique powder technologies in connection with break-through technologies for magnets for e-motors.

Other parts of the business made good progress as well. For Powders (Hoeganaes), the hydride powder for hydrogen storage was further developed and it will be a long-term supplier to GKN Hydrogen. In Additive, the expansion of polymers into the Michigan, US site was initiated, as a way of increasing the presence in the Midwest and, in particular, to serve the global automotive manufacturers.

Outlook

Expectations are that supply chain shortages, particularly relating to the availability of semiconductors, will ease during the year, supporting another year of growth in 2022 for GKN Powder Metallurgy. The business is being proactive in its elimination of the impact of inflationary pressures, which it expects to be able to fully offset, and ensuring minimal disruption from the recent unrest in Ukraine. The recently completed reorganisation and refocus on core products, along with the conclusion of further ongoing activities, positions GKN Powder Metallurgy well to continue the margin expansion towards reaching its 14% operating margin target as full run rate benefits flow through and we move towards realising value for shareholders.

(1) All growth metrics are collated at constant currency.
(2) Based on existing businesses at 31 December 2021.
(3) Before capital expenditure and restructuring costs.
(4) Described in the glossary to the financial statements on pages 203 to 210.

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162% increase

Adjusted[4] operating profit increased by 162% and adjusted[4] operating margins doubled

Technology case study

GKN Powder Metallurgy's investment in new technologies continued throughout 2021. In Italy, the Sinter Metals Bruneck plant launched an electric pump for hybrid and battery electric transmission vehicles. Having pursued research and development leadership in oil pump componentry for car engines and transmission lubrication over the last few years, being an area where traditional pumps combine a variety of technologies to produce their components including machined steel or machined aluminium die casting, GKN Powder Metallurgy has developed a fully powder metal design that can produce all components within an electric pump system. This technological innovation targets notable efficiencies and CO_2 reductions driven by component precision, as well as attractive cost benefits delivered through manufacturing process improvements such as cost effective machining and more reliable quality verification than can be achieved through traditional methods. To convert customers to powder metal solutions in this area a total redesign of traditional electric pump systems was required, promoting increased use of GKN Powder Metallurgy's components within these systems.

Market trends

GKN Powder Metallurgy

During 2021, GKN Powder Metallurgy continued to service its core industrial markets, particularly within the automotive sector where, despite significant progress being made towards increased consumer uptake in electric vehicles and the product expansion opportunities that are expected to materialise over the coming years, volatility in the sector continued to weigh on shorter-term market growth expectations.

Key trends that GKN Powder Metallurgy continues to address are:

- Customers reducing their supplier base and staying with the technology leaders that can serve their global requirements.
- Further expansion into the electrified vehicles submarkets, driven by automotive OEM demands for increased manufacturing efficiency and precision parts.
- Demand for product solutions using additive manufacturing techniques, supported by increasingly more digitised manufacturing controls.

These trends are driving further new product development at GKN Powder Metallurgy such as components and solutions that iterate or replace traditional cooling and lubrication pumps, and a powder metal-based electric direct drive motor for an e-bike which combines increased torque with better efficiencies and a lower weight. During 2021, GKN Powder Metallurgy's FORECAST 3D business continued its penetration of new markets with new polymer-based components being produced for customers outside of the business's traditional core markets, which would not have been possible without the unique design freedom which additive manufacturing techniques provide.

Divisional review[1]

Continued

Other Industrial

The Other Industrial division comprises (i) Ergotron and (ii) GKN Hydrogen

Having sold Brush and Nortek Control during the year, the Other Industrial division now consists of Ergotron and the newly formed GKN Hydrogen business.

Proportion of Melrose[2]

Adjusted[3] revenue

£323m

Statutory revenue

£323m

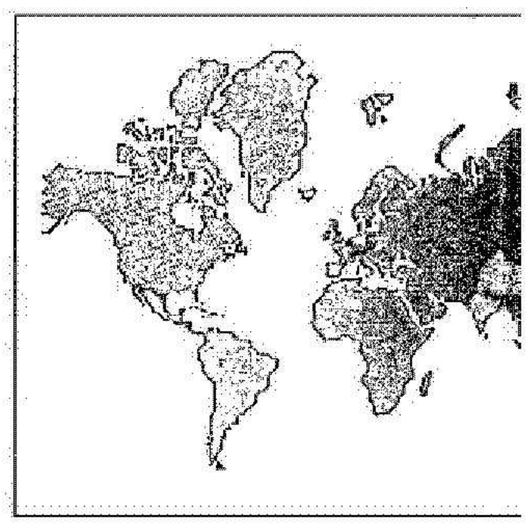
Adjusted[3] operating profit

£31m

Statutory operating loss

£53m

Operational geographies



ergotron®

Ergotron is a leading designer, manufacturer and distributor of ergonomic products for use in a variety of working, learning and healthcare environments. Based near Minneapolis, US, Ergotron comprises business segments: Healthcare, Workspace and Custom.

ergotron.com

Ergotron is a leading designer, manufacturer and distributor of ergonomic products for use in a variety of working, learning and healthcare environments. Based in Minneapolis, US, Ergotron comprises three business segments: Healthcare, Workspace, and Custom and is respected for high quality, professional-grade products that last.

Revenue growth of 15% over 2021 was driven by continued global growth in Healthcare of 18% and a 42% growth in Workspace driven by employees embracing a more hybrid work environment even as they return to the office.

Despite a challenging year due to global supply chain issues and inflationary pressures, the business successfully offset these through price increases to maintain strong profitability. The strong revenue growth and margin management was reflected in the 19% increase in operating profit for the year.

Outlook

Ergotron expects further profitable in 2022 led by continued growth ir Healthcare segment due to marke and the focus on new global geog territories. Additionally, Ergotron is positioned to capture growth in th Workspace segment due to the e: of the hybrid work environment.

(1) All growth metrics are collated at constant currency.
(2) Based on adjusted[3] 2021 revenue for continuing businesses.
(3) Described in the glossary to the financial statements on pages 203 to 210.

nology case study

m: TRACE™ – Constant Force™

ID-19 pandemic has accelerated the trend towards workspaces as the new workplace reality. With the f the separation between office, home and third space, gy has become paramount to the overall employee ce. With this variability in working environments, workflow to accommodate individual needs and collaboration has become ever more critical. This e at a time when society is placing greater focus on employee health and a responsibility on employers t all aspects of employee wellbeing.

s innovative TRACE™ Monitor Mount is a hybrid of s best technologies and innovations, offering users om to meet the needs of their unique workstyles and impact their performance, wellbeing and satisfaction. s Constant Force™ technology pairs with a linear guide et allows for smooth monitor adjustment and 240 eam for a flexible, ergonomic set-up. In personal or orkspaces, users can work seated or standing, with itors at a customisable height to support the ideal or comfortable, healthy working. Ergotron's proprietary arm technology provides an easier and more intuitive g of the display. Set apart from traditional monitor TRACE™ Monitor Mount is designed with distinct nd lateral movements to move in a straight line, tracing movement along its natural path to effortlessly transition individual and collaborative work, always returning to nalised home position.

et trends

on

r buying behaviour in Ergotron's key end markets a number of shifts since the onset of the COVID-19 , the most notable and impactful for Ergotron being the ion towards hybrid office working models, and increased mind, body and ergonomics to improve health and ity. This has propelled Ergotron's solutions and offerings adaptable and flexible working environments, such as monitor arm technologies and solutions that create workflows and support larger multiple monitor systems, modate variability in working environments and e ease of movement, whilst enhancing employees' collaborate regardless of their physical location.

althcare segment, key trends relate to enhanced aregiver technology interactions that enable the delivery creased caregiver comfort and high quality patient care, g health and wellness benefits that increase productivity ce efficiency, and improve physical risk mitigation within of care settings. Ergotron continues to respond to these edominantly through continually innovating its medical tions, which remain agile in their design to support a care settings including nurse stations, mobile clinical ome environments and virtual delivery.

is running efficiently, making 25% adjusted[3] margins.

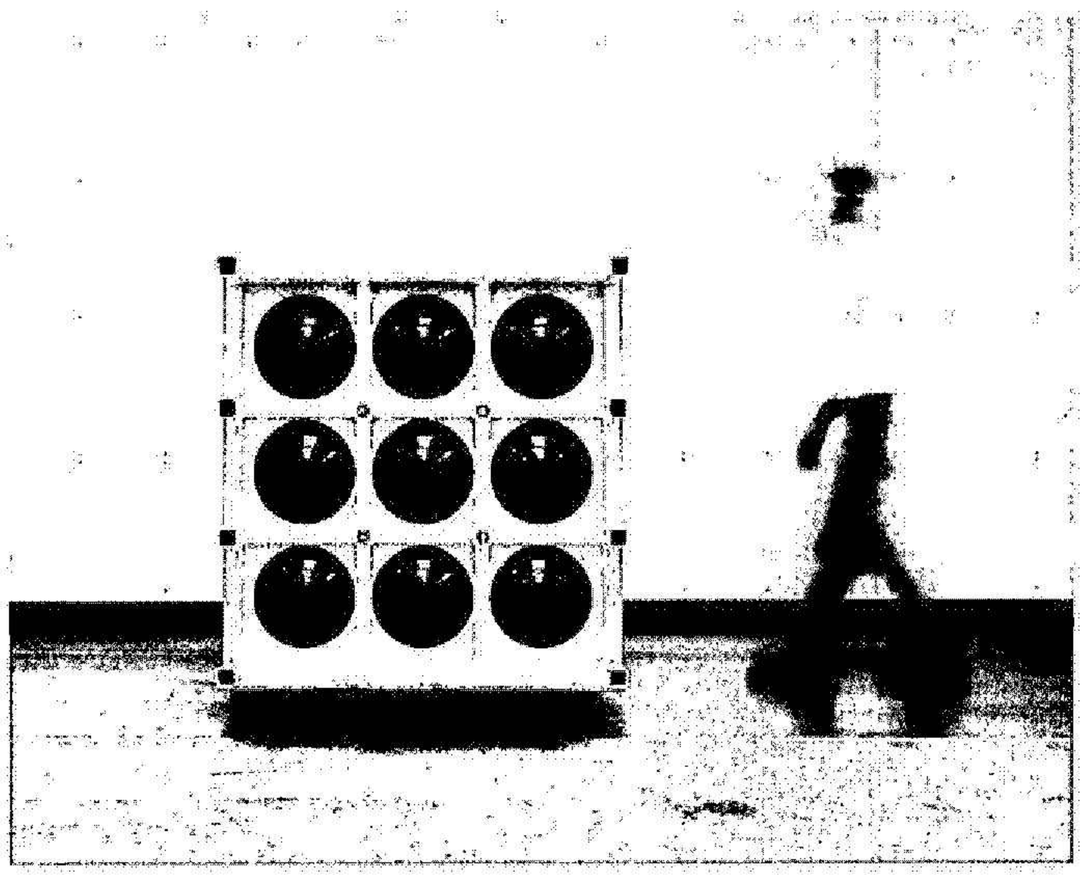
GKN HYDROGEN

GKN Hydrogen has been separated from GKN Powder Metallurgy and launched as a standalone business, focusing on commercialising propriety metal hydride technology to store hydrogen in a safe, compact and green manner.

gknhydrogen.com

GKN Hydrogen offers a state-of-the-art metal hydride storage solution that was initially developed under the umbrella of the GKN Powder Metallurgy business. It harnessed the business's unique and industry leading knowledge of powder technology to create the most reliable and secure hydrogen storage solution currently available today. The robust system stores hydrogen compactly and safely in proprietary metal hydrides and it can be used in a wide range of industrial and commercial applications.

Having produced and tested pilot systems during 2021, the business has been separated into a standalone business within the Melrose Group in order to maximise the growth opportunity. GKN Hydrogen will now move into the commercialisation phase with increased focus in 2022 and beyond.



Market trends

GKN Hydrogen

- Overall energy demand set to increase by 50% by 2050 and renewables must contribute 80% of this growth to meet emissions regulations.
- Renewable energy generation fluctuates and does not always meet demand, so energy storage is required – green hydrogen is the answer as it is 100% emission free.
- Forecasts of over US$600 billion infrastructure investment in hydrogen storage globally by 2050.
- GKN Hydrogen's storage technology addresses all requirements – safest, 100% recyclable, compact and long life.

Key performance indicators

Measuring our performance

In order to support the Group's strategy and to monitor performance, the uses a number of financial and non-financial key performance indicators

Additional business-level KPIs are also used, which are relevant to their particular cir Further detail on these KPIs is disclosed in the glossary to the financial statements a information regarding the performance of the Group against its financial KPIs is incl Finance Director's review.

Financial KPIs

	Method of calculation	Strategic objective
Adjusted[1] diluted earnings per share[3] 4.1p '19 11.0p '20 (0.6)p '21 4.1p	Group adjusted[1] profit after tax of continuing businesses, attributable to owners of the parent, for the year ended 31 December 2021, divided by *the weighted average number of diluted ordinary* shares in issue.	To create consistent and long-term for shareholders.
Adjusted free cash generation[1] £323m '19 £591m '20 £628m '21 £323m	Total cash generated from trading after all costs, excluding restructuring and one-off payments to defined benefit pension schemes.	To ensure subsidiary businesses a cash-generative in order to have a cash reserves for the effective runr Group and for significant capital in where required.
Net debt[1] reduction 67% '19 8% '20 13% '21 67%	Reduction in net debt in the year as a percentage of opening net debt.	To ensure that the Group has suita amounts of net debt and remains v its banking covenants.
Adjusted[1] profit conversion (pre-capex) to cash percentage[3] 110% '19 104% '20 193% '21 110%	Percentage of adjusted[1] EBITDA[2] conversion to cash, as shown in the glossary to the financial statements, for continuing businesses in existence during the year ended 31 December 2021 pre-capital expenditure.	To ensure subsidiary businesses a cash-generative in order to have a cash reserves for the effective runr Group and for significant capital in where required.
Adjusted[1] operating profit[3] £375m '19 £896m '20 £141m '21 £375m	Adjusted[1] operating profit for the continuing businesses in existence during the year ended 31 December 2021.	To improve profitability of Group op
Net debt to adjusted[1] EBITDA[2] 1.3x '19 2.25x '20 4.1x '21 1.3x	Net debt to adjusted[1] EBITDA[2] – net debt at average exchange rates divided by adjusted[1] EBITDA[2] further adjusted to reflect covenant requirements, for continuing businesses at each year end.	To ensure the Group has suitable a of debt and remains within its bank covenants.
Adjusted[1] operating profit margin[3] 5.0% '19 9.0% '20 1.8% '21 5.0%	Adjusted[1] operating profit as a percentage of adjusted[1] revenue, for the continuing businesses in existence during the year ended 31 December 2021.	To improve profitability of Group op
Interest cover 5.9x '19 10.8x '20 5.1x '21 5.9x	Adjusted[1] EBITDA[2] further adjusted to reflect covenant requirements of all businesses as a multiple of net interest payable on bank loans and overdrafts for the Group during each year.	To ensure the Group has sufficient profitability to meet the interest cos and remains within its banking cov
Final dividend per share 1.0p '19 0.00p '20 0.75p '21 1.0p	Amount declared as payable by way of dividends in terms of pence per share.	To operate a progressive dividend whenever the financial position of t Company, in the opinion of the Boa justifies the payment. For discussions on the dividend, ple to the Chairman's statement on pag

(1) Described in the glossary to the financial statements on pages 203 to 210.
(2) Operating profit before depreciation of property, plant and equipment and amortisation of computer software and development costs.
(3) Data has been restated for discontinued operations in 2019 and 2020.

inancial KPIs

l safety

ne Melrose decentralised model, our are each responsible for implementing ning health and safety excellence respective operations. To provide oversight for the Board, information uarterly on three key performance Major Accident Frequency, Lost Time equency and Accident Severity fined below) – for each business and of their sites. A variety of additional afety KPIs are used by the businesses ne Group from time to time, which are ne exact nature of the business and its risks. Although responsibility for health ests with the business units, in the circumstance of a very serious Melrose senior management team directly with the relevant business ve team and report any actions taken ne Board.

calculation

Group businesses report the same etrics for health and safety. Given the nd diversified nature of the Group, have been applied to each division's alth and safety performance according f its workforce relative to that of isions within the Group. Therefore, e workforce, the more heavily such alth and safety performance drives vide performance figures.

objective

any has an objective to stop all accidents.

nce[1]

s current businesses measure three and safety KPIs:

ident Frequency Rate 0.04

0.28
0.19

average number of lost time accidents that in more than three days off work (defined cidents), per 200,000 hours worked.

Accident r Rate 0.06

0.43
0.30
16

number of lost time accidents, nd minor, per 200,000 hours worked.

Severity Rate 30.17

19.15
20.39
30.17

average number of days an employee rk following an accident at work.

been restated for 2019.

The GKN Aerospace site in Papendrecht, the Netherlands, sadly suffered a tragic fatality in 2021. A thorough internal investigation was immediately conducted by the GKN Aerospace executive team and overseen by the Melrose senior management team, with regular reporting to the Board. This triggered a wholesale review of the GKN Aerospace group safety standards across the business. This review included risk assessment processes, and the underlying reporting and oversight systems and documentation which support the implementation and ongoing monitoring of GKN Aerospace's safety standards, operating procedures and safety systems, both at site and GKN Aerospace group level. The Dutch authorities are conducting their own investigation, in which the business is fully cooperating, and which remained ongoing as at the time of writing.

The Group's Major Accident Frequency rate and Lost Time Accident Frequency rate has decreased year-on-year for the GKN businesses. Specific incidents at GKN Aerospace, GKN Powder Metallurgy and Ergotron resulted in an increase in Accident Severity Rate compared to 2020, which has led to significantly increased focus from each of the businesses in order to drive improvement. Each incident was promptly and fully investigated, and although no systemic issues were identified, each business responded to their respective incidents with robust measures to increase health and safety awareness within specific and similar areas relevant to those incidents, to reinforce the correct policies and procedures, and to review the relevant working environments for continuous improvement actions where necessary. The Group's trajectory of longer-term improvement continues, and our businesses continue to uphold and further develop high standards of health and safety performance. The general trend of improvement reflects the continued investment in health and safety initiatives across all businesses and highlights continual improvement in the GKN businesses since they were acquired in 2018.

At the Board's request, external health and safety compliance experts are engaged through the Group's insurance brokers to review the health and safety audit function for each GKN business, with a focus on verifying its operation and where relevant to recommend continuous improvements as they evolve. This review programme uses a combination of remote and physical site visits and regular discussions with the health and safety leads at each of the GKN businesses to provide assurance of the robustness of health and safety systems that operate within the Group's larger and most complex businesses. Recommendations are fed back to the Melrose senior management team for oversight and challenge as required, and to the relevant business executive team to manage their implementation, as part of overall continuous improvement measures.

During 2021, the Group's insurance brokers continued to work with each of the GKN businesses to review and implement the recommendations resulting from their initial review of their health and safety functions and as recommendations were being implemented within the businesses, to provide assurance that improvements were being implemented as required and to provide further iterative recommendations to maintain strong health and safety practices as they evolve. Recent feedback has confirmed that each relevant business is operating to an acceptable standard, with further alignment with recommendations being evident and built upon, and a continued strong commitment to health and safety from each of the GKN businesses both centrally and at site level.

In parallel with existing business unit-led initiatives, the Group's insurance brokers in the US continue to conduct independent health and safety compliance reviews across the GKN businesses' US-based operations. Some site visits recommenced in 2021 but were limited due to prolonged pandemic travel restrictions. This review continues to focus on potential major and serious injuries and occupational health exposures, and further site visits are hoped to recommence in 2022 as this becomes practicable.

During 2021, each business in the Group maintained measures and protocols to address the risks of a COVID-19 outbreak within the workplace, and to support their employees in line with national guidelines.

Environment and energy usage

Method of calculation

Due to the decentralised nature of the Group and differing operations of businesses which the Company may acquire, there are no standardised environmental KPIs used throughout the Group. Businesses provide data for relevant environmental indicators, including energy consumption, CO_2 emissions, water withdrawal, waste disposal, solid waste generation, and recycling. We have used the UK Government Environmental Reporting Guidelines including the UK's Streamlined Energy and Carbon Reporting requirements and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), and data has been gathered in accordance with our GHG reporting procedure.

Strategic objective

Melrose fully understands the importance of the Group's environmental responsibilities and is committed to encouraging its businesses to make efficiency improvements where possible and to run their operations with a minimum possible adverse effect on the environment.

Performance

Information in relation to the various environmental initiatives undertaken by the Group's businesses during 2021 can be found within the Sustainability report on pages 54 to 77. The Group is required to disclose its Greenhouse gas emissions and certain energy use data for the year ended 31 December 2021. Such data can be found within the Sustainability report on pages 76 to 77.

Other non-financial KPIs

Due to the diverse nature of the Group, each business acquired by the Group 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 in these areas can be found within the Sustainability report on pages 54 to 77.

Finance Director's review

Geoffrey Martin
Group Finance Director

During the year the Group successfully disposed of the Nortek Air Management division and the Brush and Nortek Control businesses from within the Other Industrial division. Together, these businesses contributed c.20% of adjusted revenue in the previous year and are shown as discontinued operations throughout these Consolidated Financial Statements.

The results of the continuing businesses in the Group show substantial improvement this year over last year, as the benefits of restructuring actions are increasingly coming through.

Melrose Group results – continuing operation:

Statutory results:

The statutory IFRS results are shown on the face of the In Statement and show revenue of £6,883 million (2020: £7,1 an operating loss of £451 million (2020: £487 million) and a tax of £618 million (2020: £679 million). The diluted earning ("EPS"), calculated using the weighted average number of i issue during the year of 4,695 million (2020: 4,858 million),. of 9.6 pence (2020: loss of 11.7 pence).

Adjusted results:

The adjusted results are also shown on the face of the Inc Statement. They are adjusted to include the Group's share and operating profit from certain investments in which the not hold full control, equity accounted investments ("EAIs" exclude certain items which are significant in size or volatil nature are non-trading or non-recurring, or are items relea Income Statement that were previously a fair value item bc an acquisition. It is the Group's accounting policy to exclu Items from the adjusted results, which are used as an Alte Performance Measure ("APM") as described by the Europ Securities and Markets Authority ("ESMA"). APMs used by are defined in the glossary to the Consolidated Financial S

The Melrose Board considers the adjusted results to be a measure used to monitor how the businesses are perform achieve consistency and comparability between reporting when all businesses are held for the complete reporting p

The adjusted results for the year ended 31 December 202 revenue of £7,496 million (2020: £7,723 million), an operatir £375 million (2020: £141 million) and a profit before tax of £ (2020: loss of £41 million). Adjusted diluted EPS, calculatec weighted average number of shares in issue in the year of (2020: 4,858 million), were 4.1 pence (2020: a loss of 0.6 p

Tables summarising the statutory results and adjusted res reportable segment are shown later in this review.

tion of statutory results to adjusted results

tables reconcile the Group statutory revenue and statutory to adjusted revenue and adjusted operating profit:

	2021 £m	2020 £m
enue	**6,883**	**7,132**
equity accounted investments ("EAIs")	613	591
nue	**7,496**	**7,723**

nue includes revenue from EAIs, the largest of which is a n Shanghai GKN HUAYU Driveline Systems Co Limited n the Automotive segment. During the year ended 31 21, EAIs in the Group generated £613 million of revenue illion), which is not included in the statutory results but in adjusted revenue so as not to distort the operating ted in the businesses when the adjusted operating profit AIs is included.

	2021 £m	2020 £m
rating loss	**(451)**	**(487)**
intangible assets acquired in business	452	472
osts	269	221
ments in derivatives and movements in ncial assets and liabilities	114	(182)
air value items	(49)	(115)
	40	48
ssets	–	184
o statutory operating loss	**826**	**628**
ating profit	**375**	**141**

ns to statutory operating loss in the year are consistent rs and include:

ion charge on intangible assets acquired in business of £452 million (2020: £472 million), which is excluded from ts due to its non-trading nature and to enable comparison es that grow organically. However, where intangible assets nature, such as computer software and development ortisation is not excluded from adjusted results.

ated with restructuring projects in the year totalling 2020: £221 million), including a write down of assets in of £112 million (2020: £20 million). These are shown as is due to their size and non-trading nature and during d 31 December 2021 these included:

f £92 million (2020: £110 million) within the Aerospace marily relating to the commencement of significant estructuring projects, necessary for the business to full potential target operating margins. These included ages of European footprint consolidations in both the ngines businesses, which commenced in the first half and significant restructuring programmes in North cross all three Aerospace sub-segments, which d in the second half.

- A charge of £147 million (2020: £60 million) within the Automotive division, primarily relating to two significant footprint consolidation actions in Europe, which significantly progressed during the year, along with costs incurred on multiple worldwide restructuring projects as the business accelerates its efforts to position its cost base during 2022 at a level that will allow the business to achieve target operating margins when supply constraints ease.
- A charge of £18 million (2020: £48 million) within the Powder Metallurgy division, relating to multiple restructuring projects underway that will set the business' cost base during 2022 at a level such that target operating margins can be achieved when supply constraints ease.
- A net charge of £12 million (2020: £3 million) within the Other Industrial and Corporate divisions which includes the non-cash accounting loss resulting from actions taken in the year to secure and buy-out pensioner members from the GKN UK 2016 Pension Plan with Aviva or Rothesay, as described in the pensions and post-employment obligations section of this review.

Where hedge accounting is not applied, movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts), along with foreign exchange movements on the associated financial assets and liabilities, entered into within the businesses to mitigate the potential volatility of future cash flows on long-term foreign currency customer and supplier contracts. This totalled a charge of £114 million (2020: credit of £182 million) in the year and is shown as an adjusting item because of its volatility and size.

The net release of fair value items in the year of £49 million (2020: £115 million) where items have been resolved for more favourable amounts than first anticipated. During the year this included a net release of £22 million in respect of loss-making contract provisions held within the GKN businesses, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period. The net release of fair value items is shown as an adjusting item, avoiding positively distorting adjusted results.

Other adjusting items of £40 million (2020: £48 million), which included items consistent with prior years, the largest of which is an adjustment of £28 million (2020: £30 million) to gross up the post-tax profits of EAIs to be consistent with the adjusted operating profits of subsidiaries within the Group.

In the prior year, a write down of assets of £184 million, which was recognised as a result of the impact of COVID-19, of which £133 million was within the Aerospace division. This was shown as an adjusting item because of the unprecedented nature of the COVID-19 pandemic, along with its non-trading nature and size.

Finance Director's review
Continued

Statutory and adjusted results by reporting segment
The following table shows continuing revenue split by reporting segment, including EAIs for adjusted revenue.

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m
Statutory revenue	**2,538**	**3,164**	**948**	**233**
Reconciling item:				
Revenue from EAIs	5	581	27	–
Adjusted revenue	**2,543**	**3,745**	**975**	**233**

The following table shows operating (loss)/profit split by reporting segment. Adjusting items are described earlier in this review.

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate £m
Statutory operating (loss)/profit	**(196)**	**(131)**	**40**	**35**	**(199)**
Reconciling item:					
Adjusting items	308	303	51	16	148
Adjusted operating profit/(loss)	**112**	**172**	**91**	**51**	**(51)**

The performances of each of the reporting segments are discussed in the Chief Executive's Review. The adjusted operating loss in the cost centre of £51 million (2020: £46 million) included £34 million (2020: £34 million) of operating costs and £17 million (2020: £12 million) of costs relating to divisional cash-based long-term incentive plans.

Finance costs and income – continuing operations
Total net finance costs shown in the statutory IFRS results in the year ended 31 December 2021 were £167 million (2020: £192 million), of which £125 million (2020: £182 million) are shown within the adjusted results and £42 million (2020: £10 million) treated as adjusting items.

Adjusted results:

Net interest on external bank loans, bonds, overdrafts and cash balances was £91 million (2020: £133 million). The Group uses interest rate swaps to fix the majority of the interest rate exposure on its drawn debt. More detail on these swaps is given in the finance cost risk management section of this review.

Net finance costs in adjusted results also included: a £10 million (2020: £12 million) amortisation charge relating to the arrangement costs of raising the Group's current bank facility; an interest charge on net pension liabilities of £8 million (2020: £19 million); a charge on lease liabilities of £14 million (2020: £16 million); and a charge for the unwind of discounting on long-term provisions of £2 million (2020: £2 million).

Adjusting items:

Adjusting items, within finance costs and income, include: a charge of £45 million (2020: £nil), relating to the early settlement of certain interest rate swap instruments that were no longer needed following the disposals of the Nortek Air Management and Brush businesses; and a credit of £3 million (2020: charge of £2 million) relating to the fair value changes on cross-currency swaps. Both are shown as adjusting items because of their volatility and non-trading nature.

In the prior year, adjusting items within finance costs and income included a charge of £8 million relating to costs incurred renegotiating the Group's financial covenants with its banking facility syndicate in response to the impact of COVID-19.

In addition, a credit of £2 million (2020: £nil), not included in the statutory net finance costs, is included in adjusted results, relating to the gross up of post-tax profits of EAIs to be consistent with the finance costs and income of other subsidiaries within the Group. This results in net adjusted finance costs for the year of £123 million (2020: £182 million).

Discontinued operations
Discontinued operations include: Nortek Air Management sold to Madison Industries LLC on 22 June 2021 for gross proceeds of £2.6 billion; the Brush business disposed on 18 June 2021 for cash consideration of £0.1 billion; and Nortek Control on 4 October 2021 for £0.2 billion.

The net proceeds associated with the disposal of Nortek Air Management and Nortek Control, plus more than £800 million of cash generated by the Nortek businesses since acquisition and the retention of the Ergotron business in the Group, means the Group is well placed to achieve the target of doubling shareholde investment on the Nortek acquisition.

The disposal of Brush, the final business to be sold from th acquisition in 2008, concluded another highly successful ir for Melrose shareholders, providing a 2.6x return on Sharel initial equity, equivalent to an IRR of 29%.

Discontinued businesses contributed £884 million to reven achieved statutory operating profit of £5 million for the perio year under ownership (2020: revenue of £1,782 million and operating profit of £149 million), before contributing a net £ profit on disposal in the year.

Return of capital and number of shares in issu
In line with the Group's strategy, following the disposal of N Management and Brush, a return of £729 million in cash to Shareholders, equivalent to 15 pence per Existing Ordinary made on 31 August 2021 via a redeemable share scheme a 9 for 10 share consolidation. This reduced the number of shares in issue by 10%, from 4,858 million to 4,372 million.

The weighted average number of shares used for earnings in calculations in 2021 is 4,695 million.

Tax – continuing operations
The statutory results show a tax credit of £172 million (20 £114 million) which arises on a statutory loss before tax o operations of £618 million (2020: loss of £679 million), a st rate of 28% (2020: 17%).

The effective rate on the adjusted profit before tax for the 31 December 2021 was 22%.

The statutory tax rate is higher than the adjusted tax rate statutory tax credit includes exceptional tax credits of £1((2020: £nil) relating to the recognition of Dutch losses that future tax savings as a result of a change in law, partially exceptional tax charges of £70 million (2020: £nil) in respe extraction of the US Powder Metallurgy companies from Automotive tax group.

The Group has £792 million (31 December 2020: £810 mi deferred tax assets on tax losses, retirement benefit oblig other timing differences. These are offset by deferred tax l intangible assets of £993 million (31 December 2020: £1,1 and £163 million (31 December 2020: £201 million) of othe tax liabilities. Most of the tax losses and other deferred tax generate future cash tax savings, whereas the deferred ta intangible assets are not expected to give rise to cash tax

Net cash tax paid in the year ended 31 December 2021 v £65 million (2020: £14 million), 26% of adjusted profit befc

ration and management

management initiatives continue to be run by all the Group and resulted in a free cash inflow in the year of 020: £456 million) of which £53 million (2020: £252 million) tinued operations, with each of the continuing businesses -funding all costs, including substantial restructuring ed free cash flow, shown before restructuring cash spend, on (2020: £628 million).

the adjusted free cash flow is shown in the table below:

erations (unless stated otherwise)	2021 £m	2020 £m
ting profit	375	141
ting profit from EAIs	(66)	(62)
d amortisation	425	442
payments	(54)	(63)
sh impact from loss-making contracts	(48)	(58)
movements	62	371
ating cash flow (pre-capex)	**694**	**771**
enditure	(225)	(265)
net tax paid	(205)	(171)
pension contributions – ongoing	(54)	(107)
	(193)	(161)
e from equity accounted investments	52	54
	3	83
operations discontinued in the year,	53	252
	125	456
cash flow	**323**	**628**

on (2020: £11 million) of restructuring spend.

apital in the continuing businesses was reduced by the year (2020: £371 million), despite Group revenue % in the year, at constant currency. Working capital as of sales, within the remaining GKN businesses, has 5% at the GKN acquisition date to 3% at 31 December ng the strong cash generation achieved during Melrose

penditure in the year was £225 million (2020: representing 0.6x (2020: 0.7x) depreciation of .

aid in the year was £140 million (2020: £157 million), ents were £65 million (2020: £14 million) and ongoing to defined benefit pension schemes were £54 million illion). These included £30 million (2020: £60 million) GKN UK pension plans, reduced because the funding made by the Group, when GKN was acquired in 2018, vered ahead of schedule. The GKN UK pension now in surplus helped by £1 in every £3 of free cash quisition being paid into the Group's pension schemes.

The movement in net debt (as defined in the glossary to the Consolidated Financial Statements) is summarised as follows:

	2021 £m	2020 £m
At 1 January	**(2,847)**	**(3,283)**
Non-trading items and discontinued operations:		
Net cash flow from acquisition and disposal related activities	2,536	(11)
Dividends paid to Melrose shareholders	(69)	–
Return of Capital	(729)	–
Foreign exchange and other non-cash movements[1]	34	(9)
Cash flow from non-trading items and discontinued operations	**1,772**	**(20)**
Free cash flow	125	456
At 31 December at closing exchange rates	**(950)**	**(2,847)**
At 31 December at 12 month average exchange rates	**(947)**	**(2,953)**

(1) the prior period includes £7 million of cash outflows from operations discontinued last year.

Group net debt at 31 December 2021, translated at closing exchange rates (being US $1.35 and €1.19), was £950 million (31 December 2020: £2,847 million, translated at closing exchange rates at 31 December 2020).

The significant reduction in net debt during the year consisted of a free cash inflow of £125 million and substantial inflows primarily relating to the disposals of Nortek Air Management, Nortek Control and Brush, together totalling £2,536 million. In addition, payments to shareholders included dividends of £69 million and a Return of Capital of £729 million (discussed earlier in this review). There was a £34 million reduction to net debt in respect of foreign exchange and other non-cash movements.

The net debt at the acquisition of GKN, of £3.4 billion, has been fully repaid within four years, save cash returned to shareholders over the period as dividends or capital returns.

For bank covenant purposes the Group's net debt is calculated at average exchange rates for the previous twelve months, to better align the calculation with the currency rates used to calculate profits, and was £947 million (31 December 2020: £2,953 million, translated at twelve month average exchange rates for 2020).

The Group net debt leverage on this basis at 31 December 2021 was 1.3x EBITDA (31 December 2020: 4.1x EBITDA), transforming the Balance Sheet from last year's leverage, to be more conservative.

Assets and liabilities

The summarised Melrose Group assets and liabilities are shown below:

	2021 £m	2020 £m
Goodwill and intangible assets acquired with business combinations	7,043	8,790
Tangible fixed assets, computer software and development costs	2,875	3,541
Equity accounted investments	429	430
Net working capital	159	346
Net retirement benefit obligations	(461)	(838)
Provisions	(701)	(1,021)
Deferred tax and current tax	(495)	(717)
Lease obligations	(376)	(555)
Net other	17	(19)
Total	**8,490**	**9,957**

Finance Director's review
Continued

These assets and liabilities are funded by:

	2021 £m	2020 £m
Net debt	(950)	(2,847)
Equity	(7,540)	(7,110)
Total	**(8,490)**	**(9,957)**

Net debt shown in the table above is defined in the glossary to the Consolidated Financial Statements and is consistent with the banking facility covenant testing definition.

Goodwill, intangible assets and impairment review

The total value of goodwill as at 31 December 2021 was £2,850 million (31 December 2020: £3,640 million) and intangible assets acquired with business combinations was £4,193 million (31 December 2020: £5,150 million). These items are split by reporting segment as follows:

31 December 2021	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Goodwill	933	1,001	507	409	2,850
Intangible assets acquired with business combinations	2,542	979	559	113	4,193
Total goodwill and acquired intangible assets	**3,475**	**1,980**	**1,066**	**522**	**7,043**

The Group's goodwill and intangible assets have been tested for impairment, and in accordance with IAS 36 "Impairment of assets" the recoverable amount has been assessed as being the higher of the fair value less costs to sell and the value in use.

Under IAS 36, the value in use basis for calculating the recoverable amount prohibits the inclusion of future uncommitted restructuring plans, whilst the fair value less costs to sell basis of valuation allows the inclusion of these plans if it is deemed that a market participant would also restructure.

With the future benefits of restructuring projects currently forming a material part of valuations for certain businesses within the Group, the fair value less costs to sell basis gives the higher valuation at this point in time for the GKN group of cash generating units, and therefore in accordance with IAS 36, has been used in assessing the recoverable amount for these businesses.

The Board is comfortable that no impairment is required in respect of the valuation of goodwill and intangible assets in its businesses as at 31 December 2021.

Provisions

Total provisions at 31 December 2021 were £701 million (31 December 2020: £1,021 million), which included: £222 million for warranty (31 December 2020: £330 million); £167 million for loss-making contracts (31 December 2020: £241 million); £135 million for environmental and litigation issues (31 December 2020: £191 million); £81 million for restructuring (31 December 2020: £147 million); and other provisions of £96 million (31 December 2020: £112 million).

The following table details the movement in provisions in th

At 1 January 2021	
Spend against provisions	
Net charge to adjusted operating profit	
Net charge shown as adjusting items	
Release of loss-making contract provision to adjusting items	
Utilisation of loss-making contract provision	
Disposals	
Other (including foreign exchange)	
At 31 December 2021	

Spend against provisions in the year, of £278 million, inclu £167 million of cash spent on restructuring activities.

The net charge to adjusted operating profit in the year of primarily in respect of ongoing warranty and workers' cor charges which are closely matched by similar cash paym year.

The net charge shown as adjusting items in the Income S of £96 million primarily includes costs associated with ree actions of £124 million, discussed within the adjusting iten this review, net of a release, mainly relating to fair value ite for an amount more favourable than first anticipated.

The utilisation of the loss-making contract provision was in the year (31 December 2020: £59 million). Furthermore approximately 13%, of the remaining loss-making contra was released as an adjusting item in the year, either beca contracts have been favourably resolved following positiv negotiations with customers or because operational effic been demonstrated for a sustained period of time. At 31 2021 the loss-making contract provision was £167 millior approximately 70% lower than when GKN was acquired

Movement in provisions in the year also included foreign movements of £21 million and the unwind of discounting provisions of £1 million. These are shown in the Other ca table above.

Pensions and post-employment obligations

Melrose operates a number of defined benefit pension sc retiree medical plans across the Group, accounted for us 19 Revised: "Employee Benefits".

The values of the Group plans were updated at 31 Decer independent actuaries to reflect the latest key assumptio summarised as follows:

	Assets £m	Liabilities £m
GKN UK Group pension schemes (Numbers 1 – 4)	2,754	(2,575
Other Group pension schemes	256	(896
Total Group pension schemes	3,010	(3,471

The most significant pension plans remaining in the Group UK Group Pension Schemes (Numbers 1 – 4), two of whic allocated to the Aerospace division and two to the Automc At 31 December 2021 in total these four pension plans ha gross assets of £2,754 million (31 December 2020: £2,55€ gross liabilities of £2,575 million (31 December 2020: £2,75 a net surplus of £179 million (31 December 2020: net defic £199 million), split 60% of the surplus held within Aerospac within Automotive. These GKN schemes are closed to new and to the accrual of future benefits for current members.

eficits within the other pension schemes in the Group
nan GKN pension plans which provide benefits
n final salary and service, and which are generally
d closed to new members. At 31 December 2021
ad a net deficit of £530 million (31 December 2020:

ar, £53 million of net surplus on pension schemes were
ith businesses on disposal. In addition, a successful
nsioner liabilities of the GKN UK 2016 Pension Plan was
sulting in c.8,000 pensioners benefits being secured
Rothesay. Prior to the completion of the buy-out
remaining 2,659 deferred members, along with the
surplus of £43 million, of the GKN UK 2016 Pension Plan
ed to a ring-fenced section of the GKN Group Pension
nber 2

unding commitment of the GKN UK Group Pension
ade when GKN was acquired in 2018, has been delivered
edule following an agreed contribution of £34 million after
of Nortek Air Management. The ongoing contributions to
l benefit pension schemes have now halved to
er annum, with no further requirement to contribute
wing disposals of businesses.

ng contributions to the Group defined benefit pension
st-employment medical plans in the year ended
2021 were £54 million and are expected to be at a
2022.

f the assumptions used are shown in the Financial
t is noted that a 0.1 percentage point decrease in the
would increase the retirement benefit accounting
e Group, on an IAS 19 basis, by £61 million, or 2%, and a
ge point increase to inflation would increase the liabilities
, or 1%. Furthermore, an increase by one year in the
of a 65 year old member would increase the pension
ese plans by £175 million, or 5%.

isk management

risks the Group faces continue to be considered and
nplemented to appropriately deal with each risk. The
ant financial risks are considered to be liquidity risk,
isk, exchange rate risk, contract and warranty risk and
ost risk.

cussed in turn below.

k management

net debt position at 31 December 2021 was £950 million
r 2020: £2,847 million).

2021, the Group extended the maturity date of both its
l revolving credit facility to 30 June 2024. Subsequent to
, in December 2021 the term loan was partly prepaid by
d US$172 million. Consequently, the Group's committed
includes a multi-currency denominated term loan of
1 December 2020: £100 million) and US$788 million
r 2020: US$960 million) and a multi-currency
revolving credit facility of £1.1 billion, US$2.0 billion and
oans drawn under this facility are guaranteed by Melrose
C and certain of its subsidiaries, but there is no security
e Group's assets in respect of this facility.

ber 2021, the term loan was fully drawn and there were no
vn on the multi-currency revolving credit facility. Applying
rates at 31 December 2021, the headroom equated to
here are also a number of uncommitted overdraft,
d borrowing facilities made available to the Group.

the headroom on the multi-currency committed
dit facility, cash, deposits and marketable securities, net
in the Group amounted to £468 million at 31 December
ember 2020: £160 million).

The Group also holds capital market borrowings as at 31 December 2021 consisting of:

Maturity date	Notional amount £m	Coupon % p.a.	Cross-currency swaps million	Interest rate on swaps % p.a.
September 2022	450	5.375%	US$373	5.70%
			€284	3.87%
May 2032	300	4.625%	n/a	n/a

The committed bank funding has two financial covenants, being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half-yearly in June and December.

The net debt to adjusted EBITDA covenant test level is set at 4.25x at 31 December 2021; 4.0x at 30 June 2022; 3.75x at 31 December 2022; and 3.5x at 30 June 2023 and onwards. At 31 December 2021 the Group net debt leverage was 1.3x, affording comfortable headroom.

The interest cover test is set at 3.0x at 31 December 2021; 3.25x at 30 June 2022; and 4.0x from 31 December 2022 onwards. At 31 December 2021 the Group interest cover was 5.9x, again showing comfortable headroom compared to the covenant test.

A limited number of Group trade receivables are subject to non-recourse factoring and customer supply chain finance arrangements. As at 31 December 2021, these amounted to £310 million (31 December 2020: £314 million) and as a result there was a net cash reduction in the year of £4 million (2020: benefit of £60 million).

In addition, some suppliers have access to utilise the Group's supplier finance programmes, which are provided by a number of the Group's banks. As at 31 December 2021 there were drawings on these facilities of £102 million (31 December 2020: £62 million). There is no cost to the Group for providing these programmes as the cost is borne by the suppliers. These programmes allow suppliers to choose whether they want to accelerate the payment of their invoices by the financing banks, at a low interest cost, based on the credit rating of the Group as determined by the financing banks. If the Group exited these arrangements or the banks ceased to fund the programmes there could be a potential impact of approximately £60 million (31 December 2020: approximately £30 million) on the Group's cash flows. The risk of this happening is considered low as the Group has extended the number of banks that provide this type of financing to ensure there is not a significant exposure to any one bank.

Finance cost risk management

The policy of the Board is to fix approximately 70% of the interest rate exposure of the Group. Following the disposals of Nortek Air Management, Nortek Control and Brush, the Group's net debt reduced significantly and, to maintain the policy of fixing approximately 70% of the Group's interest rate exposure, several of the interest rate swaps were cancelled at a cash cost of £47 million.

The bank margin on the bank facility depends on the Group leverage, which reduced following the disposals completed in the year. Following the extension of the bank facility in December 2021, the bank margins were as follows:

Facility	31 Dec 2021 Margin	31 Dec 2021 Range	31 Dec 2020 Margin	31 Dec 2020 Range
Term Loan	0.75%	0.75% - 2.0%	2.0%	0.75% - 2.0%
Revolving Credit Facility	0.75%	0.75% - 2.0%	2.25%	0.95% - 2.25%

Finance Director's review
Continued

The Group holds cross-currency interest rate swaps associated with the 2022 fixed rate capital market borrowings, described earlier in this review. In addition, US$ bank debt of US$170 million is swapped into €150 million and is used to reduce the cost of the Group's borrowings. The Group also holds interest rate swap instruments to fix the cost of LIBOR on borrowings under the bank facility. The Income Statement cost on the 2022 cross-currency and interest rate swaps are as follows:

Interest rate swaps associated with:	31 Dec 2021	Maturity
2022 fixed rate capital market borrowings	3.4%	September 2022
Fixing LIBOR on the Group bank facility (excluding margin)	2.2%	January 2023

At 31 December 2021, the fair value liability of all cross-currency swaps held by the Group was £69 million (31 December 2020: £89 million).

The Group's combined Income Statement cost of debt for the next 12 months including the prior year comparative is shown below:

	31 Dec 2021	31 Dec 2020
Excluding amortisation of bank arrangement fees	3.4%	3.9%
Including amortisation of bank arrangement fees	4.1%	4.2%

Exchange rate risk management

The Group trades in various countries around the world and is exposed to movements in a number of foreign currencies. The Group therefore carries exchange rate risk that can be categorised into three types: transaction, translation and disposal related risk, as described in the paragraphs below. The Group's policy is designed to protect against the majority of the cash risks but not the non-cash risks.

The most common exchange rate risk is the transaction risk the Group takes when it invoices a customer or purchases from suppliers in a different currency to the underlying functional currency of the relevant business. The Group's policy is to review transactional foreign exchange exposures, and place necessary hedging contracts, quarterly on a rolling basis. To the extent the cash flows associated with a transactional foreign exchange risk are committed, the Group will hedge 100% at the time the cash flow becomes committed. For forecast and variable cash flows, the Group hedges a proportion of the expected cash flows, with the percentage being hedged lowering as the time horizon lengthens. The average time horizons for GKN Aerospace, GKN Automotive and GKN Powder Metallurgy reflect the longer-term nature of the contracts within these divisions. Typically, in total the Group hedges around 90% of foreign exchange exposures expected over the next twelve months and approximately 60% to 80% of exposures expected between 12 and 24 months. This policy does not eliminate the cash risk but does bring some certainty to it.

The translation rate risk is the effect on the Group results in the period due to the movement of exchange rates used to translate foreign results into Sterling from one period to the next. No specific exchange instruments are used to protect against the translation risk because it is a non-cash risk to the Group, until foreign currency is subsequently converted to Sterling. However, the Group utilises its multi-currency banking facilities and cross-currency swaps, where relevant, to maintain an appropriate mix of debt in each currency. The hedge of having debt drawn in these currencies funding the trading units with US Dollars or Euro functional currencies protects against some of the Balance Sheet and banking covenant translation risk.

Lastly, exchange rate risk arises when a business that is predominantly based in a foreign currency is sold. The p those businesses may be received in a foreign currency an exchange rate risk may arise on conversion of foreigr proceeds into Sterling, for example to pay a Sterling divi Capital Return to shareholders. Protection against this ri considered on a case by case basis and, if appropriate, at the time.

Exchange rates for currencies most relevant to the Group were:

	Avera
US Dollar	
2021	1
2020	1
Euro	
2021	1
2020	1

A 10 percent strengthening of the major currencies within this were to happen in isolation against all other currencie the following impact on the re-translation of adjusted oper into Sterling:

£m	USD	EUR
Increase in adjusted operating profit	23	4
% impact on adjusted operating profit	6%	1%

The impact from transactional foreign exchange exposure material in the short term due to hedge coverage being ap 90%.

A 10 percent strengthening in either the US Dollar or Euro the following impact on debt as at 31 December 2021:

	U
Increase in debt – £ million	
Increase in debt	

Contract and warranty risk management

Under Melrose management a suitable bid and contract process exists in the businesses, which includes thorou of contract terms and conditions, contract-specific risk a and clear delegation of authority for approvals. These pr to ensure effective management of risks associated with contracts. The financial risks connected with contracts a include the consideration of commercial, legal and warra their duration, which are all considered carefully by the b and Melrose centrally before being entered into.

cost risk management

ve expenditure on commodities is important to the
e risk of base commodity costs increasing is
erever possible, by passing on the cost increases to
by having suitable purchase agreements with
ch fix the price over a certain period. These risks are
d through sourcing policies, including the use of
liers, where possible, and procurement contracts
are agreed in advance to limit exposure to price
asionally, businesses within the Group enter financial
n commodities when this is considered to be the
way of protecting against price movements.

cern

ir consideration of going concern, the Directors have
Group's future cash forecasts and profit projections,
sed on market data, internal information and recent
ce.

as modelled a reasonably possible downside
nst future cash forecasts. The Group's Balance
sformed compared to the same time last year, and
nably possible downside scenario, the Group has
droom to avoid breaching any financial covenant and
quire any additional sources of financing throughout
period.

onomic environment remains uncertain and volatile.
of the pandemic, political conflict and unrest on
tions and supply chain constraints could be more
severe than the Directors have considered in this
ossible scenario. It is recognised that the very recent
aine are still unfolding and any wider impacts are
y assess at this early time.

current committed bank facility headroom, its access
d the sensible levels of bank covenants in place with
s, allow the Directors to consider it appropriate that
n manage its business risks successfully and adopt
ern basis in preparing these Financial Statements.

rtin
ce Director
2

Longer-term viability statement

In accordance with provision 30 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the "Going Concern" provision. A period of three years is believed to be appropriate for this assessment since this is consistent with the Group's financing cycle, whereby on average the Group has refinanced debt in line with this timescale, usually as a result of acquisition or disposal activity. The Group uses a period of five years for impairment testing of certain groups of cash generating units due to the long-term nature of cash flows within certain industries, but this is not common across all of the Group's businesses and is not necessarily reflective of financing arrangements offered by banks.

The Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities, as they fall due, up to December 2024.

The Directors' assessment has been made by reference to the Group's financial position as at 31 December 2021, its prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and their management, all of which are described in the Strategic Report.

The Directors' assessment of the Group's viability is underpinned by a paper prepared by management. The paper is supported by comprehensive and detailed analysis and modelling. The model underpinning this statement is stress-tested, proven and is frequently used by management when determining working capital requirements for transactions and corporate restructuring. The main assumptions included in the model relate to forecast revenue, operating margin and cash generation. The model includes three years of forecast data from the Group's business assets and incorporates agreed sensitivities for economic risk (impacting revenue and margins to reduce the rate of recovery currently being forecast), foreign exchange risk (impacting net debt and assuming adverse movements in foreign exchange rates) and liquidity risk (impacting net debt and assuming a deterioration in working capital), each of which have been considered both individually and in combination by the Board, together with expected achievable mitigating actions from the working capital model to create severe, but plausible, scenarios. These scenarios sensitise the main assumptions noted above, considering the medium-term impact of the COVID-19 pandemic, and also consider relevant cross-border trade risk including in respect of the UK's exit from the EU.

In preparing this statement, the following qualifications and assumptions are made:

(i) the viability model is based on the Group as at the date of this Annual Report, with no consideration of any further acquisitions or future disposals of continuing businesses. We note future acquisitions would be based on the same proven business model applied previously, with related bank debt and equity raised to support the acquisition with sufficient headroom to cover business risks; and

(ii) financing arrangements, renegotiated in the year, and bank covenant testing, both of which are committed for most of the period under review. There is a high expectation that when the Group refinances its £450 million bond maturing in September 2022 and its multi-currency revolving credit facility, before June 2024, it will have sufficient headroom above covenants and in its liquidity to continue in operation.

Risk management

The Board recognises that operating in a dynamic and rapidly evolving commercial environment requires a pragmatic, robust and responsive risk management framework comprising policies, visibility and controls that change with the business and provide management with a comprehensive view of the Group's risk profile at any given time, enabling risk to be identified, assessed and managed.

Risk management responsibilities

The Board, having overall responsibility for risk management, has approved a formalised but pragmatic Group risk management framework.

Board Overall responsibility for risk management	• Agrees the Group's risk management strategy and defines its risk appetite • Reviews reports and recommendations from the Melrose senior management team and the Audit Committee on risk governance and risk processes and controls • Determines the nature and extent of the Group's principal risks and regularly discusses and assesses them throughout the year with the Melrose senior management team to determine the likelihood of those risks materialising and how they should be managed or mitigated • Maintains oversight of principal risks and mitigation plans including cyber security and fraud risk • Promotes an appropriate risk management culture and rewards system within the Group in order to maintain sound risk management and internal control systems
Audit Committee Monitors the Group's internal financial control processes	• Monitors the Group's internal financial control processes • Monitors, oversees and reviews the effectiveness of the Group's internal controls and risk management systems and processes • Supports the Board in monitoring risk exposure against risk appetite
Melrose senior management and business unit senior managers	• Sets the risk management processes and controls • Agrees how the principal risks should be managed or mitigated to reduce the likelihood of their incidence or impact • Considers actual and emerging risks • Oversees and challenges risk mitigation plans and supports the legal and compliance teams within the business units
Operational managers and financial controllers	• Risk identification, assessment and monitoring at the business unit level • Implementing, reviewing and continually monitoring compliance with risk mitigation plans and controls • Embedding risk awareness and culture throughout the business

The Board's view of the Group's principal risks and uncertainties is detailed in the table on pages 42 to 49.

Risk management strategy and framework

The objectives of the Directors and Melrose senior management include safeguarding and increasing the value of the businesses and assets of the Group for stakeholders as a whole. Achievement of these objectives requires the development of policies and appropriate internal control frameworks to ensure the Group's resources are managed properly, and for key risks to be identified and mitigated where possible.

The Board recognises that it is ultimately responsible for determining the nature and extent of the principal risks it is willing to take in the pursuit of its strategic objectives. It also recognises the need to define a risk appetite for the Group, to maintain sound risk management and internal control systems, and to monitor its risk exposures and mitigation measures to ensure that the nature and extent of risks taken by the Group are aligned with, and proportionate to, its strategic objectives.

The Group operates on a decentralised basis and the Board has established an organisational structure with clear reporting procedures, lines of responsibility and delegated authority, as depicted in the diagram above. Consistent with this, the Group operates a top-down, bottom-up approach to risk management, comprising Board and Melrose senior management oversight coupled with bottom-up risk management embedded in the day-to-day activities of its individual businesses.

The Board confirms that there is an ongoing process for identifying, evaluating, tracking and managing the principal risks faced by the Group and that these systems, which are subject to regular monitoring and review, have been in place for the year under review up to the date of approval of this Annual Report and finar statements. The Board further confirms that the systems and controls that are in place accord with the guidance c the Financial Reporting Council's "Guidance on Risk Mar Internal Control and Related Financial and Business Rep the UK Corporate Governance Code (the "Code").

The Audit Committee monitors, oversees and reviews the of the risk management and internal control processes imp across the Group, through regular updates and discussion management and a review of the key findings presented b and internal auditors. The Board is responsible for conside Committee's recommendations and ensuring implementa divisional management of those recommendations it deem for the business. A description of the Audit Committee's ac the year on risk management can be found on page 97.

The management team of each business unit is responsi monitoring business level risk and implementing and mai effective risk and control environment within their respect unit as part of day-to-day operations, in line with the Grou management framework and internal control systems de the Board. The CEO and senior executive team of each c responsible for, and report to the Melrose senior manage respect of, specific and ongoing risks related to their resp business division, which are reported formally to the Audi on an annual basis. The Audit Committee receives a form management report on a biannual basis, in addition to th receipt of updates from the Melrose senior management material items that arise relating to principal Group risks.

agement framework

Melrose's senior management team supplemented the enterprise risk management programme by building and ng a data-driven Group reporting dashboard to automate tion and reporting of Group risks, in conjunction with sional risk reporting and advice from external risk t consultants. This marked a significant step forward in ourney towards enhancing both divisional management's transparency, and the Board's visibility of the Group's s, to enable an increasingly robust assessment of each sk profile and their impact on the Group risk profile as a lashboard has since been enhanced to provide the Audit with additional detail and trend analysis compared to each pective key industries, further visibility on the significance nal risks, and greater illustration of each division's risk 021, the dashboard's reporting output was enhanced to ght the alignment between divisional and Group risks, providing the Audit Committee with additional detail on onfidence within the Group. Such enhancements have Audit Committee's monitoring, oversight and review of ness of the Group's internal controls and risk t systems and processes.

ear under review, in accordance with provisions 28 and 29 the Board continued to monitor the effectiveness of the management and internal control systems. The Board hat the Group's risk management and internal control processes were operating effectively. Follow-up actions progress and improvement in relation to financial controls scussed in the Audit Committee report.

te

as undertaken an exercise to consider its risk appetite nber of key business risk areas. The results of this review elative appetite of the Board across the risk factors at a t in time. Any material changes in risk factors will impact assessment of its risk appetite.

as a higher risk appetite towards its strategic risks, with a petite towards operational and commercial risk, and omic, climate change and political risk. The Board seeks ll health and safety risks and has a low risk appetite in gal, compliance and regulatory risk. Similarly, a appetite is indicated by the Board with respect to pension related risk and information technology and cyber risk.

f the risk appetite review will support the Board's king processes during 2022. The Board undertakes a isk appetite at least annually.

gement actions

the Board continued to deliver on the key management ntified in the 2020 review across the Group. Risk owners take steps to mitigate the risk exposures across the orted by specific actions undertaken to improve enterprise ment across the Group during the year, as follows:

and reaffirming the Board's risk appetite, in addition to d expanding the Group's risk categories;

the implementation of the risk management e framework across all business units. This framework Melrose principles for risk management and sets the for the identification, evaluation, prioritisation, recording, l reporting of risks and their management or mitigation t the organisation;

to enhance Melrose risk register methods, dashboard outputs, and risk profile mapping application throughout . These provide the Board with greater levels of detail ty on the risk management systems and processes in place, and illustrate each principal risk facing the Group from both a gross risk (pre-mitigation) and net risk (post-mitigation) position. The risk mapping application provides Directors with a clear risk profile for the Group and enables the Board to determine the degree to which its profile is aligned with its risk appetite;

- reviewing and improving the Group's processes, data extraction and consolidation, and trend analysis around the assessment of principal risks and the ongoing monitoring and reporting of the Group's risk management performance; and
- conducting a qualitative climate scenario analysis to assess how Melrose and its businesses are exposed to, and how they are managing, climate-related risks. We have included more details on these activities in our disclosures against the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and we have set Group-level targets to reduce our Scope 1 and 2 emissions. Further details can be found on pages 58 to 65.

Assessment of principal risks

During the year, the Board undertook a robust, in-depth and comprehensive assessment of the emerging and principal risks facing the Group and specifically those that might threaten the delivery of its strategic business model, its future performance, solvency or liquidity. As part of the assessment, the Board refined and expanded the Group's risk categories, and identified emerging risks with the support of the Melrose senior management team based in part on a review of trends within business level risks.

Operations risk was realigned as a new standalone Group risk to reflect the strategic importance associated with the Group successfully managing the risks related to operational performance, which are key to Melrose's "Buy, Improve, Sell" business model. Further, climate change risk was realigned as a new standalone Group risk to reflect the emerging risks involved with the increased frequency of extreme weather and climate-related disasters, coupled with increased legislation and regulations in this area. The Board also sought to rationalise the Group risks by combining the prior Group risk of acquisitions of new businesses and improvement strategies, with the Group risk of timing of disposals, to create a new standalone mergers and acquisitions Group risk. This was considered appropriate to reflect the risks associated with the full timeline of transactions, whilst reallocating the improvement strategy element of the risk to the new operations Group risk.

A summary of the principal risks and uncertainties that could impact on the Group's performance is shown on pages 42 to 49. Further information detailing the internal control and risk management policies and procedures operated within the Group is shown on pages 92 to 93 of the Corporate Governance report.

Risk management priorities for 2022

Continual improvements were made during 2021 in respect of the Group's risk management processes. However, the Board recognises that Melrose cannot be complacent. In 2022, management will continue to focus on refining the risk management framework and further embedding a culture of effective risk management across the Group to ensure that risks and opportunities are identified and managed, to support the delivery of long-term value creation.

Further resources will continue to be devoted to supporting divisions to implement improved controls around our non-financial reporting together with objective trend analysis on the effectiveness of the Group's risk management governance, processes and controls. Climate change risk reporting and mitigating actions will continue to be strengthened, with the Group's sustainability function working with the businesses in their journeys towards meeting the Group's sustainability targets, with Melrose providing investment to help achieve them.

Risks and uncertainties

Strategic risk profile

A risk management and internal controls framework is in place within the Group, which is continually reviewed and adapted where necessary to reflect the risk profile of the Group and to continue to ensure that such risks and uncertainties can be identified and, where possible, managed suitably.

Each business unit maintains a risk register which is aggr
an interactive data-driven dashboard reporting tool, to fac
by the Melrose senior management team, the Audit Com
the Board.

Strategic risk profile

Our updated view of the Group's strategic risk profile is shown below.

The residual risk scores have been calculated on a post-mitigation basis.

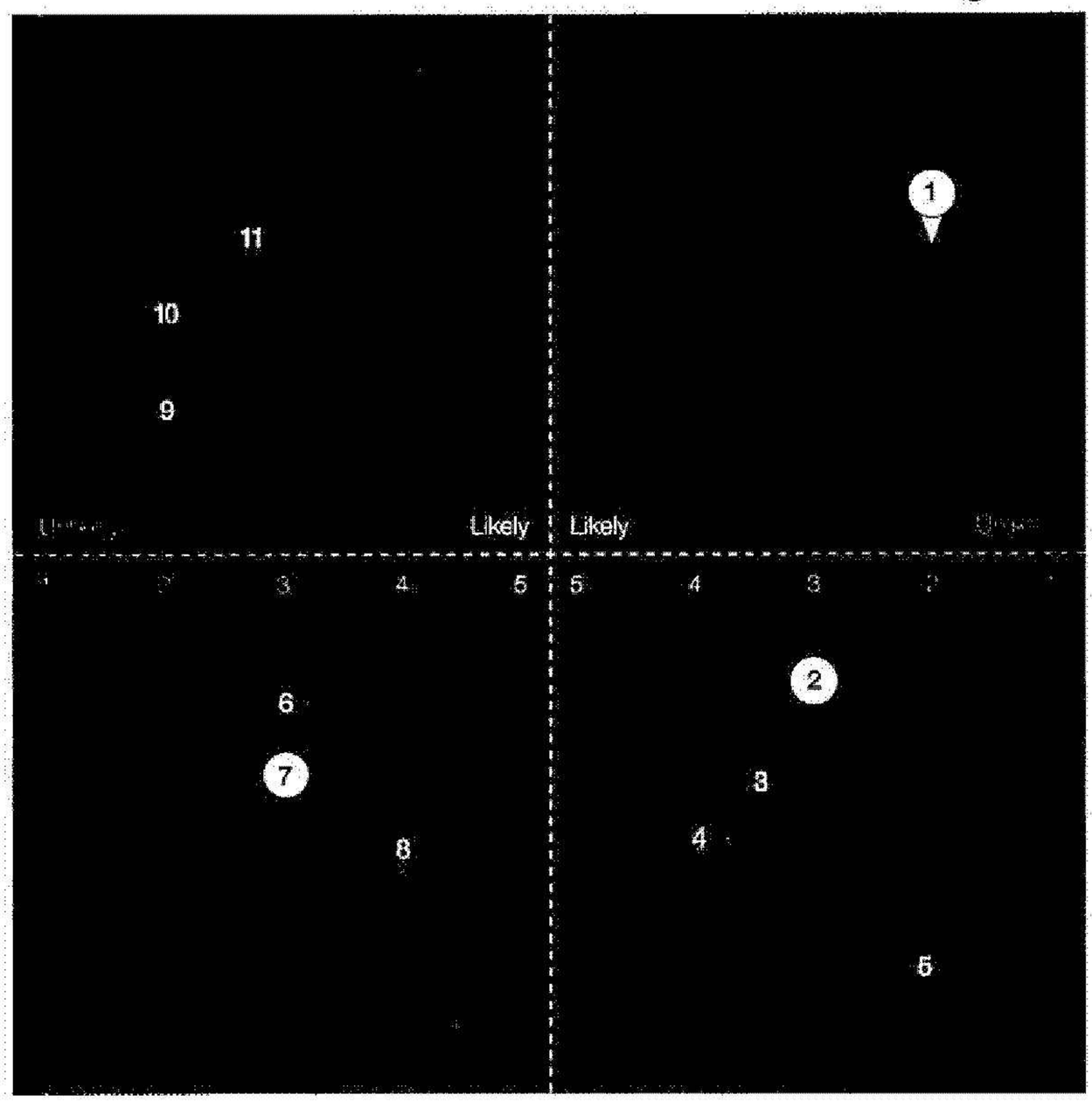
Risk

- Low
- Moderate
- High
- Realigned/New

Likelihood

1 5

Unlikely ----------> Likely



No.	Risk rating	Risk title	Risk trend since last Annual Report		n/a 2017	n/a 2018	n/a 2019	20
1	Moderate	Mergers and acquisitions	Decrease	↓				
2	Moderate	Operations	n/a		n/a 2017	n/a 2018	n/a 2019	n 20
3	Moderate	Commercial	Increase	↑	n/a 2017	2018	2019	20
4	High	Economic and political	Increase	↑	2017	2018	2019	20
5	Low	Loss of key management and capabilities	Decrease	↓	2017	2018	2019	20
6	Moderate	Legal and regulatory	No change	→	2017	2018	2019	20
7	Moderate	Climate change	n/a		n/a 2017	n/a 2018	n/a 2019	n 20
8	High	Information security and cyber threats	No change	→	2017	2018	2019	20
9	Low	Foreign exchange	No change	→	2017	2018	2019	20
10	Moderate	Pensions	Decrease	↓	2017	2018	2019	20
11	Moderate	Liquidity	Decrease	↓	2017	2018	2019	20

risks

and acquisitions Realigned risk

n and impact

s of the Group's mergers and acquisitions strategy identifying available and suitable targets, obtaining any authorisations required to carry out an acquisition, and e necessary financing, be this from equity, debt or a of the two. In making acquisitions, there is a risk of liabilities being later discovered which were not uncovered the time of the due diligence process, particularly in the mited access in public bids. Further, the expected timing of l of businesses could have a material impact on the tegy and performance. Due to the Group's global there may be a significant impact on the timings of ue to political and macro-economic factors, meaning that ay retain liabilities for longer than anticipated.

return on shareholder investment may fall if acquisition are not met. The Group's financial performance may goodwill or other acquisition-related impairment charges, dentification of additional liabilities not known at the time sition.

peline of potential opportunities supported by a broad f advisors and contacts.

d and appropriate due diligence undertaken on potential ts where permitted and practicable.

acquisition targets that have strong headline ntals, high-quality products, and leading market share, are underperforming their potential and ability to sustainable cash flows and profit growth.

are experienced in judging and regularly reviewing the te time in a business cycle for a disposal to realise value for shareholders.

posal is assessed on its merits, with a key focus on a posal.

with timing disposals to match market sectors and maturity.

ility	Executive management[1]

mmentary

obal M&A markets continue to experience uncertainty, ieved strong value realisation with the sale of Nortek Air nt, Nortek Control and Brush, as demonstrated on pages 6 eport. Whilst no large acquisitions were made in 2021, the ains open to potential new opportunities.

riorities	● Buy ● Improve ● Sell

xecutive Directors and Melrose senior management.

Operational risks

Risk 2
Operations Realigned risk

Description and impact

The Group's improvement strategy is a key component of Melrose's business model of buying and then improving good but underperforming manufacturing businesses. However, once an acquisition is completed, there are risks that the Group will not succeed in driving strategic operational improvements to achieve the expected post-acquisition trading results or value which were originally anticipated, that the acquired products and technologies may not be successful, that macro events impact on the ability to carry out such improvements, or that the business may require significantly greater resources and investment than anticipated. If anticipated benefits are not realised or trading by acquired businesses falls below expectations, it may be necessary to impair the carrying value of these assets and it may more generally impact on the Group's overall financial performance.

Melrose operates a decentralised control and management structure which empowers divisional management teams to drive operational improvements and sustainable production, whilst planning, mitigating, navigating and responding to the specific operational risks and challenges facing their respective businesses. For the coming year, the rising challenge of inflationary pressures on costs of materials, together with the ability of businesses to offset the impact, are a particular focus. The Melrose senior management team monitors the aggregated impact of such risks and provides active support and challenge to the divisional management teams in fulfilling their responsibilities.

Mitigation

- Hands-on role taken by executive Directors and other senior employees of the Group.
- Development of strategic plans, restructuring opportunities, capital expenditure, procurement and working capital management.
- Since acquiring GKN plc, the Melrose senior management team has actively engaged with and supported the GKN businesses' executive teams in identifying embedded contractual and business conduct risks relating to key supply chain and production programme partners. Those management teams have continued to implement and direct a series of operational change management programmes to mitigate the risks they have identified.
- Proper incentivisation of operational management teams to align with Melrose strategy.

Responsibility	Executive management[1]
Risk trend	N/A

Trend commentary

During the year, particular focus has been placed on risks associated with quality, supply chain, inflation, and third-party dependencies, which are all considered key elements of the Group's improvement strategy. Specifically, the supply constraints in the wider automotive industry as a result of the global shortage of semi-conductors has naturally affected GKN Automotive and GKN Powder Metallurgy. This particular pressure is expected to ease over 2022, but supply chain challenges and inflationary pressures are nonetheless expected to persist.

The Melrose senior management team continues to actively engage with the business unit executive teams to identify and track strategic operational improvements, together with operational risks which may impact on such improvements.

Strategic priorities	Buy ● Improve Sell

Risks and uncertainties
Continued

Operational risks continued

Risk 3
Commercial

Description and impact

The Group operates in competitive markets throughout the world and is diversified across a variety of industries and production and sales geographies. This provides a degree of Group-level impact mitigation from the potential commercial challenges and market disruptions that face each of the divisions, thereby allowing the Group to deliver on its commercial strategy of creating value for shareholders. However, the widespread disruption caused by COVID-19 has heightened the Group's exposure to supply chain and end-market commercial risk.

Each division is exposed to particular commercial and market risks, which are primarily accentuated where customer/competitor concentration is high within their respective market segments. It also arises in connection with the restructuring and improvement initiatives.

Melrose operates a decentralised control and management structure which empowers divisional management teams to take full responsibility for planning, mitigating, navigating and responding to the specific commercial risks and challenges facing their respective businesses. The Melrose senior management team monitors the aggregated impact of such risks and provides active support and challenge to the divisional management teams in fulfilling their responsibilities.

Common commercial risk areas that potentially affect a large proportion of the Group's businesses include those related to production quality assurance, health and safety performance, customer concentration and uncertainties related to future customer demand, onerous customer and supplier contracts, the impact of increased competitive pressures on the maintenance/improvement of market share, potential disruptions to supply chains and increases to the price of raw materials, technological innovation and market disruption, and the performance and management of programme partners ("Common Commercial Risks").

Mitigation

- The Group continued to actively invest in research and development activities in 2021 to augment its platforms for future product expansion, quality improvements, customer alignment and achieving further production efficiencies. Details about some of the Group's research and development activities are provided in the Divisional reviews on pages 12 to 29.
- Health and safety awareness initiatives and performance enhancements continued to be implemented in alignment with regulation, market practice and site-based risk assessments and requirements. In addition, in light of the COVID-19 pandemic, the Group has followed government guidance on hygiene and social distancing protocols.
- The Melrose senior management team, in collaboration with Ernst & Young, continues to enhance the Board and Audit Committee's visibility of the Group's Common Commercial Risks through the use of the Group reporting dashboard to aggregate and report numerous Common Commercial Risks across each of the Group's divisions.

Responsibility Executive management(1)

Risk trend ↑

Trend commentary

The Melrose senior management team actively engages with the divisional executive management teams to track, monitor and support strategic planning activities and impact mitigation assessments in respect of ongoing commercial risks. Particular focus is placed on certain GKN Aerospace and GKN Automotive end-markets where customer and/or competitor concentration is high and heavier reliance is placed on supply chain efficiency and programme partner management. The divisional CEOs report material updates directly to members of the Melrose senior management team which maintains a number of contact points throughout the Group to increase awareness.

Strategic priorities Buy ● Improve Sell

(1) Comprises executive Directors and Melrose senior management.

Risk 4
Economic and political

Description and impact

The Group operates, through manufacturing and/or sales f numerous countries and is affected by global economic co Businesses are also affected by government actions and th of governments to commit substantial resources. Current g economic and financial market conditions have recently be characterised by high levels of volatility and uncertainty. The continued widespread disruption to production and trading environments caused by the COVID-19 pandemic, particula aerospace sector, due to ongoing global travel restrictions.

Fluctuation in commodity prices, the rise in inflation, the po significant and prolonged global downturn, and uncertainty political environment, may materially and adversely affect th operational performance and financial condition. It could al significant impact on the timing of acquisitions and disposa these factors may materially affect customers, suppliers an parties with which the Group does business. Rising inflatio result in increased Group costs both in terms of the operati and the manufacturing of products, which in turn may be p customers. More generally, adverse economic and financia conditions may cause customers to terminate existing orde their purchases from the Group, or to be unable to meet th to pay outstanding debts to the Group. These market cond also cause our suppliers to be unable to meet their commit Group or to change the credit terms they extend to the Gro businesses.

The impact of the COVID-19 pandemic remains a significar global economy. Each of the Group's businesses and their production and market geographies are impacted by the C pandemic to various extents, with the most common impac Group during 2021 being the temporary reduction of manu capacity and reduced requirements due to lockdown meas international travel restrictions. The Board and the Melrose management team continue to regularly monitor the impac pandemic on the Group with particular focus on the potent shortages, production delays and supply chain disruption.

The Group operates a number of sites in North America, w 2021 continued to experience challenging tariffs relating to trade war. The US has also required close monitoring relate expected short to medium-term impact of potential change international trading relationships following the conclusion c trade deal. The Group's exposure to such US trade risk fac inherently mitigated by its manufacturing footprint across th European-based GKN Aerospace and GKN Automotive di has in any case been reduced following the disposal of Nor Management and Nortek Control. Further, the Group's busi operating in North America continue to take regular specific mitigate the impact of new relevant North American tariffs a to international trading regulations by engaging with the rele authorities prior to and after any such changes are impleme

Whilst rising inflation, the long-term impact of COVID-19, an are not isolated as principal risks to the Group as a whole, t potential risks that the business units continue to monitor ar closely, particularly in the context of increasing energy price changes to travel and working restrictions, and the cross-b and regulatory environments in which the business units op Board continues to assess and review the potential impact evolving risks.

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onitoring of order books, cash performance, cost control
eading indicators, to ensure the Group and each of its
s could respond quickly to adverse trading conditions.
ed the identification of cost reduction and efficiency

cing is readily available to the Group from its supportive
ndicate. This support has proven to be available to the
n during periods of unprecedented turmoil, including
global pandemic.
nt of, and/or use of, national support schemes where
ppropriate in the context of COVID-19 disruption.
inventory buffers are regularly reviewed and assessed to
ne impact of further lockdown restrictions due to

tomer relationships built on long-term partnerships often
in close proximity, technical excellence and quality.
remains agile, diversified and well positioned to deal with
erm uncertainties.

ity	Executive management[1]
	↑

mentary

opolitical and economic uncertainty continued during 2021.
signing of the UK/EU trade deal, coupled with the Group's
ence in North America following the disposals of Nortek Air
and Nortek Control, helped curb some of these associated
is mindful of the very recent events in Ukraine, which our
re being proactive in addressing to ensure minimal

senior management team continues to actively engage with
unit executive teams to track the potential impacts of further
tiered restrictions aimed at curbing the impact of
well as the potential impacts of rising inflation levels and
of future tariffs.

senior management team engages actively with those who
n the relevant impact assessments and mitigation actions,
ne material findings to the Board. The Melrose senior
team monitors key issues with the divisional management
ng the impact of geopolitical uncertainty on order books,
ion, legal and regulatory threats and other key operational
cial indicators, to ensure the Group and each of its
an respond appropriately to adverse trading conditions.
tigating the potential impact of geopolitical uncertainty
fying cost reduction and operational efficiency measures.

otes that economic uncertainty can depress business
d this may increase the number of potential acquisition
for Melrose.

iorities	● Buy ● Improve ● Sell

xecutive Directors and Melrose senior management.

Risk 5
Loss of key management and capabilities

Description and impact

The success of the Group is built upon strong management teams. As a result, the loss of key personnel could have a significant impact on performance, at least for a time. The loss of key personnel or the failure to plan adequately for succession or develop new talent may impact the reputation of the Group or lead to a disruption in the leadership of the business. Competition for personnel is intense and the Group may not be successful in attracting or retaining qualified personnel, particularly engineering professionals.

Mitigation

- Succession planning within the Group is coordinated via the Nomination Committee in conjunction with the Board and includes all Directors and senior Melrose employees. In line with the Group's decentralised structure, each divisional CEO, in consultation with the Chief Executive, is responsible for the appointment of their respective executive team members, with disclosure to the Nomination Committee via the Melrose senior management team.
- The Company recognises that, as with most businesses, particularly those operating within a technical field, appointments are 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 attract and retain such individuals.

Responsibility	Executive management[1]
Risk trend	↓

Trend commentary

Succession planning remains a core focus for the Nomination Committee and the Board. Reviewing the succession planning arrangements of the Board as a whole, together with a review of the Melrose senior management team, will remain an area of particular focus in 2022, as well as maintaining oversight of business unit succession planning.

Strategic priorities	● Buy ● Improve ● Sell

(1) Comprises executive Directors and Melrose senior management.

Risks and uncertainties

Continued

Compliance and ethical risks

Risk 6
Legal and regulatory

Description and impact

Considering the breadth, scale and complexity of the Group, there is a risk that the Group may not always be in complete compliance with laws, regulations or permits. The Group could be held responsible for liabilities and consequences arising from (i) employee matters including liability for employee accidents in the workplace or consequences of environmental liabilities, which may be susceptible to class action law suits, particularly but not exclusively with respect to Group businesses operating in North America; (ii) restrictions arising from economic sanctions, export controls and customs, which can result in fines, criminal penalties, adverse publicity, payment of back duties and suspension or revocation of the Group's import or export privileges; and (iii) product liability claims, which can result in significant total liability or remedial costs, particularly for products supplied to large volume global production programmes spanning multiple years, for example in the aerospace and automotive industries, or to consumer end-markets, for example in the air management industry.

The Group operates in highly regulated sectors, which has been accentuated by the GKN acquisition. In addition, new legislation, regulations or certification requirements may require additional expense, restrict commercial flexibility and business strategies, or introduce additional liabilities for the Group or the Directors. For example, the Group's operations are subject to anti-bribery and corruption, anti-money laundering, competition, anti-trust and trade compliance laws and regulations. Failure to comply with certain regulations may result in significant financial penalties, debarment from government contracts and/or reputational damage, and may impact our business strategy.

Mitigation

- Regular monitoring of legal and regulatory matters at both a Group and business unit level. Consultation with external advisors where necessary.
- Group-wide standard and enhanced application to trade authorisation procedures are in place and regularly reviewed against the ever-changing global trade compliance landscape, supported by access to external trade compliance legal and regulatory specialists and electronic counterparty screening systems.
- Our businesses are validated and certified in respect of quality management, environmental management and health and safety with the appropriate bodies including ISO and BS OHSAS, where relevant to their operations. As at 31 December 2021, 74%[2] of all sites (inclusive of office, production and testing sites) within the Group were certified to the ISO 45001 international standard, with additional relevant sites progressing towards ISO accreditation.
- In line with our decentralised model, our businesses have frameworks in place for identifying principal risks and opp appropriate to their business and stakeholders.
- The Board, with the support of the Melrose senior manag team, spends time listening to the Group's key stakeholde enable informed strategic decisions and to deliver on thei
- A robust control framework is in place, underpinned by comprehensive corporate governance and compliance pl at both a Group and business unit level, including utilisatio third-party verification providers and regular reviews of the policies in light of legal and regulatory changes, as well as practice.
- Where possible and practicable, due diligence processes acquisition stage seek to identify legal and regulatory risk business unit level, controls are in place to prevent such r crystallising.
- Insurance cover mitigates certain levels of risk and the Gr insurers are instructed to carry out external audits of spec of legal and compliance risk, including health and safety.

Responsibility	Executive management[1]
Risk trend	→

Trend commentary

Each business has a fully developed legal function, headed b respective General Counsel reporting to their executive mana team, and are properly staffed and supported by external adv necessary or helpful to ensure ongoing compliance in the juris which they operate across the globe. This is augmented by ce oversight from the Melrose legal team and robust annual revie

Strategic priorities	Buy ● Improve Sell

(1) Comprises executive Directors and Melrose senior management.
(2) Data has been collected from 98% (by sites) of the Group.

:hange | Realigned risk

n and impact

ed frequency of extreme weather and climate-related natural
n lead to physical damage to our sites in addition to
n our businesses' supply chains. Additionally, new
egulations and corporate governance practices in relation to
ient may require additional expense, restrict commercial
l business strategies, or introduce additional liabilities for the
Directors. Changing demand patterns influenced by climate
cerns creates risks for the sustainability of product portfolios.

e businesses that are underperforming their potential with
eir sustainability performance including climate risks and
s. Inherent in the nature of the manufacturing businesses we
at they often operate in industries that are the hardest to
. Group sustainability performance and ratings will fluctuate
vestment cycle as we acquire new businesses in need of
t, and sell businesses that we have improved.

d sets the tone on sustainability and climate issues and
each business and their management teams accountable
ogress, and provides them with a platform to absorb the
est practices, to accelerate their and others' progress.

se senior management team, through the Group
lity function, is responsible for overseeing the reporting of
ntal data by the businesses, and driving the Group
lity strategy and climate change risk management
s. The Melrose senior management team engages with the
s' executive teams in setting meaningful Group
lity targets, and Melrose provides the investment to
em. The businesses subsequently identify, monitor, and
ne specific environmental risks that affect their operating
et environments, and are responsible for ESG disclosure
rmance at a business level.

year, the Board, with the support of the Melrose senior
ent team working with the divisional sustainability leaders
& Young, carried out a qualitative climate scenario analysis
how Melrose and its businesses are exposed to and
climate-related risks. We have included more details on
ities in our disclosures against the recommendations of
orce on Climate-related Financial Disclosures ("TCFD") and
Group sustainability targets including in respect of reducing
nd 2 emissions. Further details can be found on pages 58

ose support and investment, each business invests in and
ts appropriate systems and processes to manage their
the environment, and continually reviews these in line with
xpected practices. The Melrose senior management team
able for regularly reviewing any significant climate-related
ks and opportunities related to the Group, including
e planning for technology and product development
. These reviews consider the level of climate-related risk
se is prepared to take in pursuit of its Group business
nd the effectiveness of management controls in place to
imate-related risk. Where the executive team of a Group
dentifies climate-related risk that materially impacts their
this is discussed with the Melrose senior management
escalated to the Board where necessary.

- In line with our decentralised model, our businesses have frameworks in place for identifying principal risks and opportunities appropriate to their business and stakeholders, which include climate-related risks. Each business takes an appropriately tailored approach to climate-related initiatives that suits their requirements, and operational and market environments.
- The Board, with the support of the Melrose senior management team, reviews Group performance on energy and water usage, greenhouse gas emissions and waste, and provides strategic support and investment to drive improvements within the businesses' operations through more efficient use of water, electricity, fuel and heat, including by driving increases in the proportion of renewable energy use where commercially viable, and by encouraging implementation of other climate-positive actions.
- Where possible and practicable, acquisition due diligence processes seek to identify climate-related risks.
- The Group relies on external consultants to assist in complying with new and emerging environmental regulations. Where new climate-related risks and sustainability risks are identified, we engage with relevant specialist consultants to identify and carry out the necessary mitigating actions.

Responsibility	Executive management[1]
Risk trend	N/A

Trend commentary

Recent years have shown the frequency and severity of climate-related events are increasing and the low carbon transition is a growing focus area for governments, investors and communities. As such, climate change has been an area of significant focus for the Group in 2021. It is an important consideration across our business strategy, including in terms of the investment decisions we make and the product solutions our businesses develop. It is also an increasingly key strategic concern for our stakeholders, who are keen to understand how we are managing climate-related risk. Going into 2022, the Group will continue to look to balance where possible the risks associated with climate change against potential opportunities with the Group.

Strategic priorities	Buy ● Improve Sell

xecutive Directors and Melrose senior management.

Risks and uncertainties
Continued

Compliance and ethical risks continued

Risk 8
Information security and cyber threats

Description and impact

Information security and cyber threats to our systems are an increasing priority across all industries and remain a key UK Government agenda item.

Like many businesses, Melrose recognises that the Group may have a potential exposure in this area. Potential exposure to such risks remains high due to the scale, complexity, and public-facing nature of the Group. In addition, Melrose recognises that the inherent security threat is considered highest in GKN Aerospace where data is held in relation to civil aerospace technology and controlled military contracts.

Mitigation

- Management work with the leaders of each business and external security consultants to assess the Group's increased exposure to cyber security risk and to ensure appropriate mitigation measures are in place for the Group.
- During 2021, Melrose continued to monitor and enhance its information security strategy and risk-based governance framework with all businesses within the Group. The framework follows the UK Government's recommended steps on cyber security. This strategic management approach has delivered risk profiling capabilities by business and the enablement of mitigation plans to be developed for each business to reduce their exposure to cyber risk.
- The progress of each business is measured against the information security strategy and is monitored on a quarterly basis. These results are externally verified quarterly by Ernst & Young, our security partner. This year, Ernst & Young have also conducted cyber assurance site reviews covering key locations within the Group.

Responsibility	Executive management[1]
Risk trend	→

Trend commentary

Information security and cyber threats are an increasing priority across all industries. The impact of the COVID-19 pandemic continues to drive increased online traffic, reduced physical contact, and has created additional new threats to all our businesses requiring increased attention. Cyber security breaches of the Group's IT systems could result in the misappropriation of confidential information belonging to it or its customers, suppliers, or employees. In response to the increased sophistication of information security and cyber threats, the Group has worked, and continues to work, with external security companies to monitor, improve and refine its Group-wide strategy to aid the prevention, identification, and mitigation of any present and future threats.

Strategic priorities	Buy ● Improve Sell

(1) Comprises executive Directors and Melrose senior management.

Financial risks

Risk 9
Foreign exchange

Description and impact

Due to the global nature of operations and volatility in the fo
exchange market, exchange rate fluctuations have, and co
to have, a material impact on the reported results of the Gr

The Group is exposed to three types of currency risk: trans
translation risk; and the risk that when a business that prec
trades in a foreign currency is sold, it is sold in that foreign
The Group's reported results will fluctuate as average exch
change. The Group's reported net assets will fluctuate as t
exchange rate changes.

Mitigation

- The Group policy is to protect against the majority of fo
exchange risk which affects cash, by hedging such risk
financial instruments.
- The businesses are protected against being over-hedg
short to medium-term reductions in forecasts, as the p
hedges compared to forecast foreign exchange expos
over future periods.
- Protection against specific transaction risks is taken by
on a case-by-case basis.

Responsibility	Executive management[1]
Risk trend	→

Trend commentary

Group results are reported in Sterling but a large proportio
revenues are denominated in currencies other than Sterling
US dollar and Euro. The sale of Nortek Air Management ar
Control during the course of the year has, however, reduce
proportion of Group revenues that are in US dollar, and sim
sale of Brush during the course of the year has reduced th
of Group revenues that are in Euro, therefore reducing exp
foreign exchange risk. Sensitivity to the key currency pairs
the Finance Director's review on pages 32 to 39.

Strategic priorities	● Buy ● Improve ● Sell

(1) Comprises executive Directors and Melrose senior management.

n and impact

in the Group's defined benefit pension schemes may onal funding. As at 31 December 2021, the Group's emes had an aggregate deficit, on an accounting basis, of 2020: £838 million). Changes in discount rates, inflation, or mortality assumptions could lead to a materially higher ample, the cost of a buy-out on a discontinued basis uses vative assumptions and is likely to be significantly higher ounting deficit.

if the plans are managed on an ongoing basis, there is a lans' assets, such as investments in equity and debt l not be sufficient to cover the value of the retirement e provided under the plans. The implications of a higher it include a direct impact on valuation, implied credit rating additional funding requirements at subsequent triennial e event of a major disposal that generates significant cash ich are returned to the shareholders, the Group may be ake additional cash payments to the plans or provide curity.

's key funded UK defined benefit pension plans are iew entrants and future service accrual. Long-term angements are agreed with the Trustee and reviewed ompletion of actuarial valuations.

any actively engages with the Trustees on pension plan ations and strategies to better allocate the exposure businesses.

utilised part of the disposal proceeds from the sale of Management and Brush to eliminate the actuarial deficit JK GKN pension schemes.

sal of Nortek Air Management, Brush and Nortek Control the transfer of the pension schemes related to those s to the new owners, which resulted in the transfer of n of pensions liabilities.

year, the Company and the Trustees of the GKN 2016 n scheme worked together to complete the buyout of ner liabilities of the GKN 2016 UK pension scheme, o a reduction in gross pension liabilities of £366 million.

ity	Executive management[1]
	↓

mentary

factors have combined to significantly reduce the eficit during the period, including the disposal of the on schemes with the sold businesses, the use of some anagement disposal proceeds to fund the GKN schemes, ment returns and changes in mortality assumptions. As asing the deficit, the gross liabilities were significantly ne Nortek Air Management disposal and mortality well as the GKN 2016 pensioner buyout. The investment ortality risks remain but are proportionately smaller, given ities. As a result of the deficit reduction in the period, the ook further action, supported by Melrose, to fully hedge nes against movements in inflation and interest rates and estment risk. Accordingly, the volatility risk to the Group uced.

iorities ● Buy ● Improve ● Sell

ecutive Directors and Melrose senior management.

Risk 11
Liquidity

Description and impact

The ability to raise debt or to refinance existing borrowings in the bank or capital markets is dependent on market conditions and the proper functioning of financial markets. As set out in more detail in the Finance Director's review on pages 32 to 39, the Group has term loans of US$788 million (2020: US$960 million) and £30 million (2020: £100 million) and revolving credit facilities comprising US$2.0 billion, €0.5 billion, and £1.1 billion.

In addition, the GKN net debt at acquisition included capital market borrowings across three unsecured bonds that totalled £1.1 billion. Two of these bonds – totalling £750 million – remain outstanding as at 31 December 2021 and further detail is provided in the Finance Director's review on pages 32 to 39.

Mitigation

- To ensure it has comprehensive and timely visibility of the liquidity position, the Group conducts monthly reviews of its cash forecast.
- The Group operates cash management mechanisms, including cash pooling across the Group and maintenance of revolving credit facilities to mitigate the risk of any liquidity issues.
- In December 2021, the Group gained agreement from its lenders to extend the maturity date of its multi-currency term loan and its revolving credit facility from 30 April 2024 and 31 January 2023 respectively, until 30 June 2024.
- The Group took a very prudent view in utilising part of the disposal proceeds from the sale of Nortek Air Management, Nortek Control and Brush to reduce net debt to £950 million, which reflects leverage of 1.3 times EBITDA.
- The Group operates a conservative level of headroom across its financing covenants which is designed to avoid the need for any unplanned refinancing.

Responsibility	Executive management[1]
Risk trend	↓

Trend commentary

The Group maintains strong cash controls and forecasting processes and, in light of the continued impact of the COVID-19 pandemic, management has maintained its efforts throughout the Group to increase visibility and certainty of cash flow information, robustness of cash controls, and cash-saving initiatives; these have been very successful. Melrose has also reduced debt following receipt of disposal proceeds from the sale of Nortek Air Management, Nortek Control and Brush, which was effectively used to repay the debt drawn in connection with the GKN acquisition and reduce leverage to half of its normal level. Alongside this, the agreed extension of the maturity date of the term loan and revolving credit facility with our supportive banking syndicate means that the Group is satisfied that it has adequate resources available to meet its liabilities.

Strategic priorities ● Buy ● Improve Sell

(1) Comprises executive Directors and Melrose senior management.

Section 172 statement

This is an overview of how the Directors performed their duty to promote the success of the Company under section 172 of the Companies Act 2006 ("section 172").

Duty to promote the success of the Company

In executing the Company's strategy, the Directors must act in accordance with the set of general duties detailed in section 172. These include a duty to promote the success of the Company, and specifically to act in a way that the Director considers, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, having regard to (amongst other matters) the factors set out in section 172(1)(a-f):

- the likely consequences of any decisions in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between shareholders of the Company.

These pages 50 to 53, and the pages incorporated by reference, include details of how the Directors took these factors into account in their decision-making in 2021. We set out in this statement the details of who we consider to be our key stakeholders, how we have engaged with them during the year, and the outcomes of these processes.

Our purpose, strategy and values

Melrose was founded in 2003 to empower businesses to unlock their full potential for the benefit of all stakeholders, whilst providing shareholders with an above-average return on their investment. This has been delivered through our "Buy, Improve, Sell" strategy, whereby we acquire high quality but underperforming manufacturing businesses and set out to solve chronic issues within those businesses, in order to set them on the pathway to future success. We invest in them heavily to improve performance and productivity, so that they become stronger, better businesses under our responsible stewardship. At the appropriate time, we find them a new home for the next stage of their development and return the proceeds to shareholders.

The Company's purpose and strategy remain underpinned by the principles and values on which it was founded. We act with integrity, honesty, transparency and decisiveness, and believe in a lean operating model, high productivity and sustainable business practices. Although we know our businesses will not be part of the Group for the long-term, we act as responsible stewards, investing as if we are going to own them forever, and we see this as an important step on their pathway to long-term sustainable success. We provide the focus and investment to improve our businesses' financial performance, through operational improvements, by driving growth and profitability, and by investing in research and development to make the businesses more sustainable. We also recognise that the building of stronger businesses encompasses a wide range of non-financial areas including risk management and ethics and compliance, and we have worked with the businesses to set meaningful sustainability targets alongside financial metrics. These actions benefit their long-term future, and benefit all stakeholders. We hold each business and their management team accountable for their progress against agreed sustainability targets. We do not shy away from difficult decisions, but understand these decisions can have a material impact on certain stakeholders, who we look to treat fairly, whatever the outcome. We provide the space and resources to empower people to perform and reward them well when they do. These principles lie at the heart of our success, and are the basis on which we strive for future success.

The Board is ultimately accountable to the Company's s for setting the Group's strategy, taking into account the facing the Group, and for overseeing the Group's financ operational performance in line with Melrose's strategic Implementation of the Group's strategic objectives, as c and overseen by the Board, is delegated to the Melrose management team, and with day-to-day operational ma delegated to the business unit executive teams. The Bo established an organisational structure with clear report procedures, lines of responsibility and delegated author depicted in the diagram on page 40 and in line with the governance framework, which the Board reviews regula

Maintaining a reputation for high standards of business conduct

The Board recognises that culture, values and standards contributors to how a company creates and sustains valu long-term, and to enable it to maintain a reputation for hig business conduct. High standards of business conduct g In the Board's decision-making, and in doing so, help pro Company's success, recognising, amongst other things, consequences of any decision in the long-term and wider considerations. The standards set by the Board mandate requirements and behaviours with regards to the activities Directors, the Group's employees and others associated

Reflecting the decentralised nature of the Group, respor adoption of policies, practices and initiatives sits at a div including the Melrose Code of Ethics and Group compli The Board continues to play an active role in overseeing businesses manage compliance, and compliance with t is reported on and fed back to the Board, to guide and decision-making, and to ensure that the business practi Group remain aligned with the Company's purpose. Fur the Group's compliance policies and framework, and re Board, can be found on pages 72 to 75 of the Sustainat

During 2021, the Group continued to work closely with t audit firms to monitor and verify performance at Group unit levels, in respect of both financial and non-financial The outcomes of these processes are reported to the A Committee and, ultimately, the Board. The Board consic the utmost importance that our businesses continue to highest standards of business conduct possible, and th for improvements in this area.

Engagement with our key stakeholders in 20

The Board cultivates strong relationships with the Compa stakeholders so that it is well placed and sufficiently inforr their considerations into account when making decisions, appropriate, in order to discharge their duties and to purs Company's strategic objectives. Stakeholder engagemer Board's agenda to assess whether the identities and prio Company's principal stakeholders have changed, and wh Board has sufficient engagement with each principal stak

low our key stakeholder groups, along with details of how k them into account in their decision-making in 2021.

Group's performance and success is an engaged, passionate workforce. The Workforce Advisory Panel otes effective engagement with the Group's workforce. ised nature of the Melrose model is reflected in the e WAP, ensuring that the voice of the workforce is heard st effective in the business unit executive decision- ss. The WAP met twice during the year and the re fed back to the Board accordingly. Further details P and its actions during 2021 can be found in the report on page 67.

ntain an open dialogue with employees, they also have an raise concerns confidentially and anonymously through up-wide whistleblowing platform. The platform has a nline portal, and local hotline numbers that are available grity of our whistleblowing practices and procedures are part of the Group's governance arrangements, and the tee oversees such practices and procedures to ensure fective. This is ultimately reported into the Board, thus have oversight of, and to monitor, culture and practices inesses. Further details about the Group's whistleblowing an be found in the Sustainability report on page 73.

d that some of the decisions we take in improving our r the long-term benefit of all stakeholders, such as , can have an impact on employees. These are difficult we do not take lightly. We undertake thorough event- ations with relevant stakeholders to ensure that the take are based on a fully informed view of the potential se stakeholders, and we endeavour to achieve the best he workforce in the circumstances. During 2021, we GKN Automotive executive management team in their se unviable sites in Erdington, UK and Firenze, Italy. s are never taken lightly or without exploring all ions, but are the right decisions and central to the re of these businesses. We nonetheless understand that significant impact on a wide variety of stakeholders and feelings for all involved. There is rarely a consensus view ut we strive to treat people fairly and rely on open and nication. For these particular situations, we and our teams engaged closely with the relevant workforces and their views and to find an agreed outcome. For closure proposal received overwhelming support from . For Firenze, a process which received support from nal governments, we were able to secure a d future for the site with a new owner.

d customers

success of our businesses that they foster positive and relationships with their customers and suppliers, and we rt to them where necessary. Our businesses have worked in their strong relationships with suppliers and customers year, and they are a key focus for our business unit ns, who continue to invest heavily in these relationships. out in the Sustainability report on pages 54 to 77.

ware that investors are expecting greater transparency, assurances regarding the nature of the supply chains nesses they invest in. As described in our Modern Slavery lrose itself does not have any global supply chains or igh risk jurisdictions, but we recognise that our businesses orked closely with our businesses this year to better ir respective supplier landscapes and we will support a of critical importance during 2022. Any material issues of area identified by the business unit executive teams are e Board via the reporting procedures identified on page 50.

r, the Board approved the Group's fifth Modern Slavery d the implementation of a Group-wide Human Rights lement our other policies in this area including the als policy that was implemented in 2020. We remain committed to addressing the potential risks of modern slavery and human rights abuses, to acting in an ethical manner with integrity and transparency in all business dealings, and to investing in the creation of effective systems and controls across the Group to safeguard against adverse human rights impacts. Similarly, any material issues of concern in this area identified by the business unit executive teams are escalated to the Board via the reporting procedures identified on page 50. As with supply chains, during the year, no such issues were identified, but we remain vigilant in this regard. Further details can be found in the Sustainability report on page 73.

Shareholders

The success of our "Buy, Improve, Sell" strategy relies on maintaining strong investor support, which Melrose achieves by providing a consistent and transparent flow of information and management insight to shareholders and to the wider investment community. Melrose takes an honest, transparent and open approach to investor relations and communications. We recognise that analysts require robust information in order to best inform investors, and investors themselves benefit from disclosure in line with regulatory requirements, as well as enhanced disclosure on material topics to the Company, to inform their independent investment decisions. As a result, we have attracted long-term support from key shareholders since our establishment in 2003.

In addition to our annual programme of key information publications and engagement initiatives including the annual general meeting, extraordinary general meetings on specific material items, publication of full and half year results, and publication of this Annual Report, the Board and the Melrose senior management team meet and communicate with shareholders on a frequent and proactive basis throughout the year. These efforts include investor roadshows at least once a year, trading updates, capital markets presentation days as appropriate to provide key shareholders, analysts and their representatives with direct access to the Directors and the opportunity to engage directly with the executive management teams of our largest businesses during key points in their improvement cycle, and, where requested, open agenda meetings for key shareholders attended by the Chairman. In particular, the Board hosted a capital markets day for institutional investors and financial analysts in 2021, which included presentations from the CEOs of GKN Automotive and GKN Powder Metallurgy, containing updates on key financial information. In light of the travel restrictions in 2021, we continued to keep shareholders informed as to the Group's performance during the year primarily through virtual events alongside bespoke interactions between investors, analysts and members of management. We expect a return to face-to-face interactions in 2022 as restrictions ease.

The Group Company Secretariat was also available to engage with and facilitate discussions with the responsible stewardship and sustainability representatives of key investors, including direct discussions with members of the Board. During 2021, these wider interactive engagement processes were undertaken in relation to a number of specific topics, including the renewal of the Company's long-term incentive arrangements, diversity and sustainability.

The views of key analysts and shareholders are reported to the Board to ensure that all members of the Board develop an understanding of the views and any concerns of key shareholders. The Chairman and other Non-executive Directors are also available to meet institutional shareholders, where requested.

Environment and communities

Improving the environmental, social and governance performance of our businesses is central to our "Buy, Improve, Sell" strategy. In light of the importance of this issue both to the Group and to society as a whole, we believe that all Directors should be actively involved and concerned with the Group's efforts and progress in relation to sustainability, and therefore the Board as a whole is responsible for all matters concerning sustainability. The Board continues to remain extremely focused on ensuring that the long-term performance of the Group and its businesses is sustainable. The Sustainability report describes in detail some of the actions that have been taken by the Group during 2021 in the drive to improve the sustainability of our businesses and the sectors in which they operate.

Section 172 statement
Continued

In 2021, the Board also focused on the risk of climate change to the Group, including this as a new principal Group risk (please see page 47), setting our inaugural Group sustainability targets and commitments in line with the UN Sustainable Development Goals (please see page 55 of the Sustainability report), and reporting for the first time against all the key areas recommended by the Task Force on Climate-related Financial Disclosures ("TCFD") (please see pages 60 to 61 of the Sustainability report). Please see opposite for details on how the Board considered its key stakeholders when taking these actions.

Melrose is committed to minimising its carbon footprint and supporting its businesses to drive long-term innovation in their sectors in order to deal with the challenges presented by climate change and the transition to a net zero emissions economy. Although the central Melrose carbon footprint is relatively limited, we offset the emissions that we operate. The Board has continued to support significant investment by the businesses in their development of products and services that deliver environmental improvements and benefits to their customers, which often includes ground-breaking technology. For further details, please refer to the Divisional reviews on pages 12 to 29 and the Sustainability report on pages 54 to 77.

We recognise the importance of local communities, including where our employees live and the operations of our businesses are based, to the effective operations of our businesses. Our Sustainability report highlights examples of actions the businesses took during 2021 to engage with their communities, which include business-focused initiatives as well as charitable activity.

Proxy advisors and independent reporting bodies
Corporate governance agencies require transparency and active engagement in order to accurately review and assess our performance in line with expected practices. In 2021, the Company continued to invest significant time in speaking regularly to the key corporate governance agencies regarding certain aspects of our governance framework that we and our investors consider to be of long-term strategic importance, including diversity, sustainability and remuneration. A large part of our investor community subscribes to these governance bodies and it is important to us that we have their support, and that we are proactive in our communications with them. The views of the key proxy advisors are reported to the Board directly by the Group Company Secretariat.

The Company has also engaged with independent reporting bodies supported by the UK Government where relevant, including the Parker Review and the Hampton-Alexander Review, on distinct topics governed by those reporting bodies, as well as investing significant time engaging with various stakeholders on sustainability, such as sustainability analysts, reporting organisations and rating agencies, including MSCI, Sustainalytics, V.E., FTSE Russell, S&P CSA and CDP. This step change in engagement is reflected in the highly improved scores received from these bodies in 2021. For further details, please refer to the Sustainability report on page 56.

Regulators and government bodies
The Group has multiple interactions with regulators and government bodies in a number of jurisdictions across the world, many of which are of strategic importance to the Group's long-term success. In the UK, the Company has regular dialogue with the Department for Business, Energy and Industrial Strategy ("BEIS"), the Ministry of Defence ("MoD") and the UK Panel on Takeovers and Mergers regarding its ongoing compliance with the undertakings and other continuing obligations given to the UK Government and other regulatory bodies in connection with the acquisition of GKN plc.

On the basis of the above, the members of the Board consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172, in the decisions taken during the year ended 31 December 2021.

Key board decisions and stakeholder considerations

Eliminating the GKN UK defined benefit p deficit: *employees, pensioners and sharel*

Through a combination of the disposals referred to op prudent balance sheet management, the Board was a significant progress on eliminating the funding deficit o UK defined benefit pension schemes. We have deliver our commitment to making the schemes fully funded a schedule, from a total starting accounting deficit at the the GKN acquisition of approximately £0.7 billion. In ac we applied more secure funding targets to achieve mo funding, as well as rebalancing the GKN schemes acr GKN businesses, to avoid overburdening any one bus to provide greater stability. These actions have vastly ir the position of these schemes.

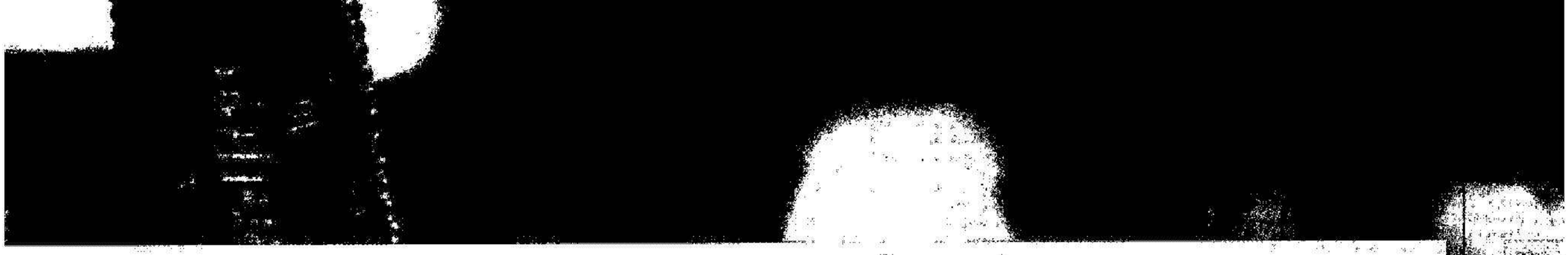
This achievement is a clear illustration of Melrose actin a responsible steward of its businesses and delivering acquisition promises. This decision was largely taken f benefit of the employees and former employees who f of these schemes, who will benefit from the improved For shareholders, we hope this further demonstrates c of building better, stronger businesses for the long-terr will ultimately increase their value.

Return to shareholder distributions on a pru *shareholders, lenders and other stakehol*

Melrose aims to provide shareholders with sustained r a combination of dividend income and special distribu sales of businesses, operating a progressive dividend whenever the financial position of the Company, in the Board, justifies the payment. As with many of our peer was uncharacteristically and temporarily halted during Board focused on retaining cash within the Group in o the businesses trading through this turbulent period.

We understand the importance of returns to our share The Board made the decision to reinstate dividends to in 2021, based on its assessment of the Group's perfo and consideration of the impact of such payment on th shareholders and lenders. The Board determined to pa 2020 dividend in May 2021 of 0.75 pence per share ar 2021 dividend in October 2021 of 0.75 pence per shar decision to pay such amounts, as well as the amounts were carefully considered by the Board, and the deter amounts were felt to be at levels that were sufficiently f prudent, and would be understood by the Group's len still satisfying shareholder expectations in line with our It was also after ensuring that all Group companies ha full any amounts received from the UK Coronavirus Jo Scheme, with all amounts received during 2020 having prior to the end of 2020.

In continuance of this prudency, yet reflecting the Com improved performance in 2021, the Board is very plea to propose to pay a final dividend to shareholders of 1 share, subject to approval at the AGM on 5 May 2022. this represents to shareholders another step on the jou returning to pre-pandemic performance.



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as also pleased to complete a return of capital to of £729 million following the sale of Nortek Air . It was very important for Melrose to be able to do this, part of the Melrose strategy to return value created isitions to our shareholders. In determining the amount of Board balanced the needs of a number of stakeholders, disposal proceeds to reduce the GKN UK pension l also to take leverage to a very conservative 1.3x adjusted gside making a significant return to shareholders.

stainability targets and commitments: *ers, environment and communities, , suppliers and customers*

termined during the year to set its inaugural targets and commitments in line with the UN Sustainable Goals and to report for the first time against all key nended by the Task Force on Climate-related Financial TCFD"), as well as elevating climate change to a new up risk, all of which are set out on page 55 of the Report.

and commitments were set and implemented, and tions have been published, in consultation and following agement with our businesses. Our "Buy, Improve, causes the composition of the Group to continually ime through the eventual exit of each business that Is therefore important that our sustainability targets ents are structured to enable the onboarding and businesses from our Group during the course of e sustainability improvement cycles, whilst ensuring n a realistically achievable, accelerated trajectory of improvement during our ownership.

targets and commitments, the Board was mindful pectations, and ensuring that the targets and sufficiently dealt with these and will result in meaningful investors. The targets and commitments that were finally over a range of sustainability topics, including emissions, ourcing, diversity and inclusion, health and safety, the d communities. This reflects our desire to ensure that all keholders are represented and can hold the Board or progress in relation to these matters.

teams of our businesses are fully engaged with, nd the importance of, meeting these targets and s. Being manufacturing businesses, they are acutely isks and challenges that climate change, and a transition emissions economy, present. However, they are very nesses, and a one-size-fits-all approach is te. Therefore, Melrose has set its own targets and on sustainability for businesses under its ownership, but es will also continue to review and set their own his area, which are tailored to them.

Disposal of Nortek Air Management, Brush and Nortek Control: *shareholders, employees, customers and suppliers, environment and communities*

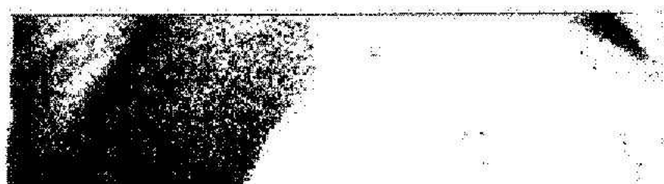
The Nortek Air Management, Brush and Nortek Control disposals completed during the year, with an aggregate sale price of approximately £2.7 billion. This has resulted in (for FKI), or puts the Company on track to deliver (for Nortek), a doubling of shareholders' money or more on each acquisition, delivering on our strategy of creating significant long-term value for shareholders and achieving above-average returns on their investment.

The disposals are a clear demonstration of the Melrose strategy in action. We built better businesses through significant investment, operational and financial improvements, and by supporting them in their pursuit of product development to establish a sustainable business for the long-term. The Board then determined the appropriate time of sale of the businesses, found them a new home for the next stage of their development, and returned a portion of the proceeds to shareholders.

During our ownership of Nortek Air Management, Melrose invested significantly in cutting-edge technology, with over £132 million of investment in research and development, which resulted in the development of the highly successful StatePoint Technology®. This was a key contributor to the financial performance of the Nortek Air Management business during Melrose's ownership and, as a result, the sale price for the business that the Board was able to achieve for shareholders.

Brush was the final disposal from the hugely successful FKI acquisition, which has delivered a 2.6x return to shareholders. During our ownership, we completely reshaped the business into a power generation and services business, properly aligning it to the increased importance of the renewable energy sector. The business emerged from its restructuring programmes better shaped and positioned to serve its growing markets, and we found it a new owner who was ready to take the business forward into its next stage.

In taking the decisions necessary to achieve these disposals, on the terms and at the time they did, the Board's focus was primarily on ensuring the maximum disposal proceeds, and therefore in delivering on its strategy to shareholders to deliver above-average returns on their investment. However, as responsible stewards of our businesses, the Board was also keen to ensure that each of the businesses left the Group in a significantly improved position from both a financial and non-financial perspective, for the benefit of all of their stakeholders. As well as delivering an above-average return for shareholders, we have set up the businesses to deliver long-term and sustainable benefits for their employees, suppliers and customers, and communities.



Implementing business improvement as we transition to a net zero economy before 2050

A focus on sustainability

Justin Dowley
Non-executive Chairman

This year, I am pleased to report that we have set and implemented our inaugural Group sustainability targets and commitments, aligned to the UN Sustainability Development Goals and the sustainability issues that are most material to our businesses and key stakeholders.

We firmly believe that a focus on sustainability is the right thing to do, integral to our "Buy, Improve, Sell" model, and a central enabler of industrial success. Many of our businesses operate in industries where achieving meaningful progress towards decarbonisation remains a tough global challenge, and through our active investment in operational excellence and innovative research and development, we continue to drive our businesses to directly address society's most complex longer-term sustainability challenges as we transition to a net zero economy before 2050. We provide our businesses with the strategic focus and investment to enable them to mitigate the Group's impact on the environment, and to develop and deliver innovative product solutions and processes to help their customers and key stakeholders decarbonise some of the hardest to abate sectors of the global economy. Notable examples of this during 2021 include our continued investment in GKN Aerospace's industry-leading development of aircraft engine solutions that are compatible with transitionary sustainable aviation fuels, and GKN Automotive's continued investment in further developing and commercialising its market leading e-Drive solutions.

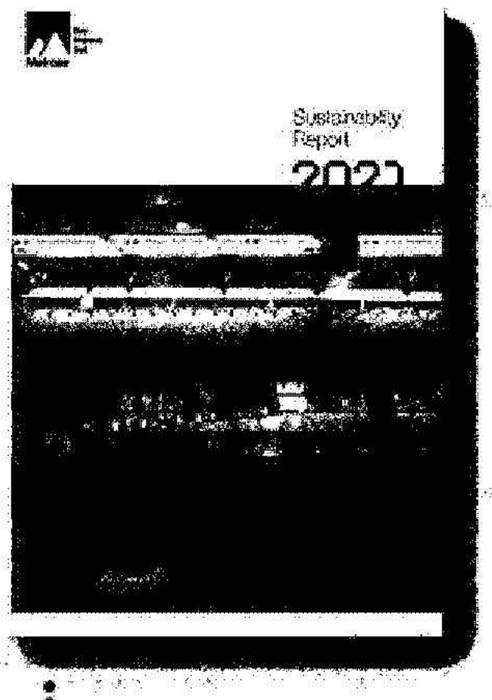
Investment in people is a key driver of commercial success throughout the Group, underpinned by employee engagement and a firmly integrated culture of employee development, diversity and inclusion. By providing a safe working environment, encouraging diversity and inclusion at all levels, and ensuring all our employees have access to training and career development opportunities, we will continue to attract and retain the best talent. However, we do not shy away from making the difficult decisions that are necessary to build better, stronger businesses to unlock their full potential, which we recognise can impact certain stakeholders and their wider business communities. To be well placed to navigate those tough decisions when they arise and ensure strong engagement with our businesses and their key stakeholders, our Workforce Advisory Panel provides an important, ongoing forum for direct engagement and consultation between the workforce and our businesses' executive teams.

Our efforts to improve our businesses are supported by a foundation of robust governance, risk management and compliance. We instil the highest standards of integrity, honesty, and transparency within the businesses we acquire, and we require them to demand the same of their supply chains. The responsibility for Group sustainability matters, including the setting of our Group sustainability targets, ultimate oversight of Group sustainability risk, and the setting of all our Group policies, sits with the with support from the Melrose seni management team, and in the case management, the Audit Committee Board is regularly updated, at least quarterly, on key climate and susta related risks and opportunities.

This Sustainability report is an abbr version of our full standalone repor we refer to for full details.

J Dowley

Justin Dowley
Non-executive Chairman
3 March 2022



Download the report:
www.melroseplc.net/sus

stainable
vement strategy

of our "Buy, Improve, Sell" on building better businesses tioned to prosper over rm. The sustainability ts that we promote and mong our businesses our long-term view and are by our focus on conducting h the highest standards of esty, and transparency.

e "Sell" aspect of our strategy, metrics across all areas will r-on-year. By implementing a ure of operational and financial t, we rebuild our businesses' d capabilities, and enable ue commercially attuned improvement initiatives that beyond our ownership.

In 2020, we undertook a materiality assessment which identified the key sustainability issues that impact our ability to create value over time and are of most concern to our stakeholders.

During 2021, as part of our ongoing executive review of our material sustainability topics, and in response to our developing sustainability strategy and the evolving macro business environment, we have elevated the importance and prominence of Responsible Sourcing and Water across the Group. Both topics will receive greater focus during 2022 and beyond.

As we enter a new year, we have renewed and reiterated our four sustainability principles to better reflect the current ESG ecosystem and the positive impact we can have on the industrial sectors in which our businesses operate, whilst continuing to engage with key internal and external stakeholders to ensure all our businesses better understand and deliver upon their expectations.

Our sustainability principles are to:

(i) Respect and protect the environment.

(ii) Continue to invest in and support our businesses as they develop products and services aligned with a net zero future.

(iii) Promote diversity, prioritise and nurture the wellbeing and skills development of employees, and support the communities that we are part of.

(iv) Exercise robust governance, risk management and compliance.

s and commitments

et the following Group sustainability targets and commitments to address some of the key ESG priorities of our businesses ustries:

ıtal

Addressing our Group impact on the environment

- Source 50% of our electricity from renewable sources by 2025 and 75% by 2030[1].
- Divert 95% of our waste from landfill by 2025 and 100% by 2030[2].
- Reduce CO_2e/£m revenue by 20% on average across the businesses by 2025 and 40% by 2030[3].
- Achieve net zero Greenhouse gas emissions before 2050.

Helping our businesses' customers address their impact on the environment

- Achieve 50% of total R&D expenditure on climate-related R&D per year to contribute to the decarbonisation of the sectors in which our businesses operate by 2025, 75% by 2030 and 100% by 2040.
- Achieve 50% of new products which contribute to the decarbonisation of the sectors in which our businesses operate by 2025, 75% by 2030 and 100% by 2040.

Talent and workforce

- Ensure that all permanent employees receive regular (annual) formal performance reviews by 2022 where permitted by local laws and employee representative bodies.

Community

- Invest £10 million over five years through the Melrose Skills Fund.

Diversity and inclusion

- Achieve by 2021 and maintain a Board and executive committee comprising at least 33% female membership.
- Maintain achievement of the Parker Review recommendations.

Health, safety and wellbeing

- Protect our employees from injury and lost time accidents (LTAs) and achieve and maintain an LTA frequency rate below 0.1.

- All employees, suppliers and contractors must comply with our Code of Ethics, conducting business with integrity and in a responsible, ethical and sustainable manner.

ble electricity is commercially and reasonably available in the relevant jurisdiction.
rdous waste, which is already disposed of correctly outside landfill.
d on 2021 performance. Baseline was set in conjunction with the timeframe of the Group's target setting process.

Sustainability report
Continued

Progress in 2021:

In 2021, we continued to deliver on our promise to improve our businesses' longer-term financial and operational performance, while delivering against our four overarching sustainability principles.

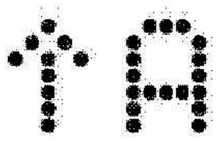
Key milestones included:

- **Reducing the Group's total absolute Scope 1 and Scope 2 GHG emissions (-14%), energy consumption (-6%) and water withdrawal (-8%).** Intensity ratios increased, reflective of the disposals of Nortek Air Management, Brush and Nortek Control during the period. However, we remain on track to meet our targets.
- **Achieving and maintaining Board gender diversity of 42% female representation (+12%),** and achieving the Parker Review target of having one director on the Board from an ethnic minority background.
- **Introducing Group-level sustainability targets and commitments** set through extensive consultation with our businesses. Our targets and commitments aim to reduce the environmental impacts of all aspects of our businesses – driving sustainable management of our input resources, improving operational efficiency, and minimising the impact of their inputs and outputs, as well as ensuring a safe working environment for all.

  Each of our businesses are at a different stage of their respective strategic sustainability improvement journey, and they are at different points in their Melrose ownership. By the very nature of our "Buy, Improve, Sell" strategy, our Group sustainability performance will fluctuate during our investment cycle as we acquire new businesses in need of improvement, and sell businesses that we have improved. These differences among our businesses, and the unique nature of our business model, have been assessed and considered in setting the parameters of the Melrose Group sustainability targets and commitments.
- **Elevating the importance and prominence of Water and Responsible Sourcing across the Group** as material group sustainability topics. Both topics will receive greater focus during 2022 and beyond.
- **Improving disclosure through engagement and action** resulting in significant improvement in stakeholder awareness. Throughout the year we undertook a major programme of engagement with key ESG benchmarking organisations that our investors rely upon. In October 2021, we received our revised ESG scores from **MSCI** and **Sustainalytics**, which both demonstrated notable improvements and highlighted the Group's increased management focus and delivery of improvement actions to mitigate the impact of sustainability risks. The scores provide a snapshot as at 31 December 2020, meaning that the considerable improvements made throughout 2021 will be reflected next year.
- **Continuous bolstering of our Group sustainability governance framework** through the formal compilation of our key environmental and human commitments, within our inaugural Group Environmental and Human Rights policies.

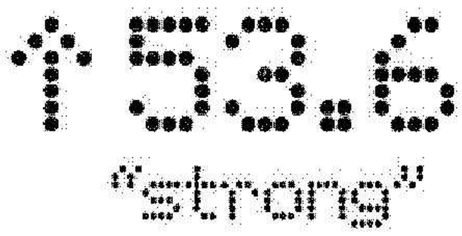
  In addition, in July 2021 we submitted our inaugural **CDP Climate Change** questionnaire for which we scored a C rating, which reflects our performance as at 31 December 2020. Our CDP submission enabled us to support a number of our customers by supplying emissions data to enhance their Scope 3 emissions reporting. We look forward to building on this in 2022 and broadening the scope of our engagement with, and submissions to, CDP.

MSCI — ESG score
(2020: BB)



This places us above average for Global Industrial Conglomerates.

Sustainalytics — ESG Risk Management s
(2020: 28.4 "average")



Our Sustainalytics ESG Risk exposure score is 34.2 which places us in the top 12% of Global Industrial Conglomerates.

- **Aligning with non-financial reporting frar**
  As a UK premium listed company, Melrose c with the requirements of the new Listing Rul climate-related disclosures, reporting agains key areas recommended by the **Task Force Climate-related Financial Disclosures ("T** During the second half of 2021, the Melrose management team worked with Ernst & You divisional sustainability leaders to carry out a climate scenario analysis exercise to identify exposure to climate change. Our TCFD disc be found on pages 60 to 61.

  To further enhance the transparency of our nc reporting, we have provided additional disclos sustainability performance in line with the **Sus Accounting Standards Board ("SASB")** rec for Aerospace and Defence and Auto Parts s standards, which are referred to on page 60.
- **Setting business-level sustainability stra**
  Following the establishment and subsequen implementation and embedding of our Grou sustainability principles aligned with the **UN Development Goals** in 2020. During 2021, started our businesses' formulation of their c sustainability strategies, in pursuit of our Grc sustainability issues, targets and commitme strategies are set in alignment with our Grou and sensitive to the context, needs and prio their respective sectors. In line with our dece business model, we empower and shape th foundations of our businesses to support su improvements that they can carry forward re and proactively after they inevitably leave the in line with our "Buy, Improve, Sell" strategy.

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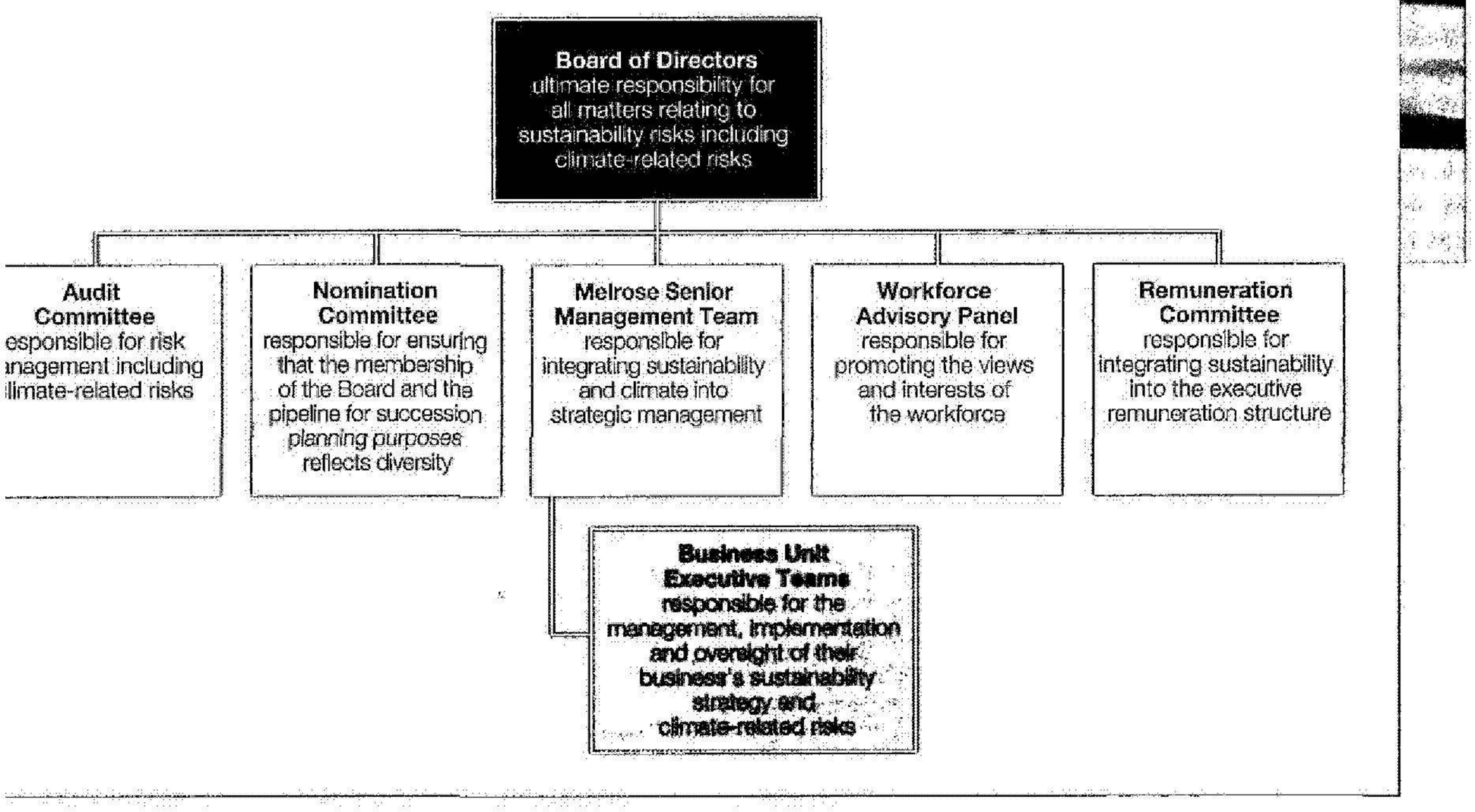
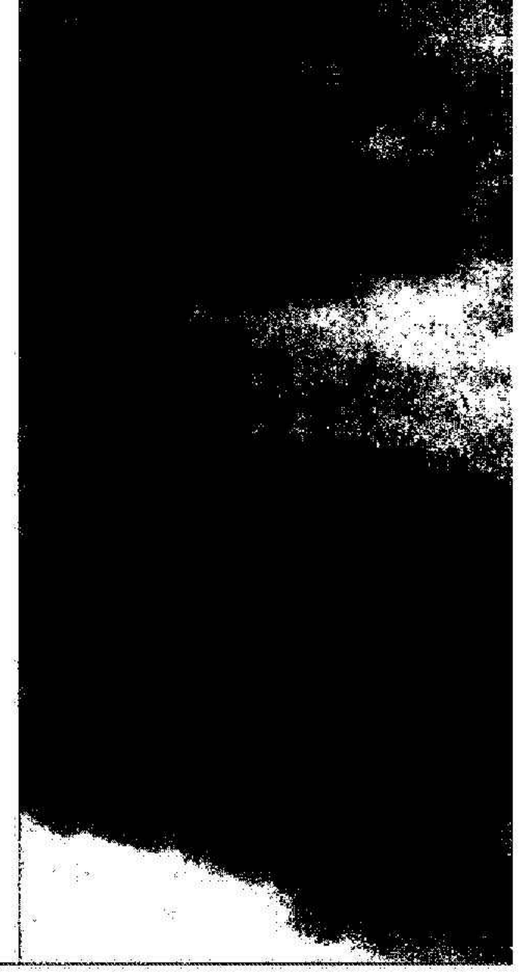
:egration of climate and sustainability in Melrose's governance framework

low we have included a high-level overview of how sustainability and climate-related risk is integrated across our vernance structure.



Environmental leadership and climate change



Our Sustainability Objective	UN Goals
Respect and protect the environment **Continue to invest in and support our businesses as they develop products and services aligned with a net zero carbon future.**	

Material Issue	Melrose Group Performance Target
Source our global electricity from renewable sources	• Source 50% of our electricity from renewable sources by 2025 and 75% by 2030[1]
Divert our waste from landfill	• Divert 95% of our waste from landfill by 2025 and 100% by 2030[2]
Reduce our global Scope 1 and Scope 2 emissions intensity	• Reduce CO_2e/£m revenue by 20% on average across the businesses by 2025 and 40% by 2030[3] • Achieve net zero Greenhouse gas emissions before 2050
Increase expenditure on research and development ("R&D") relating to climate-related solutions that contribute to the decarbonisation of the sectors in which our businesses operate	• Achieve 50% of total R&D expenditure on climate-related R&D per year to contribute to the decarbonisation of the sectors in which our businesses operate by 2025, 75% by 2030 and 100% by 2040
Develop new products that contribute to the decarbonisation of the sectors in which our businesses operate	• Achieve 50% of new products which contribute to the decarbonisation of the sectors in which our businesses operate by 2025, 75% by 2030 and 100% by 2040

We are believers in industry and its potential to help solve society's most pressing needs. We buy high-quality but underperforming industrial businesses, with established positions in markets that are often among the most difficult to decarbonise.

Melrose approaches its environmental strategy from two perspectives. Firstly, addressing its own emissions, both at a Group level and within each of the businesses that it owns, through the introduction of targets and providing support and targeted investment to the businesses. More importantly, we are helping our businesses' customers to address their emissions and to contribute to the decarbonisation of their respective industries.

We recognise the serious threat posed by climate change and the urgent need for meaningful action. The manufacturing businesses that we acquire often operate in the industries that are some of the most difficult to decarbonise. We invest in and encourage our businesses to improve their operations and market offerings to minimise their impact on climate change and make them less vulnerable to climate-related risks, while safeguarding their long-term commercial success. We aim to effect meaningful change and improvement within our businesses during our ownership period. By setting a strong focus on sustainability improvement within each business we acquire, we want our businesses to continue their trajectory even after our ownership period.

Improving the sustainability perfo
our businesses whilst helping the
and key stakeholders tackle pres
challenges is at the core of Melro
"Improve" strategy. Through a co
investment in our own operations
oversight and ground-breaking re
development, we and our busine
directly addressing society's mos
longer-term sustainability challen
developing and delivering innova
solutions and processes, we are
the transition towards a net zero
before 2050.

While under our ownership, we e
support fast and sustainable ope
improvement through targeted in
helping to shape the long-term p
and sustainability of our business
ambition is to achieve net zero G
gas ("GHG") emissions in our Gro
operations before 2050 in line wit
Government's target, and in orde
the goals of the Paris Agreement
this goal, each of our businesses
and implemented sustainability ta
and commitments aligned with o
sustainability targets, which are a
the UN Sustainability Developme
("UN SDGs") and the sustainabilit
are most material to our key stak

In 2021, the Group achieved redu
total absolute Scope 1 and Scop
emissions (-14%), energy consum
and water withdrawal (-8%). The
reported some Scope 3 emissior
time. Despite these absolute redu
were increases in the Company's
intensity ratios, as shown on pag
This is reflective of the fact that N
Management, Brush and Nortek
which were disposed of during th
(and therefore are not included fr

(1) Where renewable electricity is commercially and reasonably available in the relevant jurisdiction.
(2) Excluding hazardous waste, which is already disposed of correctly outside landfill.
(3) Target baselined on 2021 performance. Baseline was set in conjunction with the timeframe of the Group's target setting process.
(4) Source: **https://carbonneutral.com/the-carbonneutral-protocol**.

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and a revenue perspective
l less resource-intense
an the Group's remaining
as well as Nortek Air
t's revenues being less
2021 than the GKN
n particular.

a positive example and
empowers its businesses
ead. Although the central
on footprint is relatively
ffset the emissions that we
e Melrose corporate offices
the CarbonNeutral®
tification for 2019, 2020 and
n a combination of internal
ency initiatives and financing
high-impact emissions
ojects in accordance with
Neutral Protocol[4]. The
orate office in the US
-linesGo (Green Office)
n recognition of its
practices and energy
formance, among other
al and wellbeing criteria.

eveloped our Group
l policy to demonstrate our
towards driving sustainable
ethods and infrastructure,
ng the potential negative
ur businesses may have
nment over the longer term.
hich applies to all individuals
ss our businesses and has
ed by the Board, can be
website (**https://www.
net/media/2805/
al-policy.pdf**). Our Conflict
y, which sets out the
of Melrose and its business
their suppliers with regards
nerals can also be found on
**ttps://www.melroseplc.
593/conflict-minerals-**

Helping customers address climate change

Product responsibility is central to the Melrose model of acquiring and improving underperforming manufacturing businesses. This is grounded in investing in safe and sustainable production practices and demonstrated by sustainable product performance and effective product life cycle management. Furthermore, we recognise the risks and opportunities that the transition to a net zero economy presents for our businesses and their customers. Despite operating in some of the hardest industries to decarbonise, we work closely with our businesses to ensure that they are well positioned to meet emerging regulatory requirements and wider environmental expectations.

Climate-related issues have a direct impact on product strategy, development, and financial planning across all our businesses. Our businesses work closely with their customers and world-class research institutions to develop market-leading and cost-effective innovations, delivering solutions that address environmental challenges.

In 2021, our businesses invested over £153 million in developing products that help their customers improve their energy efficiency and to reduce their GHG emissions, water consumption and waste generation compared with conventional technologies.

Key projects currently in progress include:

GKN Aerospace

GKN Aerospace's ground-breaking development in liquid hydrogen technology. The £54 million collaborative H2GEAR programme focuses on technology to accelerate aerospace decarbonisation, with the goal of zero CO_2 emissions hydrogen-powered sub-regional aircraft entering the skies as early as 2026. The programme is expected to create more than 3,100 jobs across the UK and will reinforce the UK's position at the forefront of aerospace technology research and development.

In addition, GKN Aerospace, in collaboration with HiiROC, a "turquoise hydrogen" technology developer, is developing a hydrogen gas generation solution for the GKN Aerospace Global Technology Centre ("GTC") in Bristol, UK. The project, which is in its early stages, aims to combine HiiROC's H2 generation technology with current hydrogen storage technology from GKN Hydrogen to replace the use of natural gas at the GTC. If successful, this may present a significant opportunity across the wider business in terms of reducing energy and emissions footprint.

GKN Automotive

GKN Automotive is at the forefront of increasing the efficiency of key automotive components and parts that are used across the world. As well as investing to minimise the CO_2 impact in vehicles, all products are designed to meet the highest international and OEM standards for hazardous materials and recyclability. At the GKN Automotive UK Innovation Centre in Abingdon, UK, the business is helping to progress the electric vehicle revolution and ongoing decarbonisation of the global automotive sector. In December 2021, GKN Automotive launched its Advanced Research Centre to help develop next-generation e-Drive technologies to power future electric vehicles and increase engineering capability in the UK to help meet the Group's net zero commitment. GKN Automotive is partnering with research teams in the engineering departments at the University of Nottingham and Newcastle University, operating collaboratively with engineers at the UK Innovation Centre.

GKN Powder Metallurgy

GKN Powder Metallurgy's new proprietary electric pumps are substituting engine driven pumps on vehicle transmissions. A conventional automobile pump system causes the pump to be constantly driven, resulting in unnecessary energy wastage. GKN Powder Metallurgy's new electric pump system operates on demand, actuated from the electronic controlling unit of the car, thereby reducing energy waste. This ground-breaking technology can achieve a fuel benefit of up to 10% compared to a conventional engine driven pump operating within a conventional driving mode. For full hybrid and electric vehicles, the electric pump is set to become the leading solution for lubrication and cooling.

More information on high profile projects can be found within the Divisional reviews on pages 12 to 29.

Melrose Group Taskforce on Climate-related Financial Disclosures ("TCFD")

In alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures

In complying with the requirements of the new Listing Rule on climate-related disclosures, we have included disclosures against all the key areas recommended by the TCFD. This is our first report following the recommendations of the TCFD and covers our approach as at 31 December 2021. We recognise that we will need to build on the efforts started in 2021 and are committed to continuously improving our approach.

In the table opposite, we summarise our disclosures against each of the TCFD recommendations and we cross-refer to where the disclosures are in this Annual Report. In assessing coverage, we took into consideration the guidance documents referred to in the guidance notes to the relevant Listing Rule.

Sustainability Accounting Standards Board ("SASB") reporting for 2021

This is our first year reporting against the SASB reporting standards. By reporting in line with the SASB standards we are providing our investors and other stakeholders with comparable, consistent, and reliable data on financially material sustainability factors, which directly impact our long-term enterprise value.

Further detail, including our established basis of reporting, can be found in our standalone Sustainability Report (available on our website at **https://www.melroseplc.net/sustainability**).

Taskforce on Climate-related Financial Disclosures ("TCFD") Index

Governance	**a) Describe the board's oversight of climate-related risks and**
	The Chairman and the Melrose Board oversees and has ultimate res Melrose's sustainability initiatives, disclosures, and reporting. This inc is not limited to, climate risks and opportunities. The Board has resp approving the sustainability strategy, sustainability report and sustair which also includes climate-related targets. Details of how the Board management authority across the divisions is described in the Risk n overview on pages 40 and 41.
	The Board receives regular training, at least annually, on sustainabilit that impact our businesses, including climate change. The Board als quarterly updates on key sustainability and climate-related issues tha sectors in which the Group's businesses operate, and on the specific that need to be implemented to drive improved climate-related perfo businesses. Please see the governance overview on page 57 for det sustainability and climate-related issues fit into wider Melrose govern responsibilities. Our Section 172 statement on pages 50 to 53 descri detail the Board's decision-making in 2021, including in relation to su and climate-related matters.
Strategy	**a) Describe the climate-related risks and opportunities the has identified over the short, medium and long-term.**
	In alignment with our "Buy, Improve, Sell" business model, we view n climate-related risks and opportunities with the aim of protecting and both the value of our businesses and their impact on the world. We h climate risk under short, medium, and long-term time horizons that re investment and value creation cycle of our "Buy, Improve, Sell" mode included a description of the climate-related risks identified as part of climate scenario analysis on pages 62 and 63. The time horizons use scenario analysis were as follows: • Short-term: until 2023 – aligned with Melrose investment and imp improvement phases. • Medium-term: until 2026 – aligned with Melrose ownership, enga "Improve" period and beyond. • Long-term: until 2040 – expected to align with the period beyonc ownership for our current businesses.
Risk management	**a) Describe the organisation's processes for identifying and climate-related risks.**
	Climate change will continue to have direct physical and transitional i businesses, although for each business the impacts will be different. is individually responsible for developing and managing processes to and manage their climate-related risks. The qualitative climate scena described on pages 62 and 63 was a key step in identifying climate-r opportunities. Please see the Risks and uncertainties section on pag details of our Group approach to assessing principal risks including c This year we also assessed water stress. Please see page 64 for det
Metrics and targets	**a) Disclose the metrics used by the organisation to assess c related risks and opportunities in line with its strategy and ri management process.**
	Improving operational efficiency is a key factor that shapes the long-t and sustainability of our businesses and contributes to ensuring that responding appropriately to changing regulatory and stakeholder rec expectations. Our ambition is to achieve net zero GHG emissions in c operations before 2050 in line with the UK Government's target, to ac goals of the Paris Agreement. As part of our evolving sustainability str have identified relevant Group-level KPIs to support us in better articu transition plan to meet our net zero ambition. These metrics include C water (withdrawal and stress) and waste. We have reported Scope 1 emissions data for the Group for several years and have now set redu for the short, medium and long-term. In 2021, we also began to repo number of Scope 3 emissions and will shortly incorporate these into Please see the environmental reporting section on pages 76 and 77 f 2 and 3 emissions disclosures.

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anagement's role in assessing and managing d risks and opportunities.

nior management team oversees the Group sustainability function. ty includes the publication of the sustainability report and the e-related targets in line with the TCFD recommendations across n 2021. We integrate the management of sustainability and climate- cross our existing governance and committee structures. Please see agram that outlines how climate is integrated into our governance structures.

tralised model and overseeing climate-related issues and levant actions and initiatives is most effective at the individual where most impact can be had. Each business's CEO and gement team are accountable for climate change and sustainability. year, the Melrose Group sustainability function has engaged with the relevant senior leaders of each business to set expectations and s appropriate oversight of the impacts of climate and other material ks and opportunities. Please see the Divisional reviews on pages 12 f how the divisions are engaging on climate change.

e impact of climate-related risks and opportunities sation's businesses, strategy, and financial planning.

sted over £153 million across our businesses on climate-related velopment, for example, to develop products that help their prove their energy efficiency and to reduce their GHG emissions conventional technologies. Please see the Technology case studies h the Divisional reviews on pages 12 to 29 and on page 59 of this port for further examples. We have described how sustainability led issues are integrated into our broader strategy in the description nd business model on pages 2 and 3.

has a direct impact on product strategy, development, and financial all of our businesses. Our businesses work closely with their ners, and world-class research institutions to develop market- fective innovations and deliver solutions that address environmental ne Sustainability report on pages 58 and 59, we have provided ve are embedding low carbon transition into our businesses levant targets.

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

To understand, and plan for, how Melrose will be impacted in plausible future climate scenarios and to improve our strategic resilience, we carried out our first climate scenario assessment, under two scenarios. These scenarios use Representative Concentration Pathways ("RCPs") that set pathways for concentrations of GHGs and, effectively, the amount of warming that could occur by the end of the century. We used the same criteria to rate the climate-related risks that is used to rate other strategic Group risks. Further details of how our businesses are supporting the decarbonisation of their sectors are outlined in the Technology case studies contained within the Divisional reviews on pages 12 to 29 and on page 59 of this Sustainability report. Details of our 2021 qualitative climate scenario analysis can be found on pages 62 and 63.

ne organisation's processes for managing d risks.

support, each business invests in and implements appropriate ocesses to manage their impact on the environment, and continually line with evolving expected practices. The executive management usiness regularly reviews any significant climate-related issues, tunities related to the business. These reviews consider the level of risk that the business is prepared to take in pursuit of its business effectiveness of management controls in place to mitigate climate- ne with our decentralised model, our businesses have frameworks tifying principal risks and opportunities appropriate to their business s, which include climate-related risks. Each business takes an ilored approach to improve relative to their maturity in this area at the ig part of the Group.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

In 2021, the Group risk categories were expanded and refined to include climate change as a strategic Group risk, to reflect the emerging risks involved with the increased frequency of extreme weather and climate-related disasters, coupled with increased climate transition legislation and regulations in this area. Please see page 47 for details on how climate change is integrated into our Group strategic risk profile.

At the end of 2021, in recognition of the businesses' strong focus on ensuring an efficient and sustainable use and management of energy, 112 (74%)[1] across our businesses were certified to ISO 14001 standard, and 28 sites (18%)[1] had achieved ISO 50001 certification. Compliance to the standards is ensured by independent auditing, with annual surveillance audits being completed and a full re-certification carried out every three years.

cope 1, Scope 2 and, if appropriate, Scope 3 Greenhouse missions and the related risks.

ed Scope 1 and Scope 2 emissions data for the Group for several ve also began to report a limited number of Scope 3 emissions. nvironmental reporting section on pages 76 and 77 for our Scope sions disclosures. Our Group emissions are closely linked with our ransition risk exposure. Please see our 2021 qualitative climate s on pages 62 and 63 for details on our climate transition risk isions are addressing and engaging with climate transition risks es.

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Each of our businesses are at a different stage of their respective strategic sustainability improvement journey, and at different points in their Melrose ownership. By the very nature of our "Buy, Improve, Sell" strategy, our Group sustainability performance will fluctuate during our investment cycle as we acquire new businesses in need of improvement, and sell businesses that we have improved. These differences among our businesses, and the unique nature of our business model, have been assessed and considered in setting the parameters of the Group sustainability targets, which cover net zero, Scope 1 and Scope 2 emissions intensity, renewable electricity sourcing, waste diverted from landfill, climate-related research and development expenditure and the development of new products that contribute to the decarbonisation of the sectors in which we operate. Please see page 55 for more details on our environmental targets including time horizons.

(1) Data has been collected from 98% (by sites) of the Group.

Climate scenario analysis in 2021

The Group is exposed to climate risks and opportunities through our individual business divisions. We are aware that the effects of climate change on specific sectors and businesses are highly variable. In 2021, we engaged with external consultants, Ernst & Young, to carry out our first climate scenario analysis to qualitatively assess the likelihood and impacts of climate change related risks on our Group[1].

The climate scenarios that were used for the assessment were:

Lower carbon scenario (RCP 2.6)
Very stringent decarbonisation pathways through policy and technology shifts. In this scenario, emissions start declining immediately and reach zero by 2100. It is likely to keep warming below 2°C, resulting in lower expected physical climate risks.

Higher carbon scenario (RCP 6.0)
Some emissions mitigation. Emissions rise to 2080 and fall. Warming is likely to exceed 2°C degrees, resulting in higher expected physical climate impacts.

The analysis focused on a selectic climate-related risk categories acr and transition risk areas. Given the analysis and the sectors that our b operate within, we identified key a material risk exposure that are in v of mitigation across the businesse provided an overview below of the physical and transition climate risk and responses.

Overview of Melrose Group transition climate risks and opportunities

Risk description	Risk trends and impacts	Lower carbon scenario			Higher c
		Low	Medium	High	
Technology Technology transition risks through increasing demand for lower carbon technologies that render current products obsolete. There are also potential risks from unsuccessful investment in new technologies. ***Risks and Opportunities***	The businesses are exposed to increasing technology risks over time under both the lower and higher carbon scenarios. This is due to rising pressure on their sectors and customers to develop and scale new lower carbon technologies to drive down emissions (for example, use of hydrogen, zero carbon aircrafts, increasing penetration of battery electric and plug-in hybrid electric vehicles). *Potential financial impacts include increased operating costs on research and development to respond to technology and market trends and increasing capex to invest in new and specialist machinery.*	2023	●		2023
		2026	●		2026
		2040		●	2040
Market Market risks from changing demand for products due to shifting customer sentiment towards lower carbon options. ***Risks and Opportunities***	This risk is intricately linked with Technology risks and Sector reputation risks. Under the lower carbon scenario, market risk exposure remains a stable medium across all time horizons. Under the higher carbon scenario, the risk exposure does not manifest until 2040. *Potential impacts to revenue due to changing product demand (for example, reduced demand for internal combustion engine parts and increasing demand for electric vehicle parts in the automotive sector).*	2023	●		2023
		2026	●		2026
		2040	●		2040
Carbon policy and regulations Risks from carbon policies and regulation, including taxes and bans on specific products and processes. This also includes carbon pricing on carbon intensive materials such as steel and plastic. ***Risks***	Due to the energy intensive nature of manufacturing, the divisions are exposed to increasing carbon policy and regulatory risks in short, medium and long-term horizons, particularly under the lower carbon scenario. The higher carbon scenario assumes less near-term regulatory intervention and as such, risk exposure does not begin to manifest until 2040. *Potential impacts to operating cost and revenue due to carbon taxes and regulatory interventions. Potential impacts due to increasing cost of the raw components in manufacturing.*	2023	●		2023
		2026		●	2026
		2040		●	2040
Sector reputation Risk that high-emitting, hard to decarbonise sectors are exposed to increased sector stigmatisation. This may affect the attractiveness of investments in companies exposed to carbon intensive industries, including within the aerospace sector and other manufacturing sectors. ***Risks and Opportunities***	Reputation risks were found to be low in the short-term under the low carbon scenario but expected to increase in the medium and long-term. Reputation risk was the only climate risk that was found to be higher under the higher carbon scenario. This is due to assumptions around increased stakeholder pressure to the limited carbon policies assumed in this scenario. *Potential impacts include reduced access to capital due to investor preference for companies less exposed to high emitting activities.*	2023	●		2023
		2026	●		2026
		2040	●		2040

(1) Ergolron was excluded from the analysis due to low materiality. Its revenue weighting for the Group was 3% based on H1 2021 data.

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esponding

major strategic focus for the
ee the Chief Executive's review
l 11 for further details on our
n sustainable technologies.

ior management team is
gage with the businesses
gic investment into the
products that will be key to
ransition, and to consider
rements to meet its
objectives. See our Divisional
s 12 to 29 for details of how
investing in lower carbon
research and development.

are acutely aware of,
to, the changing market
v carbon products. Please
al reviews on pages 12 to 29
w our divisions are adapting
rket demand for lower
s.

Group-level priority to drive the
in its businesses' sectors
up-level emissions reduction
rt this. Please see page
ail on how our businesses
arbonisation of their sectors
nd 76 to 77 for our climate-
nd metrics.

sees and challenges the
the Group's sustainability
r details are provided
Sustainability report
ges 54 to 57. The Board also
atings to ensure continuous
cross ESG issues that are
estors, and to ensure that
ne with market and key
ectations.

Overview of Melrose Group physical climate risk

In the scenario analysis, physical climate risks were given a single combined risk rating across both scenarios assessed. This is because physical outcomes do not begin to diverge significantly until after 2040 under the scenarios used. Please see below for an overview of the Group's physical climate risk exposure.

The analysis assessed the following physical climate risks categories:

- **Property** – risks from physical damage to property because of extreme weather events (acute) or changes to the climate experienced over a period of time (chronic).
- **Supply chain** – risks from disruption to the supply chain because of extreme weather events (acute) or changes to the climate experienced over a period of time (chronic). For example, impacts of extreme weather events in key supplier locations.
- **Production** – risks to the production process or demand for products because of changes in the climate. For example, potential impacts of higher temperatures on labour productivity and production outputs.

Melrose Group-level exposure to physical climate risks

	Across both scenarios (RCP 2.6 and RCP 8.0)[1]								
	2025			2026			2040		
	Low	Medium	High	Low	Medium	High	Low	Medium	High
Property	●			●				●	
Supply-chain	●			●				●	
Production	●			●				●	

(1) Physical risks have been given a single combined risk rating across both scenarios used.

Overall, physical climate risk exposure was found to be significantly lower across the divisions relative to transition risk. The scenario analysis found low exposure to material or unmitigated physical climate risk across divisions in the short and medium-term time horizons under both scenarios. Physical risks begin to increase in the longer-term time horizon (from 2040), for example through increasing likelihood of river flooding risk in the UK or increasing wildfire risk in California.

The businesses have prioritised the most material climate risk exposures, namely the transition risks outlined in the table opposite. However, physical climate risks will continue to be monitored as part of the Group strategic risk framework. Please see the Risks and uncertainties section on page 47 for more details on the Group's approach to climate risk management.

Environmental reporting

Our environmental reporting covers all entities over which the Group had financial control for a period of at least one year as at 31 December 2021. Emissions from entities acquired or disposed of during the reporting period (i.e. disposed of before 31 December 2021 or acquired on or after 1 January 2021) are not accounted for in this section in respect of 2021 data.

Given that the Melrose business model is to "Buy, Improve, Sell" businesses, the consolidated Group emissions data contained in this report can often show significant year-on-year changes, which may not reflect the underlying performance of each individual business in the Group.

In 2021, the Group achieved reductions in total absolute Scope 1 and Scope 2 GHG emissions (-14%), energy consumption (-6%) and water withdrawal (-8%). The Group also reported some Scope 3 emissions for the first time.

Our emissions and other environmental disclosures are set out on pages 76 and 77.

The Group's chosen intensity ratio is emissions, energy consumption and water withdrawal reported above normalised tonnes, MwH, or m3 per £1,000 of turnover, which we believe remains the most appropriate intensity ratio for Melrose given our business model and structure. Although absolute emissions, energy and water decreased in 2021, the Scope 1 and Scope 2 emissions, energy consumption and water withdrawal intensity ratios increased.

The increase in the intensity ratios in 2021 is reflective of the fact that Nortek Air Management, Brush and Nortek Control, which were disposed of during the period (and therefore are not included from both an emissions and a revenue perspective for 2021), had less resource-intense operations than the Group's remaining businesses, as well as Nortek Air Management's revenues being less impacted in 2020 than the GKN businesses in particular.

No material environmental fines or penalties were issued against any of the businesses in 2021 or in the previous four years.

Water

Water is an essential resource for multiple production processes utilised within our businesses. It is acknowledged, however, that water scarcity is a global challenge, causing a range of issues that cannot be solved unilaterally. Whilst water withdrawal for the Group is not considerable compared to peers, water conservation is becoming an increasingly important issue for some of our stakeholders and therefore water has been elevated to a key sustainability topic in terms of materiality.

We encourage our businesses to reduce their water withdrawal and consumption through implementing measures to lessen water use through their production processes. This not only decreases the impact of our businesses' activities on water sources at a local level, but also reduces the risk of water scarcity impacting operations.

This year we have made progress in our water data collection and have undertaken a mapping exercise to identify any operational sites within the businesses that are in current or potential future areas of water stress. The improved data collection processes and scope will enable us to establish more robust baselines for reporting our future progress, to establish a water target, and to highlight sites located in water stressed areas where engagement is required to reduce water withdrawal.

During the year, we also conduct high-level analysis of our operatic stressed[1] areas. We reviewed w have any manufacturing or office operating in areas of 'high' (40%- 'extremely high' (>80%) baseline according to the World Resource ("WRI") Aqueduct Water Risk Atl

Areas of high or extremely high v according to the WRI definition, a where human demand for water 40% of resources. We have iden 20% of our businesses' current s located in areas of 'extremely hig water stress, and a further 15% c sites are currently located in area baseline water stress. This analy built upon alongside ongoing en with our businesses to work tow withdrawals in these regions.

Waste management

Our businesses are actively enc reduce the amount of waste they and to divert waste from landfill. this, we have implemented a Gro target to divert 95% of non-haza to landfill by 2025 and 100% by

Responsible sourcing

We are committed to ensuring th businesses source raw materials manufacture products in a respc ethical and sustainable manner. to our businesses' global supply is important in mitigating the risk chain shocks.

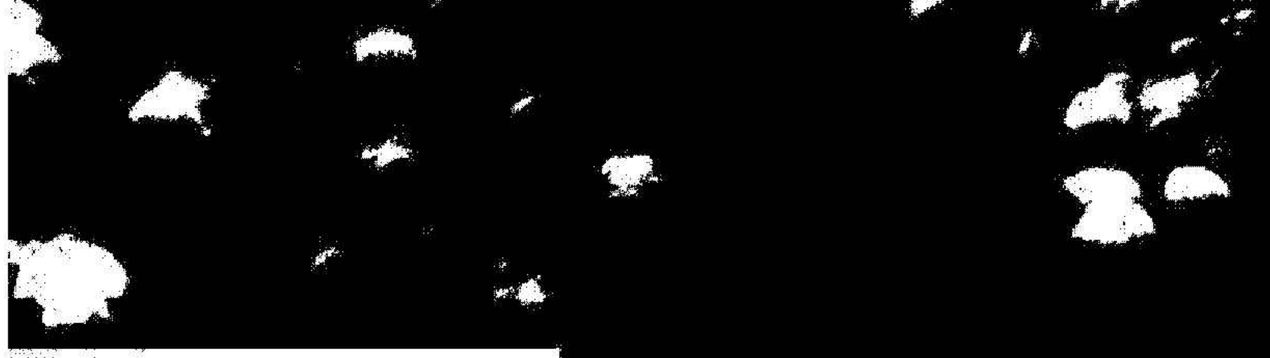
This year we have elevated the ir and prominence of Responsible across the Group as part of our executive review of our material s topics and in response to our de sustainability strategy and the ev business environment.

This section has been prepared for the reporting period of 1 January 2021 to 31 December 2021, and in accordance with the principles an requirements of the Greenhouse Gas Protocol, Revised Edition, ISO 14064 Part 1 and the Environmental Reporting Guidelines, including t Streamlined Energy and Carbon Reporting guidance dated March 2019. The Greenhouse Gas Protocol standard covers the accounting a reporting of seven Greenhouse gases covered by the Kyoto Protocol.

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regula and under the UK's Streamlined Energy and Carbon Reporting ("SECR") requirements. All material emissions from within the organisation operational scope and boundaries of the Group are reported.

These sources fall within our Consolidated Financial Statements. We do not have responsibility for any emission sources that are not inclu our Consolidated Financial Statements. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). has been gathered in accordance with our GHG reporting procedure. The emission factors from the UK Government's GHG Conversion F Company Reporting 2021 (DEFRA factors) have been used to calculate the GHG emission figures together with IEA country-specific facto associated overseas electricity usage.

(1) For these purposes, baseline water stress measures the ratio of total water withdrawals to available renewable surface and groundwater supplies. Water withdrawals include d industrial, irrigation, and livestock consumptive and non-consumptive uses. Available renewable water supplies include the impact of upstream consumptive water users and l downstream water availability. Higher values indicate more competition among users. Source: WRI Aqueduct 2019 (**https://www.wri.org/applications/aqueduct/water-risk-d=false&basemap=hydro&indicator=w_awr_def_tot_cat&lat=30&lng=-80&mapMode=view&month=1&opacity=0.5&ponderation=DEF&predefined=false&projection rio=optimistic&scope=baseline&threshold&timeScale=annual&year=baseline&zoom=3**).
(2) For these purposes a 'site' is defined as a manufacturing site or office that is under the operational control of the relevant business. It excludes sites in which the Group holds a or less, and supplier or third-party facilities.
(3) Excluding hazardous waste, which is already disposed of correctly outside landfill.
(4) Data has been collected from 64% (by revenue) of the Group.



Environmental stewardship

To enable the Group to meet its climate-related targets, our businesses are seeking to reduce energy usage and GHG emissions within their operations through more efficient use of electricity, fuel and heat, by increasing the proportion of renewable energy where commercially viable, and by implementing other climate-positive actions such as sustainable transport initiatives for employees.

The businesses take an appropriately tailored approach to implementing climate-related initiatives that are most relevant and impactful to improving their business activities and requirements, and their operational and market environments. Each business is at a different stage in their climate strategy depending on their maturity in this area, but all have implemented or are in the process of implementing a wide range of positive actions.

During 2021, the Group as a whole invested in the following areas:

£1,868,415

on LED lighting retrofits

£817,826

on more efficient air conditioning and heating systems

£58,000

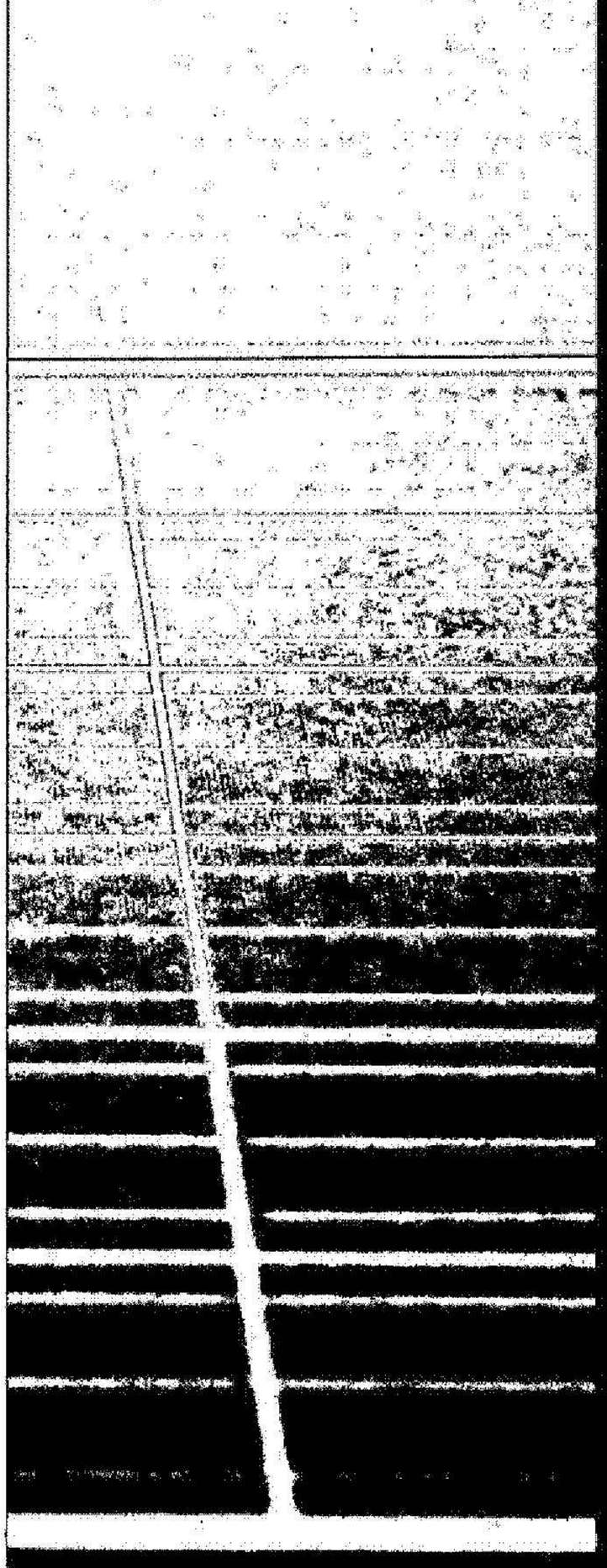
on renewable energy installations [4]

£[illegible]

on insulation improvements

£6,043,453

investment on energy efficient equipment



sourcing will therefore receive during 2022 and beyond.

r businesses to work closely pliers to ensure they respect and promote good working oss their supply bases. In neans that suppliers are eat their workers equally and nd dignity, for all workers to ppriate age in compliance with minimum age for work, for all paid a fair wage that meets e legal minimum standard or stry standard, to eliminate king hours for all workers with local laws, and for all h and safety rights to be ork.

r businesses to have strict place in respect of sourcing w materials containing 3TG e extent required by applicable ner expectations, and to seek ther 3TG minerals are sourced d from conflict-free regions of a minimum, relevant suppliers :

e diligence to ascertain 3TG minerals in products are ; and

e Responsible Minerals orting template or equivalent, by the respective business.

decentralised model, while the oversight of supplier-related that have applicability across luding our Conflict Minerals sibility for the implementation ent of all supplier-related with divisional management. pports its businesses in and managing such policies spective supply chains, in line and geographical of their supplier base.

s implement supplier ocesses where relevant which, require suppliers to complete ent. Many of the businesses rs to sign their supplier code equivalent policies and the determined level of risk, t in an audit or further reviews. nesses each have a supplier ct that applies globally to all and is based on the ethos of t thing".

Our people

Our Sustainability Objective	UN Goals
Promote diversity and prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of	3 GOOD HEALTH AND WELL-BEING · 5 GENDER EQUALITY · 8 DECENT WORK AND ECONOMIC GROWTH

Material Issue	Melrose Group Performance Target
Talent and Workforce	• Ensure that all permanent employees receive regular (annual) formal performance reviews by 2022 where permitted by local laws and employee representative bodies
Community	• Invest £10 million over five years through the Melrose Skills Fund
Diversity and Inclusion	• Achieve by 2021 and maintain a Board and Executive Committee comprising at least 33% female membership • Maintain achievement of the Parker Review recommendations
Health, Safety and Wellbeing	• Protect our employees from injury and lost time accidents ("LTAs") and achieve and maintain an average LTA frequency rate below 0.1

The Melrose Code of Ethics reinforces our Group sustainability principles and provides our businesses with clear guidance as to how the Board expects them to conduct business, and the consequences of non-compliance. The Melrose Code of Ethics outlines the policies and procedures in place to drive best practice and to promote diversity and inclusion at all levels. The code has been approved by the Board and can be found on our website (**https://www.melroseplc.net/media/2804/code-of-ethics.pdf**).

A great place to work

For our businesses to perform well and achieve their potential, it is important to nurture an engaged, capable and enthusiastic workforce. We want our people to enjoy the work they do, and to trust that their safety and wellbeing is our priority. We value and champion diversity in its broadest sense and drive our businesses to create working environments that encourage and nurture employees to grow, develop and act with integrity.

oyee engagement

se the importance of engaging
nployees in a meaningful way to
ir development and for us to deliver
ness performance. We and our
regularly consult with employees
Group, and we are highly
in addressing employee concerns.

course of the year, all of our
undertook all-employee
nt surveys. Upon receipt of survey
relevant information is shared
sinesses' executive teams, plant
IR teams and other people leaders.
lts are then further analysed
ch mediums as employee focus
oss all our businesses, action
eveloped to help address areas
ment, be that on a global, site or
am level. The survey feedback
g measures are then shared with
through various other engagement
as town hall meetings.

lrose established a Group
Advisory Panel ("WAP") to enable
f the workforce to be heard and
by our businesses' executive
re they can have maximum
WAP reports to the Board
provide visibility and oversight
force views, which are then
at Board meetings. Such oversight
d also ensures that the WAP and
ng engagement processes are
ffectively for each business.

chaired by a member of the
nior management team and
the Chief Human Resources
equivalent) from each business.
ber of the WAP is responsible
ng workforce engagement,
ng information and collating the
ir workforce. Each member of the
um responsible for demonstrating

how key workforce views are fed into executive management decisions, as well as ensuring that the workforce is aware of their impact on such executive management decisions. One of the key workforce views this year related to learning and development opportunities. Please refer to the talent and career management section on page 70 for examples of how this has been addressed.

Melrose requires all of its businesses to safeguard the contractual and statutory employment rights of their respective employees. Each business is also encouraged to maintain constructive relationships with employee representative bodies, including unions and works councils. We respect the rights of workers across all businesses to participate in collective bargaining and freedom of association. Workers, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively in relation to a host of employee-related matters. Workers' representatives are not discriminated against and have access to carry out their representative functions in the workplace. Trade union membership fluctuates year-on-year depending on the Group composition. In 2021, 25,550 (64%) of our employees belonged to a recognised trade union (2020: 40%)[1].

Melrose and each of its businesses pay all UK employees at least the real living wage, save for year-in industry students (of which there were seven in the Group as at 31 December 2021), who are paid in accordance with the national minimum wage rates for their age group. In addition, Melrose and each of its businesses offer all employees in the UK the opportunity to work for at least 15 hours per week.

In addition to regular communications with representative bodies, during 2021 a number of event-driven consultation processes with relevant union representatives took place following the difficult decisions to close unviable GKN Automotive sites in Erdington, UK and Firenze, Italy. These decisions are never taken lightly, and we strive to treat people fairly and with open and clear communication. The closure of the Erdington assembly site was announced in January 2021. Despite significant effort and investment over the last ten years to reduce operating costs, the site remained heavily loss-making. Throughout the redundancy consultation process, GKN Automotive worked with employees, unions and employee representatives to provide support to those affected. In November 2021, it was announced that the 519 employees had accepted a revised redundancy package, and the plant is due to close in 2022. For Firenze, a process which involved local and national government, we were able to secure a reindustrialised future for the site with a new owner.

Group employees as at 31 December 2021	
Permanent employees	38,231
of which:	
Full-time employees	37,336
Part-time employees	895
Temporary employees	1,056
Apprentices	759
Total	**40,046**

lected from 99% (by headcount) of the Group
2021.

.rd and recognition

sses have policies in place
ent, talent development and
planning, supported by training
s and effective management.
es exist across all businesses for
to discuss career development
rect managers, and each
ncourages internal applications
sitions. In 2021, 20% of open
ere filled by internal candidates
)[1].

Where permitted by local laws and employee representative bodies, performance evaluations are undertaken across our businesses, with 45% of employees receiving a performance appraisal in 2020 (2019: 49%)[2]. The reduction in performance evaluations compared to 2019 was largely affected by COVID-19 induced lockdowns, as well as fewer employees in roles requiring annual performance evaluations in line with the guidance of local representative bodies.

At the time of writing, performance evaluations for 2021 were ongoing. Annual salary reviews are aligned with performance evaluations to ensure that employees are paid fairly and correctly for the position they hold. In compliance with all applicable local laws relating to the provision of pensions, 32,936 (82%) of the Group's employees (by headcount) benefit from being a member of a company-based pension scheme.

(1) Data was collected from 66% (by headcount) in 2020 and 100% (by headcount) in 2021.
(2) Data was collected from 97% (by headcount) of the Group in 2019 and 2020.

Pensions

With every acquisition, Melrose seeks to strengthen pension scheme arrangements for the benefit of employees and retirees. We take pride in having substantially improved all of the UK pension schemes under our ownership, with many of them becoming fully funded on departure from the Group. For example, under Melrose ownership, the McKechnie UK pension scheme was improved from 58% funded at acquisition to more than fully funded upon leaving the Group, and the FKI UK pension scheme was improved from 87% funded at acquisition to fully funded upon its departure from the Group. Both of those schemes were sold into Honeywell International Inc., a US-listed group with the financial covenant strength expected of a market capitalisation exceeding US$140 billion. For further details, please refer to page 5.

Our focus on strengthening pension schemes begins from when we acquire a new business, and the GKN pension schemes are the latest example of this. The GKN UK defined benefit pension schemes had been chronically underfunded, and we were proactive, transparent and constructive in agreeing commitments with pension trustees during the acquisition of GKN. Prior to acquiring GKN, we committed to providing up to £1 billion of funding contributions, which included doubling annual contributions to £60 million, and providing £150 million of upfront contributions. In our short period of ownership, we have met our commitments and have significantly strengthened the pension schemes. For example, so far we have:

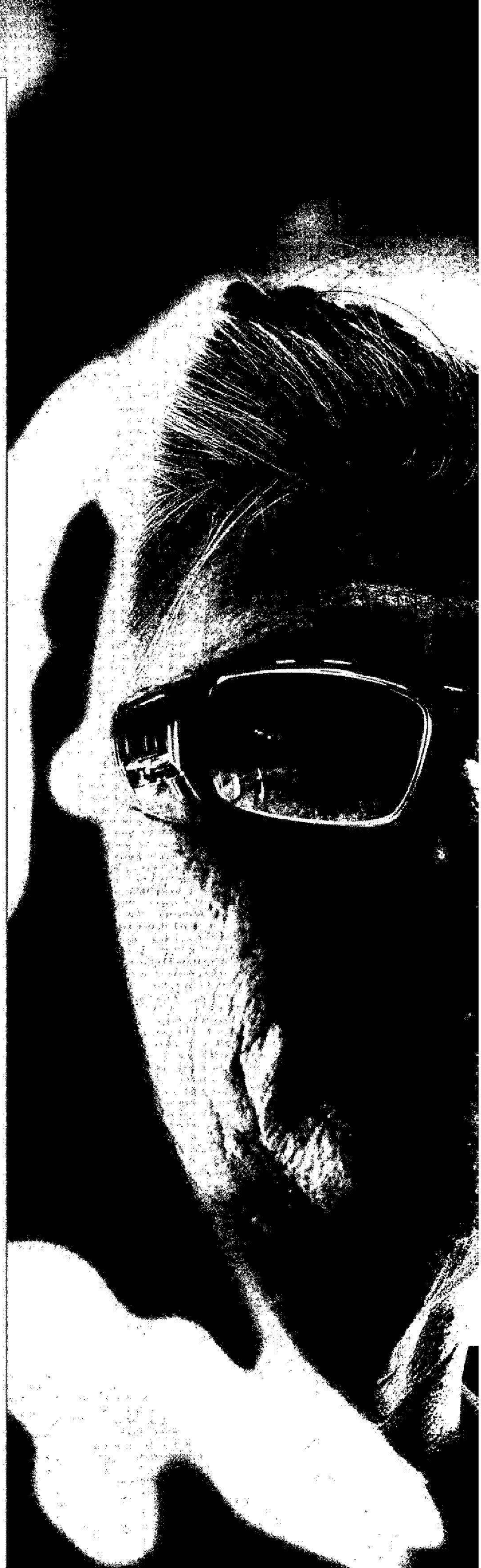
- Eliminated the GKN UK defined benefit pension scheme accounting deficit.
- Applied more secure funding targets of Gilts +25 basis points (GKN 2016 scheme prior to buyout) and Gilts +75 basis points (GKN 2012 schemes 1-4) to achieve more prudent funding targets.
- Rebalanced the GKN schemes across the GKN businesses to avoid overburdening any one business and to provide stability and better security for members.
- Having funded the GKN 2016 scheme to 115%, arranged a buyout with an appropriate insurer that secures the futures of over 8,000 pensioners' member benefits.

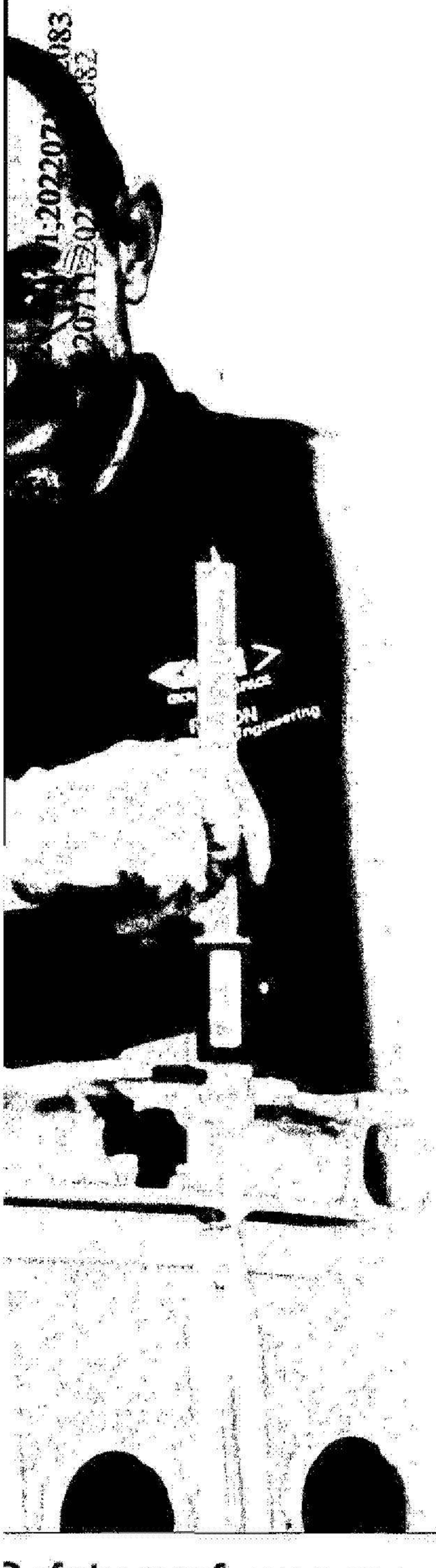
Our model for ensuring the long-term prosperity of our businesses' pensions schemes is founded on the following principles:

- Improve funding targets to ensure improved financial health for the long-term sustainability of our businesses' pension schemes.
- Increase funding levels to begin an enhanced level of immediate support during our period of stewardship.
- Provide better structural and financial security to our businesses' pension schemes during our ownership.
- Insist on independent chairs to govern our businesses' pension schemes in accordance with governance best practice.

Securing our employees' and retirees' futures through responsible stewardship of their pensions is of strategic importance to the Board.

For further information on Melrose's engagement with pension scheme trustees and our investment in transforming the UK defined benefit pension schemes of our businesses, please refer to page 5.





Safety first

We drive our businesses to prioritise the health, safety and wellbeing of employees and contractors. We are committed to setting high standards and have effective policies, procedures and training in place to support the health, safety and wellbeing of all employees and contractors across the Group. We recognise the increasing importance of taking a holistic approach to employee wellness, to protect their physical and mental health and social wellbeing, and to foster a positive workplace culture that attracts and retains a highly skilled workforce. We are committed to ensuring that our employees are safe, and we require our businesses to protect and safeguard employee health and wellbeing across the Group. To this end, in 2021 we implemented a Group-level target, which all our businesses have implemented and aligned with their respective sustainability strategies, to achieve an annual LTA frequency rate of below 0.1. This underpins our overarching commitment to stop all preventable accidents for employees and contractors, through the promotion of safe behaviours and an enhanced focus on hazard identification and awareness.

The Group operates a decentralised model, and in addition to the Group-level expectations for health and safety standards, each business is ultimately responsible for creating and maintaining their own safe and healthy workplaces, implementing operational best practices, and maintaining a robust culture of health and safety awareness, training and performance. This is delivered through the Group health and safety management framework.

Health and safety management systems are implemented across all our businesses to ensure that robust policies and procedures are in place to reduce risk and instil an enhanced focus on continuous improvement. Health and safety management systems are supported by internal health and safety effectiveness audits, external assurance reviews conducted by the Group's insurance brokers, with regular oversight and challenge by the Melrose senior management team, quarterly reporting to the Board, and further regular Board and Melrose senior management team oversight over any material incidents or issues that arise.

As at 31 December 2021, 74%[1] of sites (inclusive of office, production and testing sites) within the Group were certified to the ISO 45001 international standard, with additional relevant sites progressing towards ISO accreditation. 100% of GKN Automotive production sites and test centres are ISO 45001 certified, with successful transition from OHSAS 18001 completed in 2021. GKN Aerospace released a Leader's HSE handbook in 2021 which details the requirements for effective management that all sites must comply with. To maintain ISO accreditation, all businesses must undertake third party auditing on a three-year certification cycle, with annual surveillance audits taking place in between to ensure standards are being maintained.

(1) Data was collected from 98% (by sites) of the Group.

Safety performance

We are focused on cultivating a strong safety culture within our businesses through emphasising the importance of preventing avoidable incidents and implementing near miss reporting, which encourages an enhanced focus on hazard identification and awareness. Behaviour-based programmes and continuous training and awareness campaigns remain central to the approach of all divisions in improving their safety performance.

As per the non-financial KPIs on page 31, the Group has achieved an average LTA frequency rate of less than 0.1 in 2021, hence achieving the target for the year.

Ethics and compliance

Our Sustainability Objective	UN Goals
Exercise robust governance, risk management and compliance	8 DECENT WORK AND ECONOMIC GROWTH

Material Issue	Melrose Group commitment
Ethical Conduct and Compliance Business Model Resilience	• All employees, suppliers and contractors must comply with our Code of Ethics, conducting business with integrity and in a responsible, ethical and sustainable manner

Exercise robust governance, risk management, and compliance

Sound business ethics and integrity are core to the Group's values and are fundamental for the success of our strategy. Melrose is a UK premium listed company with strong, established financial controls that are continually assessed, tested and reviewed. This robust framework is supported by an independent internal audit function, regular public disclosure and financial reporting, external audits, public accountability and conformance with leading benchmarks set by the UK Corporate Governance Code. It is also supported by investor requests and direct engagement with them and corporate governance and proxy advisors, and extensive engagement with the Group's wider stakeholder base to ensure that best market practice is being implemented.

The high standards of financial and non-financial controls, and strong governance backed by internal and, where required, external review of financial and non-financial compliance, are enforced throughout the Group. Directors, officers, employees, and contractors throughout the Group, whether permanent or temporary, and in respect of any entities over which Melrose has effective control, must comply with Melrose's Code of Ethics and Group compliance policies, which reflects current best practice and strong corporate citizenship. Each business is required to communicate and embed the Code of Ethics and Group compliance policies within their operations and activities to ensure that they conduct business with integrity and in a responsible, ethical and sustainable manner.

The Code of Ethics and Group compliance policies, which can be found on our website (**https://www.melroseplc.net/sustainability/data-reports-and-policies/**), have been approved by the Board and include policies covering best practice with respect to anti-bribery and corruption, anti-money laundering, anti-facilitation of tax evasion, competition, conflict minerals, trade compliance, data privacy, whistleblowing, treasury and financial controls, anti-slavery and human trafficking, document retention, joint ventures, diversity and inclusion, environmental, and human rights.

Implementation is supported by risk assessments, audits and reviews and annual compliance certifications. Melrose strongly believes that policies and procedures are only as effective as the people who implement them. To that end, all of the above measures are backed by investment, resources and training.

The Audit Committee reports directly to the Board. It oversees the Group's internal control processes and, together with the Board and with the support of the Melrose senior management team, monitors breaches of the Melrose Code of Ethics. Please refer to pages 40 to 41 for full details on the Group's approach to risk management.

Anti-bribery and corrup

We take a zero-tolerance appr bribery, corruption and other u or illegal practices, and are co acting professionally, fairly and in all business dealings and rel within all jurisdictions in which businesses operate. Melrose r businesses to adopt high gove standards, to ensure that the G conducts business responsibl and in the pursuit of long-term the collective benefit of stakeh outlined in our Anti-Bribery an policy, which is implemented a administered throughout the G available on our website (**https melroseplc.net/media/2803 pdf**). During 2021, no employe disciplined or dismissed due t compliance with the Anti-Brib Corruption policy.

In line with our Anti-Bribery and policy noted above, Melrose pr political donations, and recogr from time to time our Group m businesses that engage in pol and advocacy activities on sut legitimate concern to their resp industries and key stakeholder their staff and the communities they operate.

wing

a Group-wide whistleblowing
ch is overseen by the Audit
nd supported by the Melrose
gement team, and ultimately
ne Board. The platform is
the businesses' legal,
nd HR functions, with support
ose senior management team.
s have access to a multi-lingual
together with local hotline
are available 24/7, in order
erns, confidentially and
; about possible wrong-doing
of their business, including
non-financial matters. The
ake a number of actions to raise
wareness of the whistleblowing
g online and offline media as
Employees who come forward
e concern are treated with
dignity and do not face retaliation.
103 whistleblowing cases were
ugh the platform (2020: 120)[1].
s the effectiveness of awareness
gether with the trust placed by
the whistleblowing programme.
investigated confidentially by the
appropriate response measures
eblowing cases are regularly
ne Audit Committee and
ne Board.

xclude any whistleblowing cases received
that were no longer part of the Group as at
021.

Modern slavery and human trafficking

As set out in the Melrose Anti-Slavery and Human Trafficking policy, the Group has a zero-tolerance approach to any form of modern slavery. In accordance with the Modern Slavery Act 2015, Melrose publishes its own Modern Slavery Statement, which is approved by the Board annually and can be found on our website (**https://www.melroseplc.net/media/2759/modern-slavery-statement-fy2020.pdf**). Under Melrose's decentralised Group structure, each business is responsible (where applicable) for publishing their own Modern Slavery Statement in accordance with the requirements under the Modern Slavery Act 2015, with support provided by Melrose where needed. This approach ensures that those senior managers closest to the business operations devise appropriate measures to ensure slavery is not present within their supply chains.

Melrose drives its businesses to implement employee training with respect to anti-slavery and human trafficking, to ensure that employees understand the risks and are prepared to take the required action if they suspect that modern slavery is happening internally or within the supply chain.

Human rights

We are committed to acting in an ethical manner with integrity and transparency in all business dealings, and to create effective systems and controls across the Group to safeguard against adverse human rights impacts. The Group has a strong culture of ethics, which encompasses key human rights considerations and is set out in our Human Rights policy. The Group supports the principles set out in the UN Declaration of Human Rights.

Our businesses also implement effective and proportionate measures to identify, assess and mitigate potential labour and human rights abuses across their operations and supply chains. These include training, anti-slavery and human trafficking policies, employee handbooks and business-specific policies. All business-specific policies are reviewed locally within each business in order to ensure compliance with local laws and standards as a minimum.

There have been no violations reported on human rights by our businesses in 2021 or in the previous two years.

Protecting information security and data privacy

Melrose strongly respects privacy and seeks to minimise the amount of personal data that it collects, as well as ensuring the robust and sufficiently segregated storage of any data that is held. Information security and cyber threats are an increasing priority across all industries globally, and like many businesses, Melrose recognises that the Group must be protected from potential exposures in this area, particularly in light of its scale, reach, complexity and public-facing nature, as well as the potential sensitivity of data held in relation to civil aerospace technology and controlled defence contracts.

The Melrose senior management team continues to work with the businesses' executive teams and external cyber security risk consultants to track the Group's exposure to cyber security risk and, to ensure appropriate compliance with the GDPR, mitigation measures are in place for the Group.

Melrose has deployed its information security strategy and risk-based governance framework to all businesses within the Group, which follows the UK Government's recommendations on cyber security. This strategy has enabled risk profiling and mitigation plans to be developed for each business to mitigate and reduce their exposure to cyber risk in a manner that is adequate for their level of sophistication. This ensures clarity and consistency in the assessment of IT and cyber security matters across our diverse and decentralised Group. The progress of each business is measured against the information security strategy and is monitored on a quarterly basis.

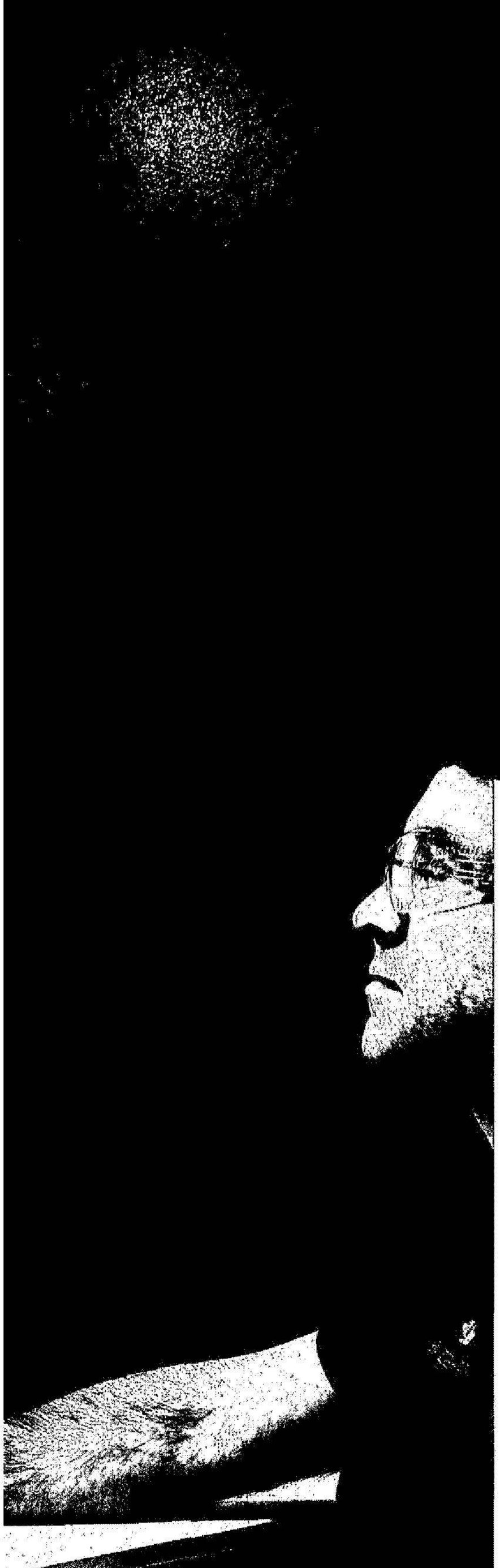
The Board, supported by the Melrose senior management team, oversees the Group's cyber security risk profile and, in line with our decentralised model, each business is required to protect their business and personal information, ensuring safe and appropriate usage of their IT systems and processes by their employees.

To mitigate the impact of external cyber-attacks, the Melrose senior management team works with the executive teams of each business and external cyber security risk consultants to review each business's cyber risk profile to monitor and drive continuous improvement actions. The results of this ongoing review programme are reported to the Board on a quarterly basis.

Through a hosted, externally auditable self-assessment process, each business is reviewed and reports on their compliance in key areas of cyber management incorporating disaster recovery processes and business continuity plans, cyber incident response plans, applications and database management including access controls testing, appropriate security products, policies and procedures, confirmation of appropriate change management processes for all business-critical systems, IT inventory listings including all classified data to meet compliance with legal and regulatory requirements, monitoring and logging of all cyber incidents, physical environment access controls and network security, regular security training, and management of third party access control.

The businesses regularly perform internal and external testing of their perimeter defences through penetration testing, ensuring appropriate threat monitoring systems are in place. All of our businesses follow and work towards national and international business accreditations in varying aspects of cyber management where applicable and relevant to their business activities, including the UK's National Cyber Security Strategy ("NCSS"), ISO 27001, and industry-specific NIST in the defence sector and TISAX in the automotive sector.

As part of Melrose's overall information security strategy, IT security awareness training was provided by all businesses in 2021.



Outlook for 2022

With our key sustainability targets now firmly established and implemented, during 2022 we will continue to oversee and invest in our businesses to accelerate their sustainability performance. As global sustainability reporting standards seek to harmonise, we will continue to bolster our internal reporting standards and controls to align with new and emerging market standards, including external data reviews in preparation for eventual third party assurance in future years, and continued engagement with external reporting platforms, such as CDP. Responsible Sourcing and Water have been re-prioritised as material sustainability topics for the Group, and progress in these two areas will be a focus during 2022.

Having made huge strides in 2021 towards building a more sustainable future, we recognise that our journey towards decarbonising our businesses' industries has much further to go. In 2022, we will continue to drive our businesses to protect the workforce to uphold strong ethical and governance principles and practices, to work more closely with their customers to develop innovative low carbon products, and to make meaningful changes within their day-to-day operations, towards helping the planet transition to a net zero economy. Our plans for 2022 include:

- continuing to develop our multi-year sustainability action plan, including a formalised transition plan towards a net zero economy before 2050;
- continuing to expand data collection and measurement, verified by external reviews in preparation for eventual third-party assurance in future years, to enable us to better track progress against targets;
- engaging with our supply chain through the collection and reporting of Scope 3 emissions and continuing to promote the strongest responsible, ethical and sustainable business practices through our businesses' stringent supplier qualification processes;
- making our inaugural CDP Water Security submission and developing a Group-level water reduction target; and
- providing ongoing support to our businesses as they develop their standalone sustainability strategies in preparation for their life beyond the Melrose Group.

Much of this work is already underway and we look forward to accelerating our progress during 2022.

Emissions and other environmental disclosures

Table 1 shows the GHG emissions for the Group, broken down by Scope 1, Scope 2 and some Scope 3 emissions.

Table 1: Total Melrose Group GHG emissions for the period 1 January 2021 – 31 December 2021 (tonnes CO_2e[1] unless

	2021[2]	2020[3][4]	2019[5]
Scope 1: Direct GHG emissions			
Combustion of fuel and operation of facilities[6]	168,315	185,210	223,847
Scope 2: Indirect GHG emissions			
UK electricity	15,313	17,614	26,909
Overseas electricity	539,513	631,471	774,569
Total purchased electricity	554,825	649,085	801,478
Other purchased energy	220	2,045	3,166
Total Scope 2[7]	555,045	651,130	804,643
Total Scope 1 and Scope 2 emissions	**723,360**	**836,340**	**1,028,490**
Company's chosen intensity measurement: Emissions reported above normalised tonnes per £1,000 turnover[8]	0.105	0.096	0.092
Scope 3: Indirect GHG emissions in the value chain			
Business travel[9]	6,873	–	–
Other[10]	71,961	–	–
Total Scope 3 emissions	**78,835**	**–**	**–**

(1) CO_2e – carbon dioxide equivalent, this figure includes GHGs in addition to carbon dioxide, as set out in Table 2 below.
(2) The 2021 emissions data does not include Nortek Air Management, Brush or Nortek Control, as they were sold part way through the year. The emissions from these businesses f materiality threshold.
(3) Our 2020 Scope 2 emissions data has been restated.
(4) The 2020 emissions data does not include GKN Wheels & Structures as it was sold part way through that year. The emissions from this business fell below our materiality thresho
(5) The 2019 emissions data does not include the Walterscheid Powertrain Group as it was sold part way through that year. 2019 was chosen as the base year for the purposes of re emissions data in this report as it was the first full reporting year that GKN Aerospace, GKN Automotive and GKN Powder Metallurgy were reported as part of the Group.
(6) Our Scope 1 figures include emissions from fuel used on premises, transport emissions from owned or controlled vehicles, losses of refrigerant, and process and fugitive emissio
(7) Our Scope 2 figures include emissions from electricity and heat purchased by the Group's businesses. Scope 2 emissions, and total GHG emissions, are calculated using the locati
(8) The turnover figure used to calculate the intensity ratio does not include any share of revenues from entities in which the Group holds an interest of 50% or less. For 2021, the turn includes continuing businesses only.
(9) Inclusive of business travel and business travel well-to-tank. Rail and vehicle travel was collected from 17% (by revenue) of the Group and air travel was collected from 54% (by revenue) of t
(10) Includes emissions from fuel-related well-to-tank, electricity transmission and distribution losses, and water supply.

Table 2 shows a breakdown of the Group's GHG emissions by type and by where those emissions were incurred. Our Scope 1 an emissions for 2021 encompass methane (CH_4) and nitrous oxide (N_2O). The vast majority of our emissions are from carbon dioxide is common among most industrial businesses. There have been reductions in all GHG emission types between 2020 and 2021 acr Group. The reductions in SF_6 are attributable to the sale of Brush and the reductions in R134a are attributable to the sale of Nortek Management, which were historically responsible for these emissions. Scope 2 N_2O and CH_4 emissions have decreased in line with reduction in year-on-year energy usage and a decrease in the emission factors for many countries.

Table 2: Melrose Group GHG emissions by type (CO_2e) for the period 1 January 2021 – 31 December 2021 (tonnes CO_2e[1] unless stated)

	2021			2020[2]		
	UK	Global (excl UK)	Total	UK	Global (excl UK)	Total
Scope 1[1]						
CO_2	9,375	158,051	167,427	9,700	172,178	181,878
CH_4	13	210	222	13	227	240
N_2O	6	135	141	6	137	143
SF_6	0	0	0	2,075	741	2,816
R134a	0	0	0	0	59	59
Total Scope 1 CO_2e	**9,394**	**158,921**	**168,315**	**11,794**	**173,677**	**185,471**
Scope 2[3]						
CO_2	15,156	537,980	553,136	17,455	630,886	648,341
CH_4	58	281	339	54	451	505
N_2O	99	1,471	1,570	104	2,180	2,284
Total Scope 2 CO_2e	**15,313**	**539,732**	**555,045**	**17,614**	**633,516**	**651,130**

(1) Our Scope 1 figures include emissions from fuel used on premises, transport emissions from owned or controlled vehicles, losses of refrigerant, and process and fugitive emission
(2) Our 2020 Scope 2 emissions data has been restated.
(3) Our Scope 2 figures include emissions from electricity and heat purchased by the Group's businesses. Scope 2 emissions, and total GHG emissions, are calculated using the locati

s the energy consumption by type for the Group, broken down by UK and overseas consumption, in accordance with the of the SECR regulations. The Company's chosen intensity ratio in this regard is megawatts usage ("MWh") per £1,000 of turnover.

rose Group energy consumption by type for the period 1 January 2021 – 31 December 2021 (MWh unless stated)

	2021			2020			
	UK	Global (excl UK)	Total	UK	Global (excl UK)	Total	Change in Total (2021/2020)
	50,903	787,088	837,991	52,132	809,336	861,468	-3%
	76	37,748	37,824	317	37,716	38,033	-1%
	0	4,894	4,894	0	5,669	5,669	-14%
	0	8,998	8,998	0	9,189	9,189	-2%
	202	8,467	8,669	261	6,809	7,070	23%
)	28	1,594	1,622	13	667	680	139%
	0	15,150	15,150	0	18,819	18,819	-19%
	0	34,719	34,719	0	21,713	21,713	60%
ewable fuels consumption	**51,209**	**898,658**	**949,867**	**52,723**	**909,918**	**962,641**	**-1%**
ole electricity consumption	**327**	**25,743**	**26,070**	**0**	**8,052**	**8,052**	**224%**
vable electricity consumption	72,118	1,684,384	1,756,502	75,549	1,864,732	1,940,281	-9%
ty consumption	**72,445**	**1,710,127**	**1,782,572**	**75,549**	**1,872,784**	**1,948,333**	**-9%**
onal energy consumption	**123,654**	**2,608,785**	**2,732,439**	**128,272**	**2,782,702**	**2,910,974**	**-6%**
nosen intensity measurement: 0 turnover[1]	0.018	0.379	0.397	0.015	0.318	0.332	19%

ure used to calculate the intensity ratio does not include any share of revenues from entities in which the Group holds an interest of 50% or less. For 2021, the turnover figure includes nesses only.

awal data is presented in Table 4, showing a decrease in 2021 compared to 2020.

rose Group water withdrawal[1] data for the period 1 January 2021 – 31 December 2021

	2021[2]	2020[3]	Change (2021/2020)
val (m^3) in operation	3,569,002	3,880,393	-8%
nosen intensity measurement: urnover[4]	0.519	0.443	17%

oses, water withdrawal is defined as the sum of all water drawn into the boundaries of the organisation (or facility) from all sources for any use over the course of the reporting period.
val data was collected from 100% of sites across the Group in 2021.
val data was collected from 147 sites (93%) across the Group's businesses in 2020. Although a small number of sites did not record their water withdrawal, to give an indication as to s accounted for less than 3% of the Group's total GHG emissions in 2020, and so these omissions are not material.
gure used to calculate the intensity ratio does not include any share of revenues from entities in which the Group holds an interest of 50% or less. For 2021, the turnover figure includes inesses only.

s the waste generation data for the Group in 2021, showing an overall increase in the total waste generated compared to 2020. cially driven by the reopening of sites following shutdowns caused by the pandemic. Despite the increase in absolute waste weight, een significant reductions in the proportion of non-hazardous waste that is incinerated and sent to landfill. Additionally, a larger waste is being sent to higher waste hierarchy options of recycling and hazardous waste treatment in 2021 compared to 2020.

lrose Group waste generation data for the period 1 January 2021 – 31 December 2021

	2021[1]	2020[2]	Change (2021/2020)
non-hazardous waste (tonnes)	151,900	139,388	9%
hazardous waste (tonnes)	10,436	11,087	-6%
nerated (tonnes)	162,336	150,475	8%
ed (tonnes)	141,947	121,912	16%
ration (tonnes)	5,850	9,103	-36%
(tonnes)	9,175	15,601	-41%
waste disposed through legally approved treatment routes (tonnes)[3]	5,394	3,859	40%

on data was collected from 100% of sites across the Group in 2021.
on data was collected from 136 sites (86%) across the Group in 2020. Although a small number of sites did not record their waste generation, to give an indication as to size, these d for less than 3% of the Group's total GHG emissions in 2020, and so these omissions are not material.
calculated on the basis of the guidance published by the EU (see source: **https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02000D0532-20150601**), which includes rsical and chemical processing of metals that are hazardous to humans and wildlife, oil spills and waste materials containing oil, wastes containing mercury and heavy metals, waste nd coatings containing organic solvents and other hazardous substances.

The Strategic Report, as set out on pages 1 to 77, has been approved by the Board.

On behalf of the Board:

Simon Peckham
Chief Executive
3 March 2022

The Board is committed to maintaining the high standards of corporate governance required to ensure that the Company can continue to deliver on its strategic goals, ar to achieve long-term success for the benef of its stakeholders.

Justin Dowley
Non-executive Chairman

As part of this approach, the Board has applied the principles and complied with the provisions of corporate governance contained in the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council (the "FRC") and available to view on the FRC's website at: www.frc.org.uk.

In support of this commitment, the Board carried out a number of key governance activities during 2021 designed to ensure that Melrose remains compliant with the provisions of the Code and to enable continuous improvement in line with best practice corporate governance guidelines.

Succession planning

Succession planning continued to be an area of focus for Melrose in 2021. The Nomination Committee and the Board considered the leadership needs of the Group, present and future, together with the skills, experience and diversity needed from its Directors going forward. We recognise that succession planning is an ongoing process and is critical to maintaining an effective and high-quality Board.

During the year, Executive Vice-Chairman Mr David Roper and Non-executive Director Mr Archie G. Kane both retired from the Board, and Mr Peter Dilnot, Chief Operating Officer, joined the Board as an executive Director on 1 January 2021. Following a review by the Nomination Committee of the composition of the Board and subsequent recommendation by the Nomination Committee in 2020 that a new female Non-executive Director should be appointed, the Board welcomed two new Non-executive Directors in 2021, Mrs Heather Lawrence and Ms Victoria Jarman, who each bring significant experience to the Board.

Further details on their appointm outlined in the Nomination Comr on pages 99 to 101.

Recognising that Ms Liz Hewitt h the Board for almost nine years, as a Non-executive Director at th of the 2022 Annual General Mee position of Senior Independent D be assumed by Mr David Lis, Ch the Remuneration Committee, ar Lawrence will become Chairmar Audit Committee.

Succession planning arrangeme Board as a whole were reviewed This included reviewing the skills diversity and independence of th on the Board in order to ensure t balance of skills, experience and were reflected and being develop Diversity and inclusion continues very important part of succession and is a key consideration of the Committee in its discussions. Th Committee report on pages 99 t contains further details on how s planning arrangements for the Bo the Melrose senior management reviewed and considered during

Melrose Executive Commi

The Melrose Executive Committe under the direction of the Chief E It is chaired by a member of the M senior management team on a rc basis to encourage diversity, and members of the Melrose head of from London, Birmingham and A Melrose Executive Committee m weekly basis and executive and N Directors attend by invitation. Its p to ensure that there is full knowle coordination between, the Melro team on all important issues, to c what, if any, actions are required in respect of acquisitions, dispos day-to-day management, to ensu appropriate resource is being de resolve any such issues, and to e actions being taken are supporti Group's aims, objectives and cul

ion

Remuneration report, e annual statement from the he Remuneration Committee al Report on Remuneration, pages 102 to 116.

uccessful consultation with during 2020 and 2021, the ng-term incentive plan were successfully renewed areholder support in January formance period of the 2020 are Plan will continue to run 3.

uneration philosophy anged in order to align ement with shareholders: uneration should be simple, upport the delivery of the creation strategy and pay mance.

lity

mindful of its responsibilities ate change and sustainability which are central to the urpose and strategy (for further , see pages 2 and 3, and pages s carefully considered how it can ters relating to sustainability in the and appropriate way, in light of entralised model and the hich its businesses operate. ersees and retains ultimate for Melrose's initiatives, d reporting in respect of sustainability performance of . The Board receives regular st annually, and quarterly updates or the Board, on sustainability sues that impact the Group's he Board also receives quarterly y sustainability and climate- that impact the sectors in which usinesses operate, and on the ures that are required to be to drive improved sustainability over the longer term, for the takeholders.

Main responsibilities of the Board

- Effectively manage and control the Company via a formal schedule of matters reserved for its decision.
- Define the Group's purpose, determine and review Group strategy and policy to deliver that purpose, and provide strategic leadership to the Group.
- Set the Group's values and behaviours that shape its culture and the way it conducts business.
- Consider acquisitions, disposals and requests for major capital expenditure.
- Review financial and trading performance in line with the Group's strategic objectives.
- Ensure that adequate funding and personnel are in place.
- Engage with stakeholders and key shareholders on issues that are most important to the long-term success of the Company.
- Oversee the effective operations of the Workforce Advisory Panel in ensuring the views of the Group's business unit workforces are considered in its discussions and decision-making.
- Report to shareholders and give consideration to all other significant financial matters.
- Agree Board succession plans and consider the evaluation of the Board's performance over the preceding year.
- Oversee the Group's risk management and internal control systems.
- Determine the nature and extent of the risks the Group is willing to take.
- Agree the Group's governance framework and approve Group governance policies.
- Monitor, assess and review cyber security and fraud risk for the Group.
- Delegate and oversee responsibility for entrepreneurial leadership and strategic management of the Group to the Group senior executives.
- Challenge, review and exercise robust managerial oversight across key decisions, actions and processes performed by the Group's business units.
- Promote the success of the Company over the long-term for the benefit of shareholders as a whole, having regard to a range of other key stakeholders and interests.
- Oversee and retain ultimate responsibility for Melrose's enhanced sustainability and climate-related initiatives, disclosure and reporting in respect of improving the sustainability performance of its businesses.

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Governance overview
Continued

Risk management and internal control

Melrose has implemented a uniform Enterprise Risk Management programme across all of its business units. These processes and procedures are now fully embedded in all Group businesses. During 2021, the Audit Committee continued to keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks and other internal control and risk management systems, and the effectiveness of the Group's risk management system, through regular updates from management. This included a review of the key findings presented by the external and internal auditors having agreed the scope, mandate and review schedule in advance.

During the year, Melrose senior management, with support from Ernst & Young, continued to enhance the online interactive dashboard that had been developed to consolidate the businesses' risk reporting to the Company. Since the rollout of the dashboard, the Group's risk management processes, together with reporting and data collection from the businesses, have continued to be enhanced. The dashboard includes data from the risk registers prepared by the risk and legal leads from each business, as well as objective trend analysis based on that data and independent insight from Ernst & Young. This helped to guide the Audit Committee on relevant updates to the Group risks (including the identification of new and emerging Group risks), as reported in the Risks and uncertainties section on pages 42 to 49, and set out a consolidated risk profile report for each business within the Group.

Full details on the Group's approach to risk management can be found in the Risk management section on pages 40 and 41, and in the Audit Committee report on pages 94 to 98.

Ethics and compliance

Our Code of Ethics (which can be found at **https://www.melroseplc.net/about-us/governance/code-of-ethics/**) reinforces our values and provides guidance for all employees, contractors and business associates so that they are fully aware of what is expected of them, their responsibilities and the consequences of non-compliance. All business units are required to ensure that the Code of Ethics is communicated and embedded into their business operations. Each business unit is also required to ensure there is a mechanism in place for anyone to whom the Code of Ethics applies to seek guidance on interpreting its principles, where required. This is supported by a compliance framework comprising policies covering best practice with respect to anti-bribery and corruption, anti-money laundering, anti-facilitation of tax evasion, competition, conflict minerals, trade compliance, data privacy, whistleblowing, treasury and financial controls, anti-slavery and human trafficking, document retention, joint ventures, diversity and inclusion, environmental, and human rights.

The implementation of the Melrose Code of Ethics and Group compliance policies are supported by risk assessments, training and ongoing monitoring to ensure their effectiveness for the Group. The Group also introduced its first Environmental policy and Human Rights policy, and further details about these policies can be found on pages 72 to 75 of this Annual Report. Taken together, these initiatives have enhanced our businesses' effectiveness at identifying and managing risks and have promoted and embedded a more risk-aware culture. Further details on the Group's management of risk can be found on pages 40 to 49 of this Annual Report.

Melrose's reputation for acting re
plays a critical role in its success
and its ability to generate shareh
We maintain high standards of et
and take a zero-tolerance approa
corruption, modern slavery and h
trafficking and any other unethica
practices. We are committed to a
professionally, fairly and with integ
business dealings and relationshi
all jurisdictions in which we opera
details of the Group's stance and
ensuring effective stewardship in
key environmental, social and go
matters are set out in the Sustain
on pages 54 to 77. Supporting ou
compliance policies are a compr
online training platform, an indust
whistleblowing reporting facility a
data-driven risk reporting dashbo
providing increased risk manage
and trend analysis to senior mana
the Audit Committee. The integrit
compliance framework is further
by the use of independent assura
compliance audits.

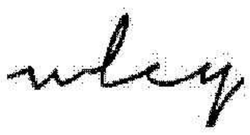
Engagement with stakeho

In 2021, the Company continued
engagement initiatives with key s
and governance bodies on key t
including diversity, sustainability
remuneration. Members of the B
made themselves available to dis
with key investors and other stak
an ad-hoc basis upon request. In
there were a number of event-dri
consultations with the Group's w
during the year, which resulted ir
agreed outcomes.

Date Received: 20220712202087

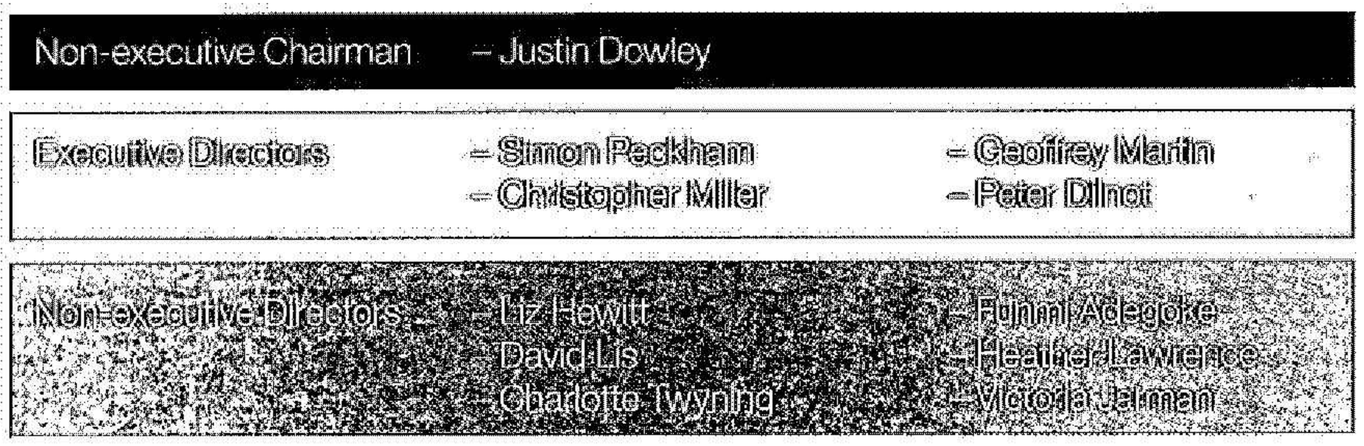
ontinued with a variety of
agement initiatives, most
h its Workforce Advisory
, which met twice in 2021.
f the WAP is to promote
gement with, and encourage
om, the Group's workforce.
up's decentralised nature and
egic business model, which
businesses are eventually
comprises the Chief Human
ficer (or equivalent) from
unit and a Melrose Group
. The Board remains of the view
ure is the most appropriate and
od of ensuring that workforce
rd.

on to continue with our
stakeholder engagement in
ills of how the Board engages
akeholders and considers
ision-making is set out in our
atement on page 50 to 53.



e Chairman

Governance structure



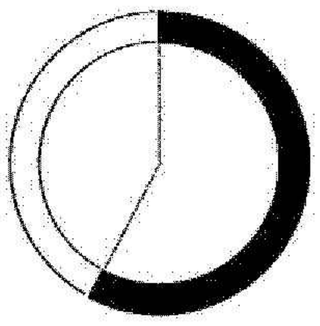
Audit Committee
See page 94

Nomination Committee
See page 99

Remuneration Committee
See page 102

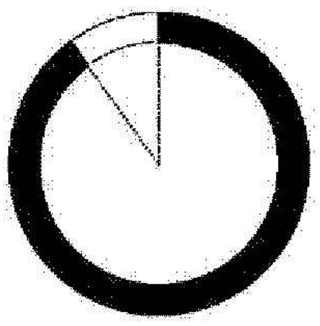
Diversity and skills overview[1]

Board gender diversity



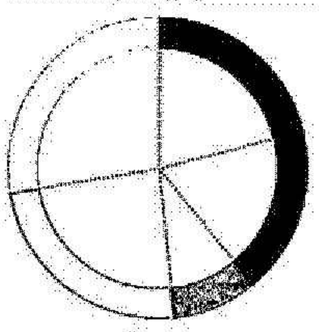
● Male	58%
○ Female	42%

Board ethnic diversity



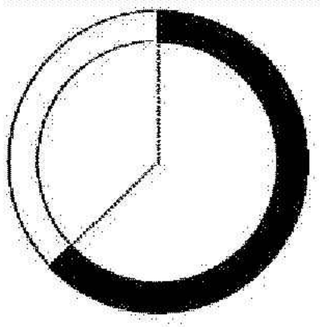
● Non BAME[2]	92%
○ BAME[2]	8%

Board skills



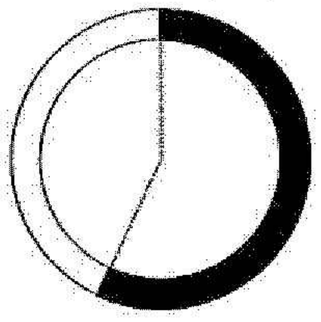
● Industrial	7
● Accounting and Finance	6
◍ Legal	3
○ Investment	8
○ Corporate Governance	9

Melrose Executive Committee



● Male	64%
○ Female	36%

Melrose Central employees (excl. Board)



● Male	58%
○ Female	42%

(1) Diversity data as at 31 December 2021. Archie G. Kane has since retired from the Board.
(2) Black, Asian and Minority Ethnic.

Board of Directors

Justin Dowley
Non-executive Chairman

Year appointed
Appointed as Chairman on 1 January 2019, having previously served as a Non-executive Director from 1 September 2011 and as the Senior Independent Director from 11 May 2017 to 31 December 2018.

Skills and experience
Justin has extensive experience with over 35 years spent within the banking, investment and asset management sectors. A chartered accountant, Justin qualified with Price Waterhouse 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 of Morgan Grenfell.

Board meetings attended[1]	4
Business reviews attended	3

Other significant appointments
- Senior Independent Director of Scottish Mortgage Investment Trust PLC
- Director of a number of private companies
- Steward of the Jockey Club
- Deputy Chairman of The Panel on Takeovers and Mergers

Committee membership
- Nomination
- Remuneration

Independent	Yes
Tenure[2]	10 years

Christopher Miller
Executive Vice-Chairman

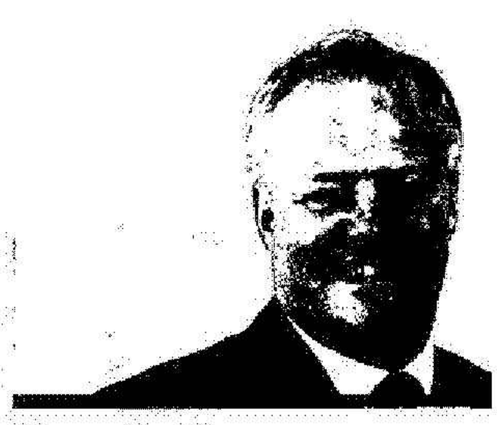
Year appointed
Co-founder of Melrose, appointed as Executive Vice-Chairman on 1 January 2019, having previously served as Executive Chairman from May 2003.

Skills and experience
Christopher's long-standing involvement in manufacturing industries and private investment brings a wealth of experience to the Board. A chartered accountant, Christopher qualified with Coopers & Lybrand, following which he was an Associate Director of Hanson PLC. In September 1988, Christopher joined the board of Wassall PLC as its Chief Executive.

Board meetings attended[1]	4
Business reviews attended	3

Other significant appointments
- Trustee of the Prostate Cancer Research Centre

Independent	Not applicable
Tenure[2]	Not applicable



Simon Peckham
Chief Executive

Year appointed
Co-founder of Melrose, appointed as
on 9 May 2012, having previously serv
Operating Officer from May 2003.

Skills and experience
Simon provides widespread expertise
finance, mergers and acquisitions, str
operations. Simon qualified as a solici
before moving to Wassall PLC in 199C
became an executive director in 1999

Board meetings attended[1]	
Business reviews attended	
Independent	
Tenure[2]	

David Lis
Independent Non-executive Director

Year appointed
Appointed as a Non-executive Director on 12 May 2016 and Chairman of the Remuneration Committee on 1 January 2019. David will become the Senior Independent Director following Liz Hewitt's retirement at the conclusion of the 2022 Annual General Meeting on 5 May 2022.

Skills and experience
David has held several senior roles in investment and fund management, as well as other board appointments. He brings extensive financial experience to the Board. David commenced his career at NatWest, and held positions at J Rothschild Investment Management and Morgan Grenfell after which David founded Windsor Investment Management. David joined Norwich Union Investment Management in 1997 (later merging to form Aviva Investors), before becoming Head of Equities in 2012 and latterly Chief Investment Officer, Equities and Multi Assets, until his retirement in March 2016.

Board meetings attended[1]	4
Business reviews attended	3

Other significant appointments
- Non-executive Director of Hostmore PLC and Dowgate Capital Limited

Committee membership
- Audit
- Nomination
- Remuneration (Chairman)

Independent	Yes
Tenure[2]	5 years

Charlotte Twyning
Independent Non-executive Director

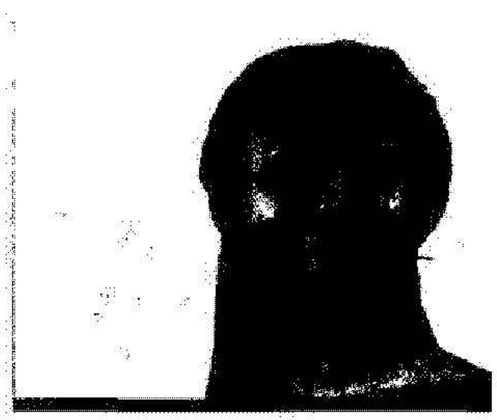
Year appointed
Appointed as a Non-executive Director on 1 October 2018 and Chairman of the Nomination Committee on 1 January 2022.

Skills and experience
Charlotte brings a diverse range of experience and commercial acumen to the Board. After a successful legal career specialising in competition and M&A law in the City, she held various senior positions in the telecommunications and transport sectors, most recently in aviation. She has proven leadership skills in large, complex organisations and has consistently succeeded in driving performance and building the foundations for growth.

Board meetings attended[1]	4
Business reviews attended	3

Committee membership
- Audit
- Nomination (Chairman)
- Remuneration

Independent	Yes
Tenure[2]	3 years



Funmi Adegoke
Independent Non-executive Direct

Year appointed
Appointed as a Non-executive Directc
1 October 2019.

Skills and experience
Funmi has extensive experience as a
and compliance leader, and has also
commercial and project management
worked in a number of multi-nationals
sectors including aerospace, manufac
and technology, Funmi brings diverse
knowledge and significant commercia
Board. Funmi is a qualified barrister, a
Group General Counsel at the FTSE 1
Halma PLC.

Board meetings attended[1]	
Business reviews attended	

Committee membership
- Audit
- Nomination

Independent	
Tenure[2]	

…in
…Director

…oup Finance Director on 7 July 2005.

…ience
…s considerable public company …xpertise in corporate finance, raising …d financial strategy. A chartered …ffrey qualified with Coopers & …e worked within the corporate … departments. In 1996, Geoffrey …ton PLC, serving as Group Finance …ober 2000 until June 2005.

…s attended[1]	4
…ws attended	3
	Not applicable
	Not applicable

07/11/2022

Peter Dilnot
Chief Operating Officer

Year appointed
Appointed as an executive Director on 1 January 2021, having served as Chief Operating Officer since April 2019.

Skills and experience
Peter has considerable public company and industrial business experience having been the Chief Executive Officer of international recycling company Renewi PLC (formerly Shanks Group PLC) and having been a senior executive at Danaher Corporation. Peter also spent seven years at the Boston Consulting Group, working primarily with industrial businesses. Peter has an engineering and aviation background, and was a helicopter pilot in the British Armed Forces. He also holds a degree in Mechanical Engineering.

Board meetings attended[1]	4
Business reviews attended	3
Other significant appointments • Senior Independent Director of Rotork PLC	
Independent	Not applicable
Tenure[2]	Not applicable

Liz Hewitt
Senior Independent Director

Year appointed
Appointed as the Senior Independent Director on 1 January 2019, having previously served as a Non-executive Director from 8 October 2013, and appointed as Chairman of the Audit Committee on 11 May 2017. Liz will retire as the Senior Independent Director and as a Non-executive Director at the conclusion of the 2022 Annual General Meeting on 5 May 2022, having served as a Non-executive Director of the Company for almost nine years.

Skills and experience
Liz has extensive business, financial and investment experience gained from a number of senior roles in international companies. A chartered accountant, Liz qualified with Arthur Andersen & Co., following which she held a variety of positions within Gartmore Investment Management, CVC and 3i Group PLC. Between 2004 and 2011, Liz was the Group Director of Corporate Affairs for Smith & Nephew PLC, following a secondment to the Department for Business, Innovation and Skills and the HM Treasury, where Liz worked to establish The Enterprise Capital Fund.

Board meetings attended[1]	4
Business reviews attended	3
Other significant appointments • Non-executive Director of National Grid PLC, Silverwood Property Ltd, St George's Fields Ltd and St George's Fields (No2) Ltd	
Committee membership • Audit (Chairman) • Nomination	
Independent	Yes
Tenure[2]	8 years

…ence
…n-executive Director

…lon-executive Director on 1 June …ll become the Chairman of the Audit …ving Liz Hewitt's retirement at the … 2022 Annual General Meeting on …

…ience
… qualified as a chartered accountant …y spent well over a decade working in …n corporate finance and investment …he honed her experience across …ansportation businesses. Heather …n-executive directorship experience, …non-executive director and audit …of FlyBe Group plc. She is currently …o a large Swiss-based family office.

…s attended[1]	3[3]
…ws attended	1[3]
…mbership	
	Yes
	0 years

Victoria Jarman
Independent Non-executive Director

Year appointed
Appointed as a Non-executive Director on 1 June 2021.

Skills and experience
Victoria has a degree in Mechanical Engineering and is a qualified chartered accountant. She spent over a decade working for Lazard in its corporate finance team where she held various senior roles including as Chief Operating Officer for its London and Middle East operations. Victoria has significant and extensive non-executive directorship experience, including as audit committee chair and senior independent director.

Board meetings attended[1]	3[3]
Business reviews attended	1[3]
Other significant appointments • Non-executive Director of Signature Aviation Plc, Great Portland Estates Plc and Entain Plc	
Committee membership • Remuneration	
Independent	Yes
Tenure[2]	0 years

(1) Meetings attended refers to scheduled meetings.
(2) Tenure runs from the date of appointment until 31 December 2021 and is based on full years only.
(3) Appointed to the Board with effect from 1 June 2021 and attended all Board meetings and business reviews held during the period 1 June 2021 to 31 December 2021.

Directors' report

The Directors of Melrose Industries PLC present the Annual Report and financial statements of the Group for the year ended 31 December 2021.

Incorporated information

The Corporate Governance report set out on pages 88 to 93, the Finance Director's review on pages 32 to 39 and the Sustainability report on pages 54 to 77 are each incorporated by reference into this Directors' report.

Disclosures elsewhere in the Annual Report are cross-referenced where appropriate. Taken together, they fulfil the combined requirements of the Companies Act 2006 (the "Act") and of the Disclosure Guidance and Transparency Rules and the Listing Rules of the Financial Conduct Authority (the "FCA").

AGM

The Annual General Meeting ("AGM") of the Company will be held at Butchers' Hall, 87 Bartholomew Close, London EC1A 7EB at 11.00 am on 5 May 2022. A detailed explanation of each item of business to be considered at the AGM is included with the Notice of Annual General Meeting. The notice convening the meeting is shown on pages 211 to 216 and includes full details of the resolutions to be proposed, together with explanatory notes in relation to such resolutions (the "AGM Notice").

Directors

The Directors of the Company as at the date of this Annual Report, together with their biographies, can be found on pages 82 and 83.

Changes to the Board during the year are set out in the Corporate Governance report on pages 88 to 93. Details of Directors' service contracts are set out in the Directors' Remuneration report on pages 113 to 114.

The Statement of Directors' responsibilities in relation to the consolidated financial statements is set out on page 117, which is incorporated into this Directors' report by reference.

Appointment and removal of Directors and their powers

The Company's articles of association (the "Articles") give the Directors the power to appoint and replace other Directors. Under the terms of reference of the Nomination Committee, any appointment must be recommended by the Nomination Committee for approval by the Board.

Pursuant to the Articles and in line with the UK Corporate Governance Code (the "Code"), all of the Directors of the Company are required to stand for re-election on an annual basis. With the exception of Ms Liz Hewitt, who will retire from the Board at the conclusion of the forthcoming AGM, and Mrs Heather Lawrence and Ms Victoria Jarman, who will be standing for election for the first time following their appointments on 1 June 2021, all current Directors of the Company will be standing for re-election by shareholders at the forthcoming AGM, and in each case an ordinary resolution will need to be passed to approve such (re-)election.

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 and regulations.

Insurance and indemnities

In accordance with the Articles and the indemnity provisions of the Act, the Directors have the benefit of an indemnity from the Company in respect of any liabilities incurred as a result of their office. This indemnity is provided both within the Articles and through a separate deed of indemnity between the Company and each of the Directors.

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

Post balance sheet events

There are no post balance sheet events which require d

Capital structure

During 2021, the Company completed the disposals of i Management, Brush, and Nortek Control businesses, fc proceeds of approximately £2.7 billion. After repayment accordance with its strategy to return value to shareholc Company returned £729 million of the proceeds from th Air Management disposal to shareholders (the "Return c

In order to realise the Return of Capital, holders of ordina the Company as at 6.00 pm on the record date, 6 Augus received one B2 share with a nominal value of 15 pence capital of the Company for every ordinary share held as a The B2 shares were not admitted to listing or dealing on

On 10 August 2021, the High Court of England and Wal the cancellation of the B2 shares. On 14 September 202 representing the nominal value of the B2 shares (15 pen dispatched to their holdings and CREST accounts were the proceeds, as appropriate.

Following the Return of Capital, the ordinary share capit Company was sub-divided and consolidated (the "Shar Consolidation"). This was to ensure that, so far as possit price of an ordinary share in the Company remained app the same before and after the Return of Capital and, so possible, historical per share data remained comparable future per share data.

The Share Capital Consolidation was effected by the sul of each existing ordinary share of 48/7 pence in the cap Company into nine undesignated shares and consolidat undesignated shares resulting from such sub-division in ordinary share of 160/21 pence in the capital of the Com "New Ordinary Shares"). The record date for the Share C Consolidation was 6.00 pm on 27 August 2021 and the Shares were admitted to listing and trading from 8.00 ar 31 August 2021. Subject to allowance for fractional entitl shareholders continued to own approximately the same of the ordinary share capital of the Company before and Share Capital Consolidation.

The Return of Capital and the Share Capital Consolidatic approved by shareholders of the Company at a general of the Company held on 9 July 2021.

The table below shows details of the Company's issued as at 31 December 2020; immediately following the Sha Consolidation becoming effective on 31 August 2021; ar 31 December 2021.

Share class	31 December 2020	31 August 2021 (Post the Share Capital Consolidation)[1]
Ordinary shares of 48/7 pence each	4,858,254,963	Nil
Ordinary shares of 160/21 pence each	Nil	4,372,429,473

(1) To effect the Share Capital Consolidation, seven ordinary shares of 48/7 pe allotted and issued to Investec Bank plc on 26 August 2021 at 171.65 pen the closing mid-market price of an ordinary share on 25 August 2021, in or the number of ordinary shares was exactly divisible by ten. These ordinary pursuant to the general authorities granted by the Company's shareholder with section 551 and section 570 of the Act at the Company's AGM held or terms of this issue were fixed on 24 August 2021 following a meeting of a c Board. These ordinary shares were not entitled to participate in the Return subject to the Share Capital Consolidation.

The Company's sole class of ordinary shares are admitt premium segment of the official list.

ntive Plan was approved by the Company's
t a general meeting of the Company held on 11 May
31 Incentive Shares of £1.00 each (the "2017 Incentive
issued pursuant to the authority granted at such
ue Incentive Shares up to an aggregate nominal amount
e 2017 Incentive Plan expired in May 2020 for no value,
he 2017 Incentive Shares had no value. As anticipated
nual Report, on 5 April 2021, the 2017 Incentive Shares
ed, for no consideration, to the Company Secretary in
s custodian and nominee on behalf of the Company,
eafter cancelled. The 2017 Incentive Shares comprised
tive Shares in issue, and as a result there are no longer
Shares outstanding.

rs' voting rights

special rights or restrictions as to voting attached to
ares by or in accordance with the Articles, at a general
Company, each member who holds ordinary shares in
and who is present (in person or by proxy) at such
tled to:

f hands, one vote; and

e vote for every ordinary share held by them.

ently no special rights or restrictions as to voting
y class of shares.

is not aware of any agreements between
hat restrict voting rights attached to the ordinary
Company.

or other amount due and payable in respect of an
remains unpaid, the holder of such shares shall not be
at or attend any general meeting of the Company in
se shares. As at 3 March 2022, all ordinary shares
Company are fully paid.

deadlines for exercising voting rights in respect of the
be considered at the 2022 AGM are set out in the AGM
es 211 to 216.

whose combined shareholdings amount to at least 5%
voting share capital may, pursuant to section 303 of the
hat the Directors call a general meeting of the Company.
whose combined shareholdings amount to at least 5%
share capital entitled to vote can also request that the
oduces a resolution to be voted on at an AGM.

s on transfer of securities

o not contain any restrictions on the transfer of ordinary
Company, aside from the usual restrictions applicable
are not fully paid up, if entitled to do so under the
Securities Regulations 2001, where the transfer
es not comply with the requirements of the Articles or,
circumstances, where approved, provided such refusal
urb the market in such shares. Restrictions may also be
ws and regulations (such as insider trading and market
ns). Directors and certain senior employees of the
so be subject to internal approvals before dealing in
s of the Company and minimum shareholding
We do not have any anti-takeover devices in place,
ces that would limit share ownership.

is not aware of any agreements between shareholders
e transfer of ordinary shares in the Company.

association

ay only be amended by a special resolution at a general
shareholders of the Company. There are no amendments
e made to the Articles at the forthcoming AGM.

Substantial shareholdings

As at 31 December 2021, the following voting interests in the ordinary share capital of the Company, disclosable under Chapter 5 of the Disclosure Guidance and Transparency Rules, had been notified to the Directors:

Shareholder	Shareholding[1]	% of ordinary share capital as at 31 December 2021
The Capital Group Companies, Inc	569,540,208	13.03
BlackRock Inc	332,302,037	6.84
Select Equity Group Inc	256,129,470	5.27
Aviva plc	130,611,965	2.98

(1) Some of these disclosures were made before the Share Capital Consolidation, which became effective on 31 August 2021.

Between 1 January 2022 and 3 March 2022, the following voting interests in the ordinary share capital of the Company, disclosable under Chapter 5 of the FCA's Disclosure Guidance and Transparency Rules, were notified to the Directors:

Shareholder	Shareholding[1]	% of ordinary share capital as at the date of disclosure[1]
Aviva plc	134,928,387	3.09

(1) Since the disclosure date, the shareholder's interests in the Company may have changed.

Shareholder dividend

The Directors are pleased to recommend the payment of a final dividend of 1 pence per share (2020: 0.75 pence) to be paid on 20 May 2022 to ordinary shareholders on the register of members of the Company at the close of trading on 8 April 2022. This dividend recommendation will be put to shareholders at the forthcoming AGM of the Company, to be held on 5 May 2022. Subject to shareholder approval being obtained at the AGM for the final dividend, this will mean a full year 2021 dividend of 1.75 pence per share (2020: 0.75 pence).

For discussion on the Board's intentions with regard to the Company's dividend policy, please see the Chairman's statement on pages 8 and 9, which is incorporated into this report by reference.

The Company offers a Dividend Reinvestment Plan ("DRIP"), which gives shareholders the opportunity to use their dividend payments to purchase further ordinary shares in the Company. Further details about the DRIP and its terms and conditions can be found within the Investors section of the Company's website at **www.melroseplc.net**.

Historical dividends

The Company administers the unclaimed dividends of the former FKI plc (now Brush Holdings Limited). Pursuant to law and its articles of association, Brush Holdings Limited is obliged to pay such unclaimed dividends for a period of 12 years from the date on which they were declared or became due for payment. Six months after this time period has expired, the Company's policy is to donate the amount of the unclaimed dividends to a charity of the Company's choice. As at 31 December 2021, the total amount of unclaimed dividends of Brush Holdings Limited was £17,417.44. If the unclaimed dividends are not claimed by 30 June 2022, the Company will look to donate the funds to charity.

Equiniti, the Company's registrar, administers the unclaimed dividends of the former GKN plc (now "GKN Limited"). Pursuant to law and its articles of association, GKN Limited is obliged to pay such unclaimed dividends for a period of 12 years from the date on which they were declared or became due for payment. As at 31 December 2021, the total amount of unclaimed dividends of GKN Limited was £243,969.03. If the unclaimed dividends are not claimed by 30 June 2022, the Company will look to donate the funds to charity.

Directors' report
Continued

Ability to purchase own shares
Pursuant to sections 693 and 701 of the Act and a special resolution passed at a general meeting of the Company on 6 May 2021, the Company is authorised to make market purchases of up to 485,825,496 of its ordinary shares, representing approximately 10% of the current issued ordinary share capital of the Company prior to the capital reduction referred to above. The Company has not made any purchases of its own shares pursuant to this authority. This authority will expire at the end of this year's AGM, at which the Company is seeking approval to make market purchases of its ordinary shares up to 437,242,947, being approximately 10% of the current issued ordinary share capital, thereby renewing the authority. The full text of the resolution, together with minimum and maximum price requirements, is set out in the AGM Notice on pages 211 to 216.

Financial instruments
The disclosures required in relation to the use of financial instruments by the Company, including the financial risk management objectives and policies (including in relation to hedging) of the Company and the exposure of the Company to liquidity risk, cash flow risk, exchange rate risk, contract and warranty risk and commodity cost risk, can be found in the Finance Director's review on pages 32 to 39, the Risks and uncertainties section of the Strategic Report on pages 42 to 49, and in note 25 to the financial statements, which are incorporated by reference into this Directors' report.

Research and development activities
The industries in which the Group invests are highly competitive and the businesses within the Group are encouraged to research and develop new and innovative product lines and processes in order to meet customer demands in a continuously evolving environment and to support its sustainability goals.

As noted in the Divisional reviews on pages 12 to 29, which are incorporated by reference into this Directors' report, investment into research and development activities continued throughout 2021. GKN Aerospace has successfully delivered a ground-breaking Intermediate Compressor Case ("ICC") to the Rolls-Royce UltraFan™ engine demonstrator programme, which is aiming to achieve a 25% improvement in fuel efficiency over the first generation of Trent engines. It is also a Rolls-Royce Core Partner in the Clean Sky 2 programme, with responsibility for design and manufacture of the ICC. Clean Sky 2 is the largest European aeronautics research programme, developing innovative, cutting-edge technology aimed at reducing CO_2 emissions and noise levels produced by aircraft.

GKN Automotive has invested over £200 million in advance e-Drive development since 2019, which has enabled it to continue to lead the field. Its engineers based at its UK Innovation Centre in Abingdon are developing a cutting-edge Advanced Cooled and Controlled high-speed e-Drive, the goal of which is to increase the e-Drive system's power output and improve system efficiency, whilst reducing weight and material content.

GKN Powder Metallurgy's investment in new technologies continued during 2021, resulting in the launch of an electric pump for hybrid and battery electric transmission vehicles. This technological innovation targets notable efficiencies and CO_2 reductions driven by component precision, as well as attractive cost benefits delivered through manufacturing process improvements.

The Melrose Skills Fund has also funded initiatives in the GKN Aerospace and GKN Automotive businesses and in the wider community. Further details on the initiatives being implemented are set out in the Sustainability report on pages 54 to 77.

Business review and risks
A review of the Group's performance, the key risks and uncertainties facing the Group and details on the likely development of the Group can be found in the Chairman's statement on pages 8 and 9 and the Strategic Report on pages 1 to 77 of this Annual Report (including the Longer-term viability statement on page 39 and the Risks and uncertainties section on pages 42 to 49), which are incorporated into this Directors' report by reference.

Employee engagement
The Company operates a Workforce Advisory Panel (the its chosen method of complying with the requirements c on employee engagement. Details in relation to the WAF policies, and employee involvement, consultation and de together with details of some of the human resource imp initiatives implemented during 2021, are shown in the Su report on pages 54 to 77 and in the Section 172 statemc in the Strategic Report on pages 50 to 53, both of which incorporated by reference into this Directors' report.

Business relationships
Details of our businesses' clients and suppliers and how businesses work and engage with them are described ir reviews on pages 12 to 29, in the Section 172 statement to 53, and in the Sustainability report on pages 54 to 77, Strategic Report, and all of which are incorporated by re this Directors' report.

Environmental
Details of the sustainability initiatives across the Group, a Group's Greenhouse gas emissions, waste, and water u other energy consumption, as well as the methodology u calculate such emissions and consumption, are set out i Sustainability report on pages 54 to 77, which is incorpo reference into this Directors' report.

In 2021, the Board set its inaugural sustainability targets commitments for the Group in line with the UN Sustainal Development Goals, in addition to its target of net zero G gas emissions before 2050. Details of these targets and is set out in the Sustainability report on page 55. In addit reported for the first time against all the key areas recom the Task Force on Climate-related Financial Disclosures which are set out in the Sustainability report on pages 6(

Political donations
The Group's policy is not to make any political donations were no political donations made during the year ended 2021 (2020: nil).

Branches
The Melrose Group and its businesses operate across v jurisdictions. The businesses, through their various subs have established branches in a number of different cour which they operate.

Disclosures required under Listing Rule 9.8.4
Other than the following, no further information is require disclosed by the Company in respect of Listing Rule 9.8.

- details of the allotment of ordinary shares to Investec connection with the Share Capital Consolidation, wh out in the "Capital structure" section of this Directors page 84;
- details of the 2020 Employee Share Plan, which are page 107 of the Directors' Remuneration report and the financial statements (incorporated by reference ir Directors' report); and
- GKN had historically operated employee share optio to satisfy the vesting and exercise of awards of ordin made under GKN's share-based incentive arrangem acquisition of GKN, these shares were converted int shares. A dividend waiver is in place on the shareho respect of relevant trusts in part, or in full, in accorda the provisions of the relevant trust deeds.

agreements and change of control

ption of the Group's banking facilities, the 2020
re Plan, and the divisional management long-term
s, there are no other agreements that would have a
ct upon a change of control of Melrose Industries PLC
2022.

2021, the Group extended the maturity date of both the
the revolving credit facility to 30 June 2024. Subsequent
n, in December 2021 the term loan was partly prepaid by
US$172 million. Consequently, the Group's committed
ncludes a multi-currency denominated term loan of
December 2020: £100 million) and US$788 million
2020: US$960 million) and a multi-currency
evolving credit facility of £1.1 billion, US$2.0 billion
n. Details of this facility are provided in the Finance
w on page 34 and note 25 to the financial statements.

a change of control of the Company following a
he Company and lenders under the facility agreement
enter into negotiations to determine whether, and if so
ue with the facility. There is no obligation for the lenders
new loans requested during the 30 day period after a
trol, or continue to make the facility available for more
beyond any change of control. Failure to reach
h parties on revised terms could require an acquirer
replacement facilities.

's wholly-owned subsidiary, GKN Holdings Limited, has
450 million fixed rate notes paying 5.375% p.a. interest
on 19 September 2022 and £300 million fixed rate notes
% p.a. interest and maturing on 12 May 2032, in each
nder Euro medium-term note programmes (together, the
uant to the terms and conditions of each of the Notes, a
Notes has the option to require GKN Holdings Limited to
GKN Holdings Limited's option) purchase the holder's
principal amount together with accrued interest, if there
control of GKN Limited and either (i) the Notes are
not carry an investment grade credit rating from at
gs agencies; or (ii) if the Notes carry an investment
ating from at least two ratings agencies, the Notes
led to a non-investment grade rating or that rating
within 90 days of the change of control and such
withdrawal is cited by the ratings agencies as being
ne change of control.

a takeover of the Company, awards granted under the
ee Share Plan would crystallise and convert into ordinary
Company or give rise to an entitlement to a dividend paid
ate of conversion is based upon the offer price of the
rdinary shares as calculated on the date of the change
ne Company. If the offer price, or any element of the offer
cash, the Remuneration Committee will determine the
on-cash element, having been advised by a reputable
ink that such valuation is fair and reasonable.

anagement incentive plans have been put in place for our
hat would be triggered upon a sale of their respective
takeover of the Company. The plans provide for the
onuses to certain key managers of these divisions based
ease in value of their respective business. If a sale of the
ess has not occurred within a certain period, the
will crystallise and any payment to be made to
ill be based on the increase in value of the business
riod.

Commitments

Melrose entered into certain undertakings and other continuing obligations with the UK Government and other regulatory bodies in connection with its acquisition of GKN. It remains in full compliance with these obligations and meets its regular reporting requirements.

Auditor

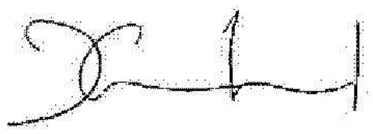
So far as each Director is aware, there is no relevant audit information (being information that is needed by the Company's auditor to prepare its report) of which the Company's auditor is unaware. Each Director has taken all the steps that he or she ought to have taken as a Director to make him or her 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 Act.

On behalf of the Board, the Audit Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external auditor, Deloitte LLP, for the year ended 31 December 2021 and concluded that the external auditor was in all respects effective. Deloitte LLP has expressed its willingness to continue in office as auditor of the Group. Accordingly, resolutions will be proposed at this year's AGM for the reappointment of Deloitte LLP as auditor of the Group and to authorise the Audit Committee to determine its remuneration.

Approval

Approved by the Board and signed on its behalf by:



Jonathon Crawford
Company Secretary
3 March 2022

Corporate Governance report

In line with the UK Corporate Governance Code (the "Code") and the Listing Rules issued by the Financial Conduct Authority, this section of the Annual Report and financial statements details the ways in which the Company has applied the principles and complied with the provisions of the Code applicable during the year ended 31 December 2021.

The Audit Committee report, Nomination Committee report, Directors' Remuneration report, Statement of Directors' responsibilities, Risk management and Risks and uncertainties sections of the Strategic Report, together with the Sustainability report and the Section 172 statement, also form part of this Corporate Governance report.

Statement of compliance

Throughout the year ended 31 December 2021, the Company has applied the principles and complied with the provisions of the Code.

1. Principles A-E: Board Leadership and Company Purpose

Long-term sustainable success

The Board is constituted of individuals from a diverse range of backgrounds and with a wealth of knowledge, understanding and experience. The Chairman, with the assistance of the Executive Vice-Chairman, is responsible for leadership of the Board. The division of responsibilities is described further in section 2 on page 89.

The Board's overarching objective is to generate value for the Company's shareholders in a way that is sustainable in the long-term and contributes to wider society. The Section 172 statement on pages 50 to 53 sets out the ways in which the Board took these considerations into account in its decision-making in 2021.

Our purpose, strategy and values

Melrose was founded in 2003 to empower businesses to unlock their full potential for the benefit of all stakeholders, whilst providing shareholders with an above-average return on their investment. This has been delivered through our "Buy, Improve, Sell" strategy, whereby we acquire high-quality but underperforming manufacturing businesses and set out to solve chronic issues within those businesses, in order to set them on the pathway to future success. We invest in them heavily to improve performance and productivity, so that they become stronger, better businesses under our responsible stewardship. At the appropriate time, we find them a new home for the next stage of their development and return the proceeds to shareholders.

The Company's purpose and strategy remain underpinned by the principles and values on which it was founded. We act with integrity, honesty, transparency and decisiveness, and believe in a lean operating model, high productivity and sustainable business practices. Although we know our businesses will not be part of the Group for the long-term, we act as responsible stewards of them, investing in them as if we are going to own them forever, and we see this as an important step on their pathway to long-term sustainable success. We provide the focus and investment to improve our businesses' financial performance, through operational improvements, by driving growth and profitability, and by investing in research and development to make the businesses more sustainable. We also recognise that the building of stronger businesses encompasses a wide range of non-financial areas including risk management and ethics and compliance, and we have worked with the businesses to set meaningful sustainability targets alongside financial metrics. These actions benefit their long-term future, and benefit all stakeholders. We hold each business and their management team accountable for their progress against agreed sustainability targets. We do not shy away from difficult decisions, but understand these decisions can have a material imp stakeholders, who we look to treat fairly, whatever the ou provide the space and resources to empower people to reward them well when they do. These principles lie at th success, and are the basis on which we strive for future

Resources and controls

As described in more detail in the Risk management sec Strategic Report and the Audit Committee report on pag and 94 to 98 respectively, the Board has established a fr reporting procedures, lines of responsibility and delegate which is updated regularly and understood by all Board a the Melrose senior management team. These reporting p allow the Board and the Melrose senior management tea resources in a sustainable and appropriate manner, enab Group to meet its objectives and measure performance whilst promoting sustainability. The Board and the Audit have access to the Melrose senior management team ar assistance in order to satisfy themselves that appropriate controls are in place, including Deloitte who undertake th external audit, and BM Howarth and Ernst & Young who the Group's internal audit.

Stakeholder engagement

Through presentations and regular meetings between th Directors, analysts and institutional shareholders, includi following the announcements of the Company's annual a results and trading updates, the Company seeks to build mutual understanding of objectives with its shareholders stakeholders. During 2021, in addition to the usual disclo following the release of annual and interim results, the Co continued its programme of engagement with key invest corporate governance bodies in respect of specific mate as well as open-agenda discussions between key shareh members of the Board. Engagement with key shareholde advisors, employee bodies, ratings agencies (including s ratings agencies) and other governance bodies remains of the Company's approach to stakeholder engagement governance and shall continue in the lead up to the 2022 General Meeting ("AGM"). Further details on the Compar engagement with stakeholders, including the material top discussed with investors and corporate governance bod contained in the Section 172 statement on pages 50 to 5

In order to promote effective engagement with, and encou participation from, its workforce, Melrose operates a Work Advisory Panel ("WAP"). Given the Group's decentralised Melrose's strategic business model, which means that all are eventually sold, the WAP comprises the Chief Human Officer (or equivalent) from each business unit and a Melro representative. Each member of the WAP is responsible fo how the workforce should be defined for their respective b promoting workforce engagement, disseminating informa collating the voice of their workforce. Each member of the turn responsible for demonstrating how key workforce vie into executive management decisions, which may include remuneration, as well as ensuring that the workforce is aw impact on such executive management decisions. The W twice a year and an annual report is prepared for the Boar highlights workforce engagement and key views. Further d the WAP are contained in the Sustainability report on pag

Workforce policies and practices

Melrose's reputation for acting responsibly plays a critica success as a business and its ability to generate shareho It maintains high standards of ethical conduct which are the compliance policies that are rolled out to the busines cover best practice with respect to anti-bribery and corru anti-money laundering, anti-facilitation of tax evasion, cor conflict minerals, trade compliance, data privacy, whistlel treasury and financial controls, anti-slavery and human tr document retention, joint ventures, diversity and inclusion environmental, and human rights.

also operates an externally hosted whistleblowing
s readily available to all Group employees. This is
regularly updated policies, procedures and awareness
create an environment in which the workforce feels it is
oncerns in confidence without fear of retaliation, and to
al and supportive culture within each of the Group's
s. The Board and the Audit Committee are provided with
aterial whistleblowing events as they are reported from
the Melrose senior management team, and the Audit
provided with an overview of whistleblowing activity on a
s. An annual report is prepared for the Audit Committee
nts whistleblowing activity in further detail across the
s, together with a summary of the approach taken by
s unit to their whistleblowing process; this is then fed
oard.

s F-I: Division of Responsibilities

structure of the Board and its key responsibilities are
ges 79 and 81.

ur formally scheduled Board meetings held during the
ttendance of each Director at these meetings is shown

ew meetings are held between scheduled Board
ere were three business review meetings held during
the attendance of Directors at these review meetings
page 90. These meetings provide the Directors with a
ve understanding of the current performance of, and
s affecting, the Group's businesses, without the formality
Board meeting. Divisional CEOs and other senior
from the businesses are periodically invited to attend
t these meetings, providing the Directors with an
discuss each business directly and to develop
with their leadership teams. The executive Directors also
of the business units on an ad-hoc basis and sessions
een the executive Directors and the business unit
ns at such site visits.

ng papers containing financial and operational business
nd an agenda are provided to the Directors in advance of
Committee (where relevant) or business review meeting.
are able to seek further clarification and information on
m any other Director, the Company Secretary or any
ee of the Group whenever necessary.

taken by the Board in conjunction with the
tions of its Committees and advice from external
advisors and Melrose senior management.

is a fully encrypted electronic portal, enabling Board,
nd business review papers to be delivered securely
to Directors. This facilitates a faster and more secure
information, accessed using electronic tablets, and
urce usage, which in turn helps to reduce paper waste.

y Secretary is responsible for advising and supporting
and the Board on corporate governance matters as well
e Chairman in ensuring a smooth flow of information to
ve decision-making. All Directors have access to the
rvices of the Company Secretary and, through him,
o independent professional advice in respect of their
Company's expense. The Company Secretary,
the Group Company Secretariat, acts as secretary
the Audit Committee, the Nomination Committee
uneration Committee.

e with its Articles and in compliance with the Act, the
s granted a qualifying third-party indemnity to each
indemnity is provided both within the Company's
hrough a separate deed of indemnity between the
l each of the Directors. The Company also maintains
officers' liability insurance.

Chairman, Executive Vice-Chairman and Chief Executive

The roles of each of the Chairman, the Executive Vice-Chairman and the Chief Executive of the Company are, and will remain, separate in accordance with the Code and Board policy.

The Chairman, with the assistance of the Executive Vice-Chairman, is responsible for leadership of the Board. The Chairman sets the Board agenda and ensures that adequate time is given to the discussion of issues in order to facilitate constructive discussions with effective contributions from the Non-executive Directors, particularly on those issues of a strategic nature. The Chairman, with the support of the Company Secretary, also facilitates constructive Board relations by providing accurate and clear information in a timely manner. Responsibility for ensuring effective communications are made to shareholders rests with the Chairman, the Executive Vice-Chairman and the three other executive Directors.

The Chief Executive is responsible for strategic direction and decisions involving the day-to-day management of the Company.

Non-executive Directors

The Company's Non-executive Directors are encouraged to, and do, scrutinise the performance of the executive Directors in all areas, including on strategy, risks and financial information, through their roles on the Company's Committees, at the Board's scheduled meetings and business review sessions, and on an ad-hoc basis. The Non-executive Directors come from a diverse range of backgrounds and as such are able to draw on their own specialist knowledge to give necessary guidance and advice, and to hold management to account.

The Board consists of four executive Directors, six Non-executive Directors (inclusive of the Senior Independent Director) and the Non-executive Chairman. As such, the Board is satisfied that there is sufficient challenge by Non-executive Directors of executive management in meetings of the Board, and that no individual or small group of individuals dominates its decision-making.

Together with the Chairman, the majority of the Non-executive Directors are members of the Nomination Committee and as such, they play a key role in appointing and removing executive Directors. As considered in section 3 on page 90, the Non-executive Directors are also key in evaluating the performance of the Directors.

Non-executive Director independence

In accordance with the provisions of the Code, consideration has been given to the independence of all Non-executive Directors. The Board considers all of the Non-executive Directors to be independent.

Upon Mr Justin Dowley's appointment to the role of Chairman he was considered independent, and has strong shareholder support for his current tenure to 2023, which was extended in 2020 with the support of shareholders, in order to facilitate succession planning arrangements and the development of a diverse Board, as well as to provide certainty and stability through the pandemic. Ms Liz Hewitt is the appointed Senior Independent Director, and acts as an intermediary for the other Directors and shareholders. She will be succeeded in this role by Mr David Lis upon her retirement in May 2022. In accordance with the Code requirements, at least half of the Board, excluding the Chairman, comprises Non-executive Directors determined by the Board to be independent. The number of independent Directors on the Board increased during 2021 with the appointments of Mrs Heather Lawrence and Ms Victoria Jarman as independent Non-executive Directors in June 2021.

The Non-executive Directors are not entitled to any cash bonus or shares under the 2020 Employee Share Plan, nor do they receive taxable benefits or pension contributions.

Corporate governance framework and terms of reference

The Board has an overarching corporate governance framework to ensure continued alignment of the Board and Committee members' roles and division of responsibilities with the Code, Melrose's top-down Board and senior management risk oversight, and the business units' bottom-up risk management responsibilities. Each member of the Board is provided with a copy of the Company's corporate governance framework, which they review, discuss and update periodically.

Corporate Governance report
Continued

Each of the Committees has its own written terms of reference. The Company Secretary supports the Committees in updating these terms of reference in order to comply with the Code and other good corporate practice. The terms of reference are continuously reviewed, although they are more formally reviewed on an annual basis in the Committee meetings. The terms of reference are available via the Melrose website at **www.melroseplc.net**.

Board induction, training and support

An induction programme tailored to the needs of individual Directors is provided for new Directors joining the Board. The primary aim of the induction programme is to introduce new Directors to, and educate them about, the Group's businesses, its operations and its governance arrangements. Individual induction requirements are monitored by the Chairman and the Company Secretary to ensure that new Directors gain sufficient knowledge to enable them to contribute to the Board's deliberations as quickly as possible.

The Board also receives annual training and quarterly updates on key sustainability issues that impact the sectors within which the Group's businesses operate, and on the specific measures that are required to be implemented to drive improved sustainability performance over the longer term for the benefit of all stakeholders.

Time commitments and attendance of Directors at meetings

When considering appointments to the Board, the Board in conjunction with the Nomination Committee reviews any other demands on a candidate's time, and new Directors are required to disclose any directorships held and other business interests. The ability of Directors to have sufficient time to meet their Board responsibilities is considered on an annual basis as part of the performance evaluation process. Peter Dilnot is the Senior Independent Director of Rotork PLC, although the Board has concluded that this does not affect his ability to meet his Board responsibilities. None of the other executive Directors hold any significant appointments nor do they have any non-executive directorships in any FTSE 100 company.

The following table shows the attendance of each of the Directors at the scheduled meetings of the Board and its Committees held during the year. The quorum necessary for the transaction of business by the Board and each of its Committees is two. The table also shows attendance at business review meetings held between scheduled Board meetings. Non-executive Directors are invited to, but are not required to attend, such meetings.

Attendance of Directors

	Board	Audit	Nomination	Remuneration	Business review
Number of meetings[1]	**4**	**4**	**2**	**2**	**3**
Justin Dowley	4	4[2]	2	2	3
Christopher Miller	4	–	–	–	3
Simon Peckham	4	–	–	–	3
Geoffrey Martin	4	4[3]	–	–	3
Peter Dilnot	4	–	–	–	3
Liz Hewitt	4	4	2	–	3
David Lis	4	4	2	2	3
Charlotte Twyning	4	4	2	2	3
Funmi Adegoke	4	2[4]	2	2	3
Heather Lawrence[5]	3	3	–	–	1
Victoria Jarman[5]	3	–	–	1	1

(1) In addition to the above scheduled meetings, ad-hoc Board and Committee 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) Justin Dowley attended by invitation.
(3) Geoffrey Martin attended by invitation.
(4) Funmi Adegoke was appointed as a member of the Audit Committee with effect from 1 September 2021. Ms Adegoke attended all Audit Committee meetings held during the period 1 September 2021 to 31 December 2021.
(5) Heather Lawrence and Victoria Jarman were appointed as Non-executive Directors of the Board on 1 June 2021. They have each attended all Board and applicable Committee meetings, together with all business reviews, since their appointment.

3. Principles J-L: Composition, Succession and

Board composition

The Board believes that the Directors bring a combinatio experience and knowledge to the Board that is complem the activities of the Company. Biographies of the Director shown on pages 82 and 83, and on the Company's web **www.melroseplc.net**. These biographies identify any ot significant appointments held by the Directors.

During the year, David Roper, one of the co-founders of M Archie G. Kane, the Chairman of the Nomination Commit from the Board as planned. Peter Dilnot, Chief Operating joined the Board. In addition, the Board gained two new N Directors, Heather Lawrence and Victoria Jarman, who b significant non-executive experience gained through simil

The Board has made significant progress with paving the diversity. It continues to meet the Hampton-Alexander Re of having 33% female representation on its Board, with 4 representation as at the date of this report. In particular, f five Non-executive Director appointments, including the n two made in 2021, have been female, and all departures Board have been male. In addition, the Board continues t Parker Review target of having one Director from an ethni background on the Board. Melrose is committed to conti meet these targets.

Succession planning

Succession planning is coordinated via the Nomination C in conjunction with the Board and includes all Directors a management. It was a core focus in 2021 and as explain 2 on page 89, the Board and shareholders approved the Justin Dowley's tenure as Chairman of the Board in order effective succession planning.

Succession planning arrangements for the Board as a wh reviewed by the Nomination Committee and the Board. T reviewing the skills set, tenure, diversity and independenc already on the Board, and reviewing the Melrose senior m team, including the career planning and talent manageme programmes in operation for them. In each case this was the Nomination Committee to ensure that the right balanc experience and diversity were reflected and being develo

Given the strength of Melrose's decentralised operating s achieving the Group's strategic objectives, the Nominatio does not have direct involvement in the succession plann arrangements of the divisions. However, the Nomination C has access to the divisional executive teams through the review cycle.

Board evaluation

Evaluation approach and process

The Code requires that FTSE 350 companies undertake facilitated Board and Committee evaluation once every th The last external Melrose Board and Committee review w for which the Company engaged Lintstock Ltd. The Com again be conducting an external evaluation in 2023.

Whilst the Company is not required to undertake another facilitated Board and Committee evaluation until 2023, du the Company continued its ongoing internal review of the each Committee, both internally within each of those bod the Chairman of the Board and the Chairman of each Co respectively. As in prior years, the Company also conduct evaluation of the Chairman of the Board's performance. T evaluations were conducted and facilitated by the comple questionnaires, and discussions at the applicable Board Committee meetings, with follow-up actions taking place Directors were also given the option for meetings to be sc the Chairman of the Board or the Chairman of the relevan about any relevant matters that they wished to raise as pa ongoing review.

pics were discussed as part of the evaluation including Board, diversity of gender, race and thought, succession sight, risk management and internal controls, strategic derstanding of the views and requirements of key and the integration of sustainability into the Group's operations.

he evaluation

d subsequent discussion concluded that the Board, the he Board and the Senior Independent Director continue ffective.

ther enhance the Board's effectiveness, the following areas ted as the subject of management focus during 2022:

to monitor senior management succession;

eloping the Board's visibility over the impact of principal e divisions, and continuing to monitor and enhance the anagement of risk;

grating and embedding sustainability into the Group's trategy and operations, which the Group views as a continuous progression in response to ever-evolving ty developments;

onsiderable steps were taken to improve cyber security usiness units in 2021, it was recognised that cyber an ongoing risk and will, therefore, be focused on again

to improve and monitor the cash management culture usinesses (particularly within the GKN businesses) and cash performance; and

to impress upon all divisions that the health and safety kers is of the utmost importance and ensuring that tive teams place a high degree of focus on ng, monitoring and maintaining high standards of safety awareness, coupled with appropriate protective and high performance, with a view to eliminating e accidents.

lection of Directors

ne Company's Articles and in accordance with the the Code, all of the Directors stood for election or the 2021 AGM. With the exception of Heather Lawrence larman, who are each standing for election for the first Hewitt, who is retiring at the conclusion of the 2022 AGM, ectors of the Company will be standing for re-election by at this year's AGM, and in each case an ordinary need to be passed to approve such re-elections.

g whether each Director should stand for re-election, on Committee in consultation with the Board considers Board has the appropriate balance of skills, experience, e and diversity to enable the Board to carry out its duties oilities effectively. The time commitments of each Director wed as part of this assessment, and Directors are required y directorships held and other business interests. The mance evaluation referred to opposite assists with whether each Director should stand for re-election.

formance evaluations of each of the Directors, and dered in turn the individual skills, relevant experience, and time commitment of the Directors to the long-term uccess of the Company, the Chairman is of the opinion ector's performance continues to be effective and s commitment to the role. Similarly, following evaluations of the Chairman, and having carefully ne commitments required and the contributions made man, the Non-executive Directors, led by the Senior Director, are of the opinion that the Chairman's continues to be effective and that he continues te commitment to the role.

Justin Dowley, Non-executive Chairman, is standing for re-election as Director due to his extensive and long-standing experience within the banking, investment and asset management sectors. Mr Dowley first joined the Board as a Non-executive Director in September 2011 and served as Senior Independent Director in the two years prior to his appointment as Non-executive Chairman in 2019. Following positive engagement with key shareholders in 2020, the Nomination Committee and the Board approved his extended tenure to 2023 subject to annual re-election, in order to facilitate succession planning arrangements for the Board and the development of a diverse Board. Mr Dowley was considered independent upon his appointment as Non-executive Chairman.

Simon Peckham, Chief Executive, is standing for re-election as Director due to his deep understanding of the Melrose business model, having co-founded Melrose, and initially appointed as Chief Operating Officer in 2003. He has widespread expertise in corporate finance, mergers and acquisitions, strategy and operations.

Christopher Miller, Executive Vice-Chairman, is also standing for re-election on the basis of his deep understanding of the Melrose business model, having co-founded Melrose. Mr Miller has long-standing involvement in manufacturing industries and private investment.

Geoffrey Martin, Group Finance Director, is standing for re-election due to his deep understanding of the Melrose business model, having been appointed as Group Finance Director in 2005. He also brings to the Board considerable public company experience and expertise in corporate finance, equity finance raising and financial strategy.

Peter Dilnot, Chief Operating Officer, is standing for re-election due to his deep understanding of the Melrose business model, having been appointed as Chief Operating Officer in 2018, as well as having performed the role of interim chief executive officer for GKN Aerospace. He has strong sector experience in engineering and aviation, and has extensive experience in holding executive roles in listed companies.

The remaining Non-executive Directors are standing for re-election due to their independence, diversity, skills and experience. In particular, David Lis brings to the Board extensive financial experience and deep insight into the expectations of Melrose's institutional investor base, having held several roles in investment management. Charlotte Twyning brings to the Board a diverse range of experience and commercial acumen due to her experience having held various senior positions in the telecommunications and transport sectors, most recently in aviation. Funmi Adegoke brings to the Board diverse industrial knowledge as well as significant transactional and commercial management expertise due to her extensive experience working in and leading teams across the globe at multi-national organisations.

Election of Directors

Heather Lawrence and Victoria Jarman, who joined the Board on 1 June 2021, will be standing for election by shareholders for the first time at this year's AGM and in each case an ordinary resolution will need to be passed to approve such elections.

In considering whether each Director should stand for election, the Nomination Committee in consultation with the Board considers whether the Board has the appropriate balance of skills, experience, independence and diversity to enable the Board to carry out its duties and responsibilities effectively. The time commitments of each Director are also reviewed as part of this assessment, and Directors are required to disclose any directorships held and other business interests. The annual performance evaluation, referred to opposite, assists with determining whether each Director should stand for election.

Following performance evaluations of each of the Directors, and having considered in turn the individual skills, relevant experience, contributions and time commitment of the Directors to the long-term sustainable success of the Company, the Chairman is of the opinion that each Director's performance continues to be effective and demonstrates commitment to the role.

Corporate Governance report
Continued

Heather Lawrence and Victoria Jarman are standing for election due to their independence, diversity, skills and experience. In particular, Heather Lawrence brings to the Board a diverse range of experience across the industrials and transportation sectors, having held senior roles within corporate finance and investing banking, as well as having the necessary expertise required to perform the role of Chairman of the Audit Committee upon Liz Hewitt's retirement. Victoria Jarman brings to the Board significant and extensive financial and investment experience and insight gained from a number of senior roles in corporate finance, as well as extensive non-executive director experience.

Biographies of each of the Directors are shown on pages 82 to 83, and on the Company's website at **www.melrosepIc.net**. Detailed justifications for each Director's (re-)election are set out in the Notice of Annual General Meeting, on pages 211 to 216.

4. Principles M-O: Audit, Risk and Internal Control

Objectives and policy
A key responsibility of the Board and Melrose senior management team is to safeguard and increase the value of the businesses and assets of the Group for the benefit of its shareholders. Achievement of their objectives requires the development of policies and appropriate internal control frameworks to ensure that the Group's resources are managed properly and that any key risks are identified and mitigated where possible.

The Board is ultimately responsible for the development of the Group's overall risk management policies and system of internal control frameworks and for reviewing their respective effectiveness, while the role of the Melrose senior management team is to implement these policies and frameworks across the Group's business operations. The Directors recognise that the systems and processes established by the Board are designed to manage, rather than eliminate, the risk of failing 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 FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. In accordance with this guidance, the Board assumes ultimate responsibility for risk management and internal controls, including determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives (its "risk appetite") and ensuring an appropriate culture has been embedded throughout the organisation. The risk management and internal control system is complemented by ongoing monitoring and review, to ensure that the Company is able to adapt to an evolving risk environment.

A separate Audit Committee report is set out on pages 94 to 98 and provides details of the role and activities of the Audit Committee and its relationship with the internal and external auditors.

Managing and controlling risk
Since 2016, the Group's approach to risk management has been reviewed and enhanced. The systems, processes and controls in place accord with the Code and the FRC's updated guidance. Details on the Group's risk management strategy are set out on pages 40 to 41.

Further information regarding the Group's financial risk objectives and policies can be found in the Finance Director's review on pages 32 to 39. A summary of the principal risks and uncertainties that could impact upon the Group's performance is set out on pages 42 to 49.

Internal financial controls and reporting
The Group has a comprehensive system for assessing th effectiveness of the Group's internal controls, including st business planning and regular monitoring and reporting c performance. A detailed annual budget is prepared by se management and thereafter is reviewed and formally adc by the Board.

The budget and other targets are regularly updated via a forecast process and regular business review meetings a the involvement of senior management to assess perform results of these reviews are in turn reported to, and discu Board at each meeting. As discussed in the Audit Comm on page 98, the Group engages BM Howarth as internal additional support, as required, from Ernst & Young. A tot across the Group were assessed by BM Howarth and Er during 2021.

As was common across most large, geographically dispe companies, COVID-19 disruption continued to present a of challenges and limitations throughout the year due to r international travel and extended periods of remote worki site-based finance teams. Further details about the additi assurance measures that were taken to mitigate the impa COVID-19 disruption on internal controls during 2021 can in the Audit Committee report on pages 94 to 98.

The Directors can report that based on the sites visited an in 2021, there has been progress across the Group followi internal audit programme and that the majority of the recor presented in the internal audit report have been or are in th being implemented.

The Audit Committee also monitors the effectiveness of th control process implemented across the Group through a the key findings presented by the external and internal au Management are responsible for ensuring that the Audit C recommendations in respect of internal controls and risk r are implemented.

Ethics and compliance
The Company takes very seriously its responsibilities und laws and regulations in the countries and jurisdictions in w Group operates, and has in place appropriate measures t compliance. A compliance framework is in place compris Group-wide policies relating to anti-bribery and corruptior laundering, anti-facilitation of tax evasion, competition, co minerals, trade compliance, data privacy, whistleblowing, and financial controls, anti-slavery and human trafficking, retention, joint ventures, diversity and inclusion, environme and human rights. These policies are in place within each and, other than in respect of certain policies where it wou appropriate for them to have such a broad reach, they ge apply to all Directors, employees (whether permanent, fixe or temporary), pension trustees, consultants and other bu advisors, contractors, trainees, volunteers, business agen distributors, joint venture partners or any other person wo performing a service on behalf of the Company, its subsic associated companies in which the Company or any of its has a majority interest.

During 2021, Melrose implemented new Environmental and Rights policies, and the Company also updated the Melrose Ethics in light of key regulatory and legal developments and with the new policies. The new policies and updated Melros Ethics have been fully implemented across all business unit (as well as all other Group compliance policies) continue to l to ensure their effectiveness for the Group. Online complian continued to be conducted within all businesses, covering t as anti-trust, trade compliance and export controls, data pri anti-bribery and corruption, and anti-money laundering, to e and supplement the existing compliance regime.

y's Modern Slavery Statement is approved by the Board
the current statement is available on the Company's
ps://www.melroseplc.net/media/2759/modern-
ement-fy2020.pdf. Under Melrose's decentralised group
h division is responsible (where applicable) for publishing
dern Slavery Statement in accordance with the
under the Modern Slavery Act 2015, and are supported
here needed. To support the Company's belief in the
f this matter, it has a Group-wide policy on the prevention
very and human trafficking, which the businesses have
mployees, along with an online compliance training
se also refer to section 1 on page 89 for details of the
whistleblowing policies and procedures.

re engaged to conduct an independent non-financial
mme of the GKN Aerospace and GKN Automotive
o test and provide additional external assurance in
se businesses' key compliance areas and safeguards as
ir relative scale and complexity. Although COVID-19 travel
aused some delay to the original site visit schedule during
ew programme was completed during 2021, with a total
s being conducted by BDO (and overseen by the General
he businesses) across the programme. The programme
N Aerospace sites across the UK, the Netherlands, India,
hailand, Sweden, and Norway, as well as GKN
tes including those located in Mexico, France, Malaysia,
y, India and Japan. Overall, both GKN Aerospace and
tive were found to demonstrate a good level of
ncluding within the areas of anti-bribery and corruption,
undering, whistleblowing, data protection, export control,
pliance, health and safety, and trade compliance.

s P-R: Executive Remuneration

d practices

nuneration philosophy has been the same since being
003 and requires that executive remuneration be simple,
support the delivery of the value creation strategy, and
erformance. The Company's policy of restricting
n annual salary, bonus and benefits to below the lower
peers, while heavily weighting potential reward to the
ployee share plan that is entirely performance based,
principles and is intended to align management's
ngements directly with the interests of shareholders.
e with the Code, the 2020 Employee Share Plan (which
are plan the Company operates for Melrose senior
) has a five-year total vesting and holding period, which
g-term sustainable success for shareholders, and is
e awarded in shares, further aligning management
ders.

ent of policies

ration Committee has a formal and transparent
developing the Company's policy on executive
. It regularly engages with shareholders to seek their
rticularly more so in advance of renewals), takes those
count when formulating proposals on executive
, obtains advice from external remuneration advisors,
es benchmarking exercises with respect to executive
that the executive remuneration structure remains
Shareholders have the opportunity to vote on executive
through their binding vote at least every three years on
remuneration policy and their advisory vote annually
rs' remuneration report. As described further in the
muneration report on pages 102 to 116, the Chief
ains responsibility for setting and managing the
of Melrose senior management and divisional CEOs,
Remuneration Committee has full disclosure. No Director
deciding their own remuneration outcome.

Independent judgement and discretion

The Remuneration Committee exercises independent judgement and discretion when authorising remuneration outcomes, taking account of both Company and individual performance, and wider circumstances. As mentioned above, the Remuneration Committee obtains regular advice from external remuneration advisors in order to ensure that proposals are in line with the Code, and benchmarked against the Company's FTSE 100 peers. The current Directors' remuneration policy provides the Remuneration Committee with the ability to exercise discretion to override formulaic outcomes. No such use of discretion was exercised in 2021, although the Remuneration Committee have determined in 2022 to exercise discretion in respect of the payment of the 2021 annual bonus to the Chief Operating Officer in cash. Details can be found on page 102.

Details regarding Directors' remuneration, both generally and in relation to the requirements of the Code, are set out in the Directors' Remuneration report on pages 102 to 116, which is presented in the following two sections:

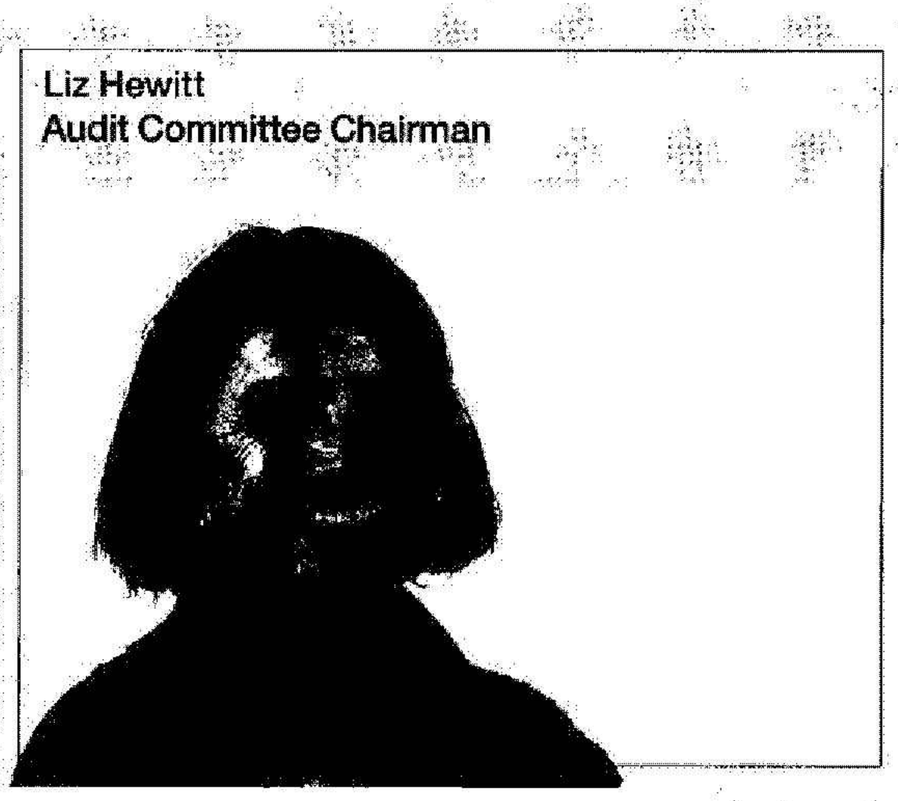
- the annual statement from the Chairman of the Remuneration Committee, which can be found on page 102; and
- the Annual Report on Remuneration, which can be found on pages 103 to 116.

The current Directors' remuneration policy, which was approved by shareholders at the 2020 AGM and subsequently amended in January 2021 to incorporate the 2020 Employee Share Plan, is available on the Company's website[1].

(1) The full details of the Directors' remuneration policy can be found on pages 103 to 111 of the 2019 Annual Report (**www.melroseplc.net/media/2536/melrose-ar2019.pdf**), and the full details of the amendments can be found on pages 15 to 24 of the circular to shareholders dated 29 December 2020 (**www.melroseplc.net/media/2587/291220-melrose-circular.pdf**).

Audit Committee report

The responsibilities of the Audit Comm (the "Committee") include overseeing financial reporting, risk management internal financial controls, in addition making recommendations to the Boa regarding the appointment of the Company's internal and external audi



Liz Hewitt
Audit Committee Chairman

Member	No. of
Liz Hewitt (Chairman)*	●●
David Lis*	●●
Charlotte Twyning	●●
Heather Lawrence*	●
Funmi Adegoke	

* Indicates Committee members with financial expertise. In total, 60% of the C has financial expertise.

(1) Mrs Heather Lawrence was appointed as a Non-executive Director with effe 1 June 2021. Mrs Lawrence attended all Committee meetings held during th 1 June 2021 to 31 December 2021.

(2) Ms Funmi Adegoke was appointed as a member of the Audit Committee wi from 1 September 2021. Ms Adegoke attended all Committee meetings hel the period 1 September 2021 to 31 December 2021.

Role and responsibilities

The Committee's role and responsibilities are set out in its terms of reference. These were updated in November 2021 in line with best practice and are available on the Company's website at **www.melroseplc.net** and from the Company Secretary at the Company's registered office. In discharging its duties, the Committee embraces its role of protecting the interests of all stakeholders with respect to the integrity of financial information published by the Company and the effectiveness of the audit. The responsibilities of the Committee include:

- reviewing and monitoring the integrity of the financial statements of the Group, including the Annual Report, financial statements and interim financial statements, and reviewing and reporting to the Board on the significant financial reporting issues and judgements which they contain;
- keeping under review the effectiveness of the Group's financial reporting;
- reviewing the effectiveness of and monitoring and overseeing the Group's risk management (excluding cyber security and fraud risk, which are retained by the Board), internal financial control systems and processes and compliance controls;
- overseeing the adequacy and security of the Company's arrangements for its employees to raise concerns in confidence in accordance with the Company's whistleblowing policy, including about possible wrongdoing in financial reporting or other matters;
- monitoring and evaluating the independence and effectiveness of the internal audit function and approving the internal audit plan and fee;
- monitoring and evaluating the independence and effectiveness of the external audit and approving the external audit plan and fee;
- reviewing, challenging and reporting to the Board on the going concern assumption and the assessment forming the basis of the longer-term viability statement;
- reviewing and, where necessary, challenging the consistency of accounting policies, the methods used to account for significant or unusual transactions, and compliance with accounting standards;
- reviewing the Company's procedures for detecting fraud, and its systems and controls for the prevention of bribery;
- developing, implementing and monitoring the Group's external audit and overseeing the objectivity and effec of the external auditor;
- assessing annually the external auditor's independen objectivity, taking into account relevant UK laws, regu Ethical Standards and other professional requirement relationship with the auditor as a whole, including the of any non-audit services;
- reviewing and where necessary challenging the provi non-audit services by the external auditor; and
- reviewing and considering the Annual Report and finar statements to ensure that it is fair, balanced and under and advising the Board on whether it can state that thi

Composition

Ms Liz Hewitt continues to serve as the Chairman of the (However, Ms Hewitt will be stepping down from this posi her retirement from the Board at the conclusion of the 20 General Meeting, and Mrs Heather Lawrence will assume Chairman of the Committee. Mrs Lawrence joined the Bc Committee in June 2021. She has strong audit experienc acted as audit committee chair of FlyBe Group plc.

Ms Hewitt, Mrs Lawrence and Mr David Lis bring signific relevant financial experience to their roles on the Commit Furthermore, each member of the Committee, including M Twyning and Ms Funmi Adegoke, brings strong corporate experience to the Committee. Further details of the releva experience of each member of the Committee are descril biographies on pages 82 to 83. The Committee is made u of independent Non-executive Directors.

The Company Secretary acts as secretary to the Commit

To enable the Committee to provide robust challenge of th submitted to it, the Committee invites the Group Finance D Head of Financial Reporting, and senior representatives of and internal auditors to attend its meetings. The Chairman Committee also speaks with the Group Finance Director p Committee meeting. The Committee has the right to invite Directors and/or employees to attend meetings where this

ppropriate. In addition, the Committee meets at least once he external and internal auditors without management he Chairman of the Committee speaks with the external uditors prior to each Committee meeting.

of meetings in the year

ee is expected to meet not less than three times a year. ng 2020, the Committee had agreed that an additional d be scheduled due to the ongoing uncertainty and used by COVID-19 in order to enable further review and significant accounting matters, and this was continued in , the Committee met in March, June, September and he scheduling of these meetings is designed to be he financial reporting timetable, thereby enabling the review the Annual Report and financial statements, the al statements and the audit plan ahead of the year-end haintain a view of the internal financial controls and oughout the year.

activities related to the 2021 financial

s

duties the Committee undertook the following recurring receive annual scrutiny:

e 2021 Annual Report and financial statements and the ncial statements, including the going concern of the mption and the assessment forming the basis of the

longer-term viability statement. As part of this review, the Committee received reports from the external auditor on their audit of the Annual Report and financial statements and their review of the interim financial statements, as well as papers prepared by management in respect of the going concern, longer-term viability and significant accounting and control matters;

- consideration of the 2021 Annual Report and financial statements in the context of being fair, balanced and understandable and a review of the content of papers prepared by management in relation to the 2021 Annual Report and financial statements. The Committee advised the Board that, in its view, the 2021 Annual Report and financial statements when taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- review of the effectiveness of the Group's risk management and internal financial controls and disclosures made in the 2021 Annual Report and financial statements on this matter;
- review of the effectiveness of the Group's internal and external auditors; and
- review of, and agreement of, the scope of work to be undertaken in respect of the 2021 financial statements by the external auditor and the scope of work to be undertaken in 2022 by the internal auditor.

these matters, the Committee considered the following significant issues in relation to the financial statements during the year:

ssue considered by the Audit Committee	How the issue was addressed by the Audit Committee
sting of goodwill ing is inherently subjective as it includes assumptions in the coverable amount for each of the cash-generating units ested. Assumptions include future cash flows of the relevant s, discount rates that reflect the appropriate risk and long-term hich are applicable to the industry and geography of operations. t testing for 2021 has been performed on the groups of CGUs e 2021 Annual Report, which specifically now has one group of of Aerospace and Automotive. ue to the impact of the COVID-19 pandemic, additional e disclosed for almost all of the Group's individual CGUs. , the businesses have continued to mitigate the impact of demand caused by supply chain shortages (Automotive and rgy) and continued market depression (Aerospace) through and efficiency actions, including further significant restructuring. he value in use basis prohibits the inclusion of benefits from itted restructuring plans although this is permitted when r value less costs to sell basis, to the extent that similar actions d out by a market participant. Consistent with the prior year and with the accounts standards, impairment testing for the GKN oups of CGUs remains on a fair value less costs to sell approach ilted in higher valuations than the value in use approach. *3 and 11 of the financial statements)*	The Committee challenged the outcome of the impairment review in respect of all groups of CGUs and also considered the proposed disclosures in respect of the Aerospace, Automotive, Powder Metallurgy and Ergotron groups of CGUs. In doing so the Committee considered the following: • a paper prepared by management, which included the key outputs from the impairment models; • trading assumptions, including macro-economic factors, applied in the models and in particular those that were key, being revenue growth and profit margin; • the market-based assumptions for long-term growth rates and discount rates; • risk adjustments that were applied to the model, in particular regarding the timing of when volume reductions would recover; and • the appropriateness of the full disclosures in the financial statements in respect of the impairment review performed and the impact, together with sensitivities that could cause a future impairment. The Committee discussed with Deloitte the audit work performed by them and their conclusion regarding the disclosures presented. Considering all of the above, as well as management responses to challenge and Deloitte's views, the Committee was satisfied that the assumptions used were reasonable and that the impairment conclusions together with disclosures were appropriately presented.
r revenue under IFRS 15 ing majority of the Group's revenue recognition relates to the roducts and services where invoices are raised and amounts when control of the goods is transferred to the customer. roup has one revenue stream which includes recognition of eration for risk and revenue sharing partnerships ("RRSPs"), er of Aerospace businesses. nagement continue to review the key assumptions that have a t on the allocation of overall transaction prices for aerospace engine s particularly important to reassess the operational progress and s' programmes in the early years of these long-term arrangements, nce issues can arise. Specifically, in relation to variable consideration Ps, revenue is significantly constrained until there is better visibility ie so as to comply with the requirement that amounts are only n it is highly probable that they will not reverse in the future. ve operational progress on engine programmes within certain ear, it was concluded that an update to assumptions was nilst the changes have not led to a material impact on 2021 ion), they will impact future results too. variable consideration recognised in the year of £55 million erlying increase from the COVID-impacted results in 2020, ramp based on customer schedules as well as implications of the mptions. *3, 4 and 17 of the financial statements)*	The Committee reviewed the paper prepared by management and discussed the implications of IFRS 15, which included an assessment of estimates used in calculating variable consideration within RRSPs. The changes in estimates, relating to both the amount and timing of revenue recognition, were primarily based on operational progress of specific programmes. Whilst the impact of changes was immaterial for 2021, there could be a more significant impact in the future. The Committee discussed the audit work performed by Deloitte, to assess whether the proposed revenue to be recognised, together with incremental disclosures, were appropriate. The Committee was satisfied that the approach and assumptions used remained both reasonable and appropriate. However, it is understood that there are reasonably possible changes in assumptions, that could lead to the recognition of further variable consideration in the next year in respect of previous performance obligations.

Audit Committee report
Continued

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Comm
GKN Aerospace North America financial information in relation to inventory balances The Group has again reviewed inventory and other balances in GKN Aerospace North America following historical pre-acquisition concerns, to ensure that balances were appropriately stated. The current year review has involved management from the Group finance team travelling to four sites to conduct a detailed balance sheet review with senior site teams. In addition, assurance has been taken from other higher-level procedures. The review focused on inventory provisioning, among other things, as these calculations often require estimation by management of expected future sales. *(Refer to notes 3 and 16 of the financial statements)*	During the year, the Committee reviewed a report prepared by m updating on the previously disclosed concerns relating to GKN A North American business. The assessment considered trends in carrying amounts and other balance sheet accounts as well as tl overall control environment and progress since the prior year. Sp management from the Group finance team travelled to sites and management as well as senior members of the divisional finance discuss the local control environment, any continued impact of C compliance and documentation, and results of balance sheet rev The Committee discussed the results from year-end testing with management as well as the findings from Internal Audit, who ha many of these sites. Additionally, the Committee sought a view following their audit work, to assess whether the balances inclu Group consolidated financial statements were appropriate. Having considered the matters presented and evidence provide Committee concluded that management's response to issues v appropriate and balances were reasonably stated.
Classification of adjusting items and use of Alternative Performance Measures ("APMs") The reporting, classification and consistency of adjusting items continues to be an area of focus for the Committee, in particular, given the guidance on APMs provided by the European Securities and Markets Authority ("ESMA"). The Committee considers this a key consideration when reviewing if the financial statements are fair, balanced and understandable. *(Refer to notes 3 and 6 of the financial statements)*	The Committee has considered the nature, classification and cons adjusting items, whilst addressing the guidance provided by ESMA are defined and discussed in the Finance Director's review and de to the financial statements, together with the glossary to the financ Following a review of management's paper and challenge, the C satisfied that there has not been any change to the substance c was noted that as a result of certain restructuring programmes had reviewed the associated carrying values of operating assets Group. A charge of £112 million, relating to assets within the Gro recorded in the second half of the year. The Committee also determined that disclosures are clear and t assisting shareholders in measuring the operating performance The Committee therefore concluded that adjusting items were a captured and disclosed. The Committee also considered disclosure of the Group's APMs respect to applicable guidelines and noted that these are set out in the glossary to the financial statements together with reconcilia adjusted performance measures to statutory results in note 6 to t statements. The Committee found the disclosures to be clear an
Going concern and viability The Committee is required to make an assessment of the going concern assumption for the Group and the basis of the viability statement before making a recommendation to the Board. Due to the disposal activity during the year, significant cash proceeds have been received and to date only a proportion has been returned to shareholders. This has led to a stronger Group balance sheet with additional levels of headroom in covenant calculations. The assessment of going concern for the annual financial statements uses the same forecast data as included in many other areas of estimation within the full year accounting and takes into account the covenant tests agreed with the Group's banking syndicate during the prior year. *(Refer to note 2 of the financial statements)*	The Committee reviewed and approved management's recomm to prepare the financial statements on a going concern basis. Th principles debated were the level of committed facility headroor covenants and flexibility of liquidity arrangements to meet oblige discussion took into account the recently agreed extension to fa June 2024. In addition to base case modelling which uses appr forecasts, a reasonably possible downside was considered. The Committee also considered a paper and financial model pr management in respect of the longer-term viability statement to in the Annual Report and financial statements as well as analysi by the external auditor. The Committee challenged the assumpt judgements made by management before concluding that the l viability statement was appropriate.
Provisions for loss-making contracts The level of provisioning for loss-making contracts requires estimation and assumptions for long-term programmes. Although provisions are reviewed on a regular basis and adjusted for management's best views, their inherently subjective nature means that future amounts settled may be different from those provided. During the year, as a result of continued focus on improving profitability through operational actions or enhancing commercial terms with customers, a number of contracts have successfully become break-even or better. There has been a consequential net release of provisions originally recognised on acquisition of £22 million, recorded as an adjusting item to avoid positively distorting adjusted operating profit. *(Refer to notes 3, 6 and 21 of the financial statements)*	At 31 December 2021, the carrying value of loss-making contrac in the Group was £167 million (2020: £241 million). The Committe management's position and challenged the proposed changes c year as well as the closing provisions. The key assumptions and include volumes, price and costs to be incurred over the life of the and, where changes have occurred in commercial terms, relevar Deloitte also reported on their audit work covering loss-making provisions and the key assumptions to the Committee. Having considered the matters presented and responses to cha Committee concluded that management's proposed provisioni amounts and the associated disclosures in the financial stateme appropriate and the approach taken was consistent with previo
Change in operating segments Following a review of strategic options during the second half of the year, the Board (deemed to be the Group's Chief Operating Decision Maker) decided to change its internal reporting. The decision was taken to ensure that the allocation of resources to the segments and assessment of performance reflected the strategy of the Group. As a consequence, the Hydrogen Technology business operating segment was separated from the Powder Metallurgy business. In addition, the Other Industrial division has been impacted by the sales of Brush and Nortek Control whose results are included in discontinued operations. The Hydrogen Technology business was included in Other Industrial for reporting purposes. Comparative amounts have been restated accordingly. *(Refer to note 5 of the financial statements)*	The Committee reviewed and challenged the rationale presente management and challenged the revised segments proposed. I the work performed by Deloitte was assessed. The Committee was satisfied that the approach and rationale w consistent with the accounting requirements.

ement and internal control

roles of the Committee is to review and monitor the anagement, internal financial control systems and d compliance controls. The Committee has a high and compliance expertise to enable it to fulfil this role. In Hewitt, Mrs Lawrence and Mr Lis have each held senior financial institutions. Furthermore, Ms Hewitt was an lember of the House of Lords Commission and Mrs held various non-executive directorship positions, dit committee chair of FlyBe Group plc. Ms Twyning ke have each held senior legal roles at global particular, Ms Adegoke is currently Group General FTSE 100 company, Halma PLC.

he Committee continued to keep under review the ernal financial controls systems that identify, assess, nonitor financial risks and other internal control and risk systems, and the effectiveness of the Group's risk system through regular updates from management. review of the key findings presented by the external ditors having agreed the scope, mandate and review vance.

with support from Ernst & Young continued to enhance active dashboard that had been developed to businesses' risk reporting to the Company. Since the ashboard, the Group's risk management processes, eporting and data collection from the businesses, l to be enhanced. This has bolstered the Committee's k areas and trends. The dashboard includes data from rs prepared by the risk and legal leads from each ell as objective trend analysis based on that data and sight from Ernst & Young. The Committee reviewed l the process of compiling the dashboard, and also challenged a summary report of the Group enterprise ent profile. This summary report guided the Committee dates to the Group risks (including the identification erging Group risks), as reported in the Risks and ection on pages 42 to 49, and set out a consolidated ort for each business within the Group.

also reported on the Group's internal control systems he internal audit review. Examples of both Group and ontrols, including financial, operational and compliance presented and examined.

sk management and internal financial control systems and the Committee confirmed their effectiveness. No knesses were identified. The Committee reported its the Board at the next scheduled Board meeting.

ving

e is tasked with overseeing the adequacy and security y's arrangements for its employees to raise concerns in accordance with the Company's whistleblowing policy, t possible wrongdoing in financial reporting or other ompany runs a Group-wide whistleblowing platform, een by the Audit Committee and supported by the management team, and ultimately reported to the tform is monitored by the businesses' legal, d HR functions, with support from the Melrose senior eam. All employees have access to a multi-lingual ogether with local hotline numbers that are available o raise concerns, confidentially and anonymously, wrong-doing in any aspect of their business, including on-financial matters. The most material whistleblowing nptly notified to the Chairman of the Committee, and eblowing reports are prepared by Melrose senior or discussion at each Committee meeting with a view porting such matters to the Board.

Committee evaluation

The UK Corporate Governance Code (the "Code") requires that FTSE 350 companies undertake a formal and rigorous annual evaluation of the performance of the Board, its Committees, the Chairman and individual Directors. In particular, FTSE 350 companies should undertake an externally facilitated Board and Committee evaluation once every three years. The last external Melrose Board and Committee review was undertaken by Lintstock Ltd in 2020 and as such, the Company is not required to undertake another externally facilitated Committee evaluation until 2023. During the year, the Company continued its ongoing internal review of the Committee and collected feedback from Committee members with a similar range of focal topics as featured in the 2020 external review. Specifically, the assessment covered (i) the constitution and performance of the Board and each Committee; (ii) the Chairman of the Board; and (iii) individual performance reviews. Alongside such formal feedback, the Committee continued to facilitate direct ongoing contact between its members and the Chairman of the Committee about any relevant matters that the members wished to raise as part of the ongoing review.

External audit

Assessment of effectiveness and reappointment

The Committee reviews and makes recommendations with regard to the reappointment of the external auditor. In making these recommendations, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the external auditor's reappointment.

The Committee has reviewed the external auditor's performance and effectiveness. For 2021, a series of questions covering key areas of the audit process that the Committee is expected to have an opinion over were considered by the Committee, including:

- the calibre, experience, resources, leadership and technical and industry knowledge of the engagement partner and of the wider external audit team;
- the planning and execution of the audit process;
- the quality and timeliness of communications from the external auditor; and
- the quality of support provided to the Committee by the external audit partner.

Committee members, together with the Group Finance Director and the divisional finance directors, were requested to provide detailed feedback on the effectiveness of the external auditor. The Chairman of the Committee also sought feedback from the Chief Executive and the internal auditor. The Company Secretary subsequently produced a paper summarising the responses, which was considered by the Committee at length. The Committee subsequently concluded that the quality of the external audit team remains very high, the external audit process is operating effectively, and Deloitte LLP continues to prove effective in its role as external auditor.

Audit tendering

The Committee has reviewed the regulations provided by the European Commission (as they form part of retained UK law) and the Competition and Markets Authority ("CMA") on audit tendering. Rotation of the external audit firm is required by 2024 and the Committee has commenced preparation for the tender process in order to appoint a new external auditor by the end of this financial year.

The current audit engagement partner was appointed in 2019. The Company's audit firm is required to be rotated by 2024. Therefore, the audit engagement partner will serve until the new audit firm assumes the role of the incumbent external auditor.

Audit Committee report
Continued

Non-audit services
Under CMA and EU regulations (as they form part of retained UK law), there are restrictions on the type and amount of non-audit services provided by Deloitte, which cap the level of permissible non-audit services awarded to the external auditor at 70% of the average audit fee for the previous three years. The cap applies in respect of the current financial year, with audit fees in 2018, 2019 and 2020 being relevant.

A policy on the engagement of the external auditor for the supply of non-audit services is in place to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. The policy outlines which non-audit services are pre-approved (being those which are routine in nature, with a fee that is not significant in the context of the audit or audit-related services), which services require the prior approval of the Committee and which services the auditor is excluded from providing. The general principle is that the audit firm should not be requested to carry out non-audit services on any activity of the Company where the audit firm may, in the future, be required to give an audit opinion. In accordance with best practice FRC guidelines, the Company's policy in relation to non-audit services is kept under regular review and was last updated in 2020 to reflect current market practice.

Despite being well within the CMA guidance, the Committee has taken into account feedback from institutional shareholder services and has continued migrating non-audit work to other firms including in respect of corporate finance affairs and risk management. It has also obtained reward, tax, consulting advice and advice on the remuneration reporting regulations and preparation of the Directors' remuneration report from PwC LLP. This will be reassessed as part of the preparation for the audit tender this year.

During 2021, the main services provided by Deloitte LLP other than statutory audits were in relation to non-statutory audits of carve-out financial statements, assurance reports for government grants or subsidies and tax compliance in non-EU subsidiaries. The Company did not use Deloitte LLP for any significant taxation services and does not intend to in the future. The Company's non-audit fee paid to the external auditor of £1.0 million represents 9% of the audit fees for 2021.

The Committee closely monitors the amount of non-audit work undertaken by the external auditor and considers using other firms for transaction-related work. However, there are occasions when it is appropriate, because of background knowledge, to use the auditor for non-audit work. This was particularly relevant in 2021 where Deloitte LLP audited the carve-out financial statements in respect of the sale of Nortek Air Management. In such cases, the Chairman of the Committee must first approve such work.

An analysis of the fees earned by the external auditor for audit and non-audit services can be found in note 7 to the consolidated financial statements.

Auditor objectivity and independence
The Committee carries out regular reviews to ensure that auditor objectivity and independence are maintained at all times. As in previous years, the Committee specifically considered the potential threats that each limited non-audit engagement may present to the objectivity and independence of the external auditor. In each case, the Committee was satisfied with the safeguards in place to ensure that the external auditor remained independent from the Company and its objectivity was not, and is not, compromised. No fees were paid to Deloitte LLP on a contingent basis.

At each year end, Deloitte LLP submits a letter setting out how it believes its independence and objectivity have been maintained. As noted above, Deloitte LLP is also required to rotate the audit partner responsible for the Group audit every five years and significant subsidiary audits every five years.

Based on these strict procedures, the Committee remains confident that auditor objectivity and independence have been maintained.

Internal audit
Due to the size and complexity of the Group, it is approp
internal audit programme to be used within the business
Ltd, an external firm, provides internal audit services to tl
accordance with an annually agreed Internal Audit Charl
audit plan. Where additional or specific resource is requi
support is provided by Ernst & Young. A rotation prograr
place, such that every business unit site will have an inte
least once every three years, with the largest sites being
least once every two years. The rotation programme allc
management's actions and responses to be followed up
basis. The internal audit programme of planned visits is
agreed with the Committee during the year.

The internal auditor's remit includes assessment of the e
of internal financial control systems, compliance with the
Policies and Procedures Manual and a review of the bus
balance sheets. A report of key findings and recommen
presented to Melrose senior management, including the
Financial Reporting, followed by a meeting to discuss th
findings and to agree on resulting actions.

The 2021 internal audit programme continued to be imp
travel disruption caused by the COVID-19 global pander
in the majority of site visits being conducted remotely. H
was the case in 2020, the internal audit programme was
reflect an achievable level of activity, acknowledging the
implications from the global pandemic. Furthermore, the
travel restrictions in Q4 resulted in an increased number
site visits towards the end of the year. A total of 42 sites
assessed in 2021.

To supplement the internal audit programme, a targeted s
sites were selected for a balance sheet review with intervi
controllers conducted by the internal auditor and senior m
together with self-certification questionnaires which were
detail with divisional finance directors at the internal contro
meetings. A report of all significant findings is presented b
auditor to the Committee at each meeting and implement
recommendations is followed up at the subsequent Comr

During the previous year there were no significant deficie
in internal financial controls that needed action by the Gi
Director and the Melrose accounting function. Any contr
followed up by the businesses to ensure a strengthening
site-based accounting functions, including specific actic
address the shortcomings identified. Follow-up visits we
during 2021 which identified significant progress in the i
of financial controls at sites.

A review of the internal audit process and scope of work
the internal auditor is the responsibility of the Committee
their objectives, level of authority and resources are app
nature of the businesses under review. This also conside
provided, improvements achieved and feedback from a
sources including key representatives of the Company.

The Committee reviewed the reappointment of BM How
internal auditor following an assessment of the services
approved their reappointment.

The Committee would like to thank the Group finance te
internal auditor, the external auditor and the Group Com
Secretariat for their hard work throughout 2021.

Liz Hewitt
Chairman, Audit Committee
3 March 2022

nination nmittee report

The Nomination Committee (the "Committee") has overall responsibility for making recommendations to the Board on all new appointments and for ensuring that the Board and its Committees have the appropriate balance of skills, experience, independence, diversity and knowledge to enable them to discharge their respective duties and responsibilities effectively.

e Twyning
tion Committee Chairman

Member	No. of meetings[1]
Charlotte Twyning (Chairman)[2]	2/2
Justin Dowley	2/2
Liz Hewitt	2/2
David Lis	2/2
Funmi Adegoke	2/2

(1) Reflects regularly scheduled meetings of the Committee.
(2) Mr Archie G. Kane retired as a Non-executive Director and as Chairman of the Committee on 31 December 2021 and was succeeded by Ms Charlotte Twyning with effect from 1 January 2022. He attended both scheduled meetings of the Committee during the year.

of responsibilities

e discharges its responsibilities through:

iewing the size, structure and composition of the
dding by means of overseeing the annual evaluation
of the Board and its Committees, and providing
lations to the Board of any adjustments that may be
om time to time;

nsideration to succession planning in order to ensure
balance of executive and Non-executive Directors in
ls, experience and diversity, and in particular
plans for succession for the key roles of Chairman of
nd Chief Executive;

e career planning and talent management programme
nior executives of the Company to ensure that it
eeds of the business;

ne Board recruitment process and evaluating the skills,
diversity and experience of potential Board
n order to make appropriate nominations to the

id approving the Board of Directors' Diversity policy
rose Diversity and Inclusion policy; and

to date and fully informed on strategic issues and
changes affecting the Company and the markets in
rates.

e's terms of reference, which were last reviewed by
in November 2021, are available to view on our
.melroseplc.net, and from the Company Secretary at
stered office.

membership and attendance

e comprises solely independent Non-executive
ie G. Kane, former Chairman of the Committee, retired
on 31 December 2021, and was succeeded as
ie Committee by Charlotte Twyning effective 1 January
s been closely involved in the Committee's activities
pintment as a Non-executive Director in 2018.

The Committee is expected to meet not less than twice a year and during 2021, the Committee met twice. The attendance of its members at these Committee meetings is shown in the table above.

The Company Secretary acts as secretary to the Nomination Committee. On occasion, the Nomination Committee invites the Chief Executive and the Executive Vice-Chairman to attend discussions where their input is required.

Board composition and succession planning

The Committee keeps under review the membership of the Board, including its size and composition, and makes recommendations to the Board on any adjustments it thinks are necessary. The Committee recognises the value in attracting Board members from a diverse range of backgrounds who can contribute a wealth of knowledge, understanding and experience. The Committee works with the Board in order to ensure both of these matters are taken into account to aid effective succession planning across the short, medium and long-term.

Succession planning arrangements for the Board as a whole were reviewed by the Committee in 2021. This included a review and discussion of the skills set, tenure, diversity and independence of those already on the Board, to allow the Committee to satisfy itself that the right balance of skills, experience and diversity are reflected and being developed, that the composition of the Board is consistent with the Board of Directors' Diversity policy, and to ensure that the Company continues to meet the expectations of the Hampton-Alexander Review and the Parker Review. The Committee also took an active interest in discussing and reviewing succession planning arrangements for the Melrose senior management team, including the career planning and talent management programmes currently in operation for them. Again, this was to allow the Committee to ensure that the right balance of skills, experience and diversity are reflected and being developed, that the Melrose senior management team reflects the requirements of the Melrose Diversity and Inclusion policy, and to ensure that the Company continues to meet the expectations of the Hampton-Alexander Review with respect to its Executive Committee and direct reports. The Committee is satisfied as to the Company's current succession planning arrangements, and will continue to keep these under review and discussion in 2022.

Nomination Committee report
Continued

During the year, Mr Peter Dilnot, Chief Operating Officer of Melrose since April 2019, joined the Board in January as an executive Director. Mr David Roper, one of Melrose's co-founders, retired from the Board in May as planned, having originally delayed his retirement for a year in order to provide the Board with the benefits of his expertise as the effects of the pandemic continued to impact the Group. In addition, as mentioned above, Archie G. Kane, Non-executive Director and Chairman of the Nomination Committee, retired from the Board on 31 December 2021.

The Board was pleased to welcome two new Non-executive Directors to the Board in 2021, Mrs Heather Lawrence and Ms Victoria Jarman, following a thorough recruitment process conducted by Stonehaven International, an external recruitment consultancy firm unconnected with the Company and its Directors. Their biographies can be found on pages 82 to 83. They bring with them a broad range of skills and experience which complement those skills already on the Board.

It is noted that Ms Liz Hewitt, Senior Independent Director and Chairman of the Audit Committee, will have served as a Non-executive Director of the Company for nine years in October 2022. Under the UK Corporate Governance Code (the "Code"), this is a key date in the consideration of a Non-executive Director's independence. Liz Hewitt has agreed to retire from the Board at the conclusion of the 2022 Annual General Meeting, and will therefore not stand for re-election. Heather Lawrence will succeed Liz Hewitt as Chairman of the Audit Committee, having held similar positions on other FTSE boards. This was a key part of her recruitment, in order to retain the necessary expertise required to perform this role, and she has benefited from a detailed handover in the year up to Liz Hewitt's departure.

Mr David Lis, Chairman of the Remuneration Committee, will assume the role of the Senior Independent Director upon Liz Hewitt's retirement from the Board. As well as being the most senior Non-executive Director of the Board after the Chairman of the Board and Liz Hewitt, David Lis also has the necessary experience for the shareholder facing aspect of this role, having deep insight into the expectations of Melrose's institutional investor base gained from his years of experience in investment management and in his role of Chairman of the Remuneration Committee. In the Committee's view, he is very well positioned to take over this role.

Chairman's tenure
The Committee also continued to review the role of Mr Justin Dowley as Melrose's inaugural Non-executive Chairman. Although he was appointed to that role in 2019, he first joined the Board as a Non-executive Director in September 2011, meaning he has served on the Board for over nine years. As mentioned above, this is a key date in the consideration of his independence under the Code.

Following positive engagement with key shareholders in
Committee and the Board approved Justin Dowley's ex
for up to three years beyond the expiry of his nine year te
in accordance with the Code, to (amongst other things)
succession planning for the Board. Justin Dowley remai
annual re-election at the Company's AGM each year an
the positive responses during the engagement, his reap
continues to be strongly supported by shareholders.

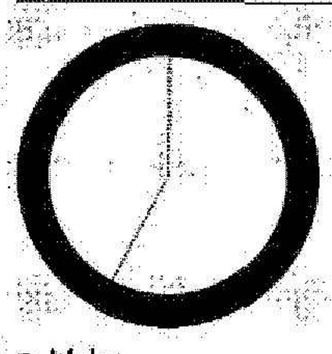
Re-election and election of Directors
The effectiveness and commitment of each of the Direct
annually as part of the Board evaluation upon recommer
the Committee. The Committee reviewed each Director i
satisfy itself as to the individual skills, relevant experience
and time commitment of the Directors to the long-term s
success of the Company. The Committee and Board ha
themselves that each of the Directors should stand for re
Heather Lawrence and Victoria Jarman should stand for
the first time), and the justifications for such (re-)elections
on pages 91 to 92 of this Annual Report and in the Notic
General Meeting on pages 211 to 216. As noted above, I
retire as a Non-executive Director at the conclusion of thi
and will therefore not stand for re-election.

Skills
Our Board possesses a wide range of knowledge and e
from a variety of sectors. In order to ensure the maximun
of the Board, the Committee continues to review the bal
and experience of Board members. The Committee con
current Directors, including the Non-executive Directors,
range of skills and experience that is necessary both to c
duties as Directors of the Company, and to create a cultu
collaborative and constructive discussion, which enables
to contribute effectively to the delivery of the Company's
The balance of skills across the Board is regularly review
Committee. As set out on page 81, the current Directors
and experience across five areas that the Committee co
key to delivering the Company's strategy: industrial; acco
finance; legal; investment; and corporate governance.

Business unit succession planning
Given the strength of Melrose's decentralised operating
achieving the Group's strategic objectives, the Committe
have direct responsibility for the succession planning arr
of the businesses. This is the responsibility of the execut
although the Committee retains oversight of changes ar
to the divisional executive teams through site visits and t
review cycle.

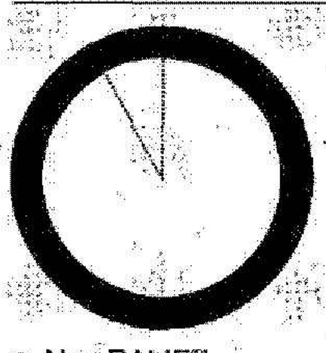
Diversity overview[1]

Board gender diversity



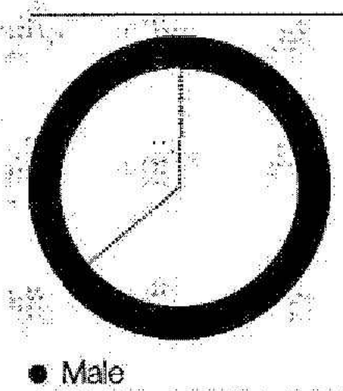
Male	58%
Female	42%

Board ethnic diversity



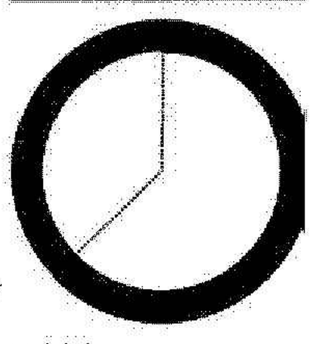
Non BAME[2]	92%
BAME[2]	8%

Melrose Executive Committee



Male	64%
Female	36%

Senior managemen and direct reports[3]



Male	
Female	

(1) As at 31 December 2021. Archie G. Kane has since retired from the Board.
(2) Black, Asian and Minority Ethnic.
(3) In accordance with the UK Corporate Governance Code, senior management is defined as the executive committee, or the first layer of management below board level, including the Company Secretary.

ıd inclusion

ıeritocracy and individual performance is the key any appointment, irrespective of ethnicity, gender or ɜristic, trait or orientation. However, the Board and the ɔo recognise the importance of diversity, and the eps its approach to diversity under regular review, ıring the development of a diverse Board and reviewing es on an annual basis. As a central part of its ɜtrategy, Melrose encourages diversity in all its forms at all levels of the Group, and externally. In particular, five Non-executive Director appointments have been ding the most recent two made in 2021, and all m the Board have been men. Furthermore, two of the ıair roles in 2022 will be held by women. Melrose also neet the Parker Review target of having one Director minority background on the Board by the end of 2021.

ɜe currently takes into account a variety of factors before g any new appointments to the Board, including relevant m the role, experience and knowledge needed to ded Board and the benefits each candidate can bring Board composition. The Committee also takes into ethnicity, country of origin, nationality, cultural nd gender in the selection process to ensure a diverse lso strongly encourages executives to adopt the same ɜn making appointments to the Melrose Executive ıd the wider senior management team. The most rity of the Committee, however, has been, and will ɜ, to ensure that the best candidate is selected, and will remain in place going forward.

mber 2021, Melrose had 42% female representation vhich has increased to 45% following the retirement ane on 31 December 2021, and therefore meets the ɔf the Hampton-Alexander Review of having 33% female ı on its Board.

evel, Melrose established an Executive Committee at of 2020, in part, in order to better facilitate the way for line for succession planning purposes and to recognise f thought at a senior level. This focus is represented ct that the Executive Committee and its direct reports 7% female representation (and 36% female ı specifically at an Executive Committee level) as at 2021, which is in line with the Hampton-Alexander of diversity at this level.

ssion planning, given Melrose's decentralised operating Committee does not have direct responsibility for the y policies and initiatives within the businesses, although ɜed to align to the Melrose Diversity and Inclusion policy standard, and Melrose provides constant nt to the businesses to make continual improvement.

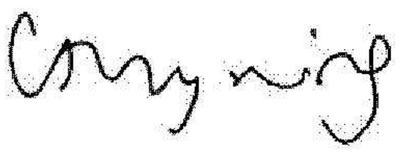
ɜe acknowledges that diversity and inclusion is a ɜscape. In 2021, the Committee determined to separate versity policy into two distinct policies: a Melrose Board liversity policy, and a Diversity and Inclusion policy for generally, in order to add clarity to the different policies ıe policies can be viewed on the Company's website at **ɜplc.net/sustainability/**. The Board of Directors' y sets out the Committee's commitment to ensuring that ɜrship and pipeline for succession remains diverse, and to account the recommendations of the Hampton-iew and the Parker Review. The Melrose Diversity and y, which is applicable to all Melrose employees, sets position on diversity and inclusion in its workforce. In ghlights that Melrose aims to create a workforce that is clusive, free from bullying, harassment, victimisation and mination. The principles of the policy apply throughout d our businesses are encouraged to promote diversity ɜ entered the Group.

Further details of Melrose's commitment to diversity and the various diversity initiatives undertaken within the Group can be found in the Sustainability report on pages 66 to 71. Additionally, further details on diversity and Board skills can be found on page 81 of this Annual Report.

Evaluation

The Code requires that FTSE 350 companies undertake an externally facilitated Board and Committee evaluation once every three years. The last external Melrose Board and Committee review was in 2020, for which the Company engaged Lintstock Ltd.

Whilst the Company is not required to undertake another externally facilitated Board and Committee evaluation until 2023, during 2021 the Company continued its ongoing internal review of the Board and each Committee, both internally within each of those bodies and with the Chairman of the Board and the Chairman of each Committee respectively. These evaluations were conducted and facilitated by the completion of questionnaires, and discussions at a Committee meeting, with follow-up actions taking place as relevant. Members were also given the option for meetings to be scheduled with the Chairman of the Committee about any relevant matters that they wished to raise as part of the ongoing review. Please see the Corporate Governance report on pages 90 to 91 for further details.



Charlotte Twyning
Chairman, Nomination Committee
3 March 2022

Directors' Remuneration report

Chairman's Annual Statement

David Lis
Remuneration Committee Chairman

Dear Shareholders,

On behalf of the Board, I am pleased to present our report on Director remuneration (the "Annual Report on Remuneration") at the end of another successful year for Melrose, in which the Group recovered well from the pandemic, despite continued market volatility. This is reflected in the adjusted diluted earnings per share, which increased from 2.4 pence in 2020 (restated to a loss of 0.6 pence when including continuing business only) to a profit of 4.1 pence in 2021, with a proposed final dividend of 1 pence per share (up 33% on last year), giving a full year dividend of 1.75 pence per share (up 133% on last year). The Company also returned £729 million to shareholders as a result of the successful disposal of Nortek Air Management. It was generally another strong year of cash generation.

Management continue to work hard on implementing their improvement strategies within the businesses, driving profitability and improvements in working capital, and investing significantly in the businesses and their technologies, including those technologies that are designed to contribute to the sustainable development of their respective sectors. In addition, the GKN UK defined benefit pension schemes have been effectively fully funded, from a total starting accounting deficit at the time of the GKN acquisition of £0.7 billion. This will significantly improve the security of members going forward, and is an important milestone for the Company as a responsible steward of the businesses it acquires.

It is with this performance in mind, and in line with Melrose's remuneration philosophy of paying only for performance, that the Remuneration Committee (the "Committee") has taken its decisions in respect of executive Director remuneration arrangements for 2021 and 2022.

Melrose remuneration structure

Our long-standing executive remuneration structure is both well understood and well supported, being central to the success delivered for our shareholders. We remain firm believers that Melrose's existing remuneration structure is entirely appropriate in supporting our "Buy, Improve, Sell" strategy. Our reward structure has always enjoyed strong support from our investors, as most recently demonstrated by the votes in favour of the Directors' Remuneration Policy at the 2020 Annual General Meeting (AGM), the 2020 Employee Share Plan at the January 2021 general meeting, and the approval of the 2020 Directors' Remuneration Report at the 2021 AGM.

Executive Directors' salaries continue to deliberately remain well below the lower quartile of our FTSE 100 peers, with annual bonuses similarly capped well below our peers at 100% of salary. With the increasing focus on sustainability, during 2021 the Committee considered how progress on sustainability matters may be better incorporated into the Company's executive remuneration structure. The Commit concluded that this is best achieved through the current ap the annual bonus scheme as part of the strategic element, objectives relating to key items within the broader topic of s as determined by the Committee (see page 104 for further Executive Directors received limited benefits and a pensior capped at 15% of salary, being the same percentage contr Melrose head office employees receive, and therefore align workforce. The table on page 105 sets out the most recen CEO annual remuneration (excluding the LTIP element for c and puts this deliberate strategy in context, highlighting a cl almost £1 million from the average FTSE 100 CEO annual in 2020.

As this and the table on page 105 clearly indicate, the oppo significant reward has always been heavily weighted to the long-term incentive arrangements, which are long-term in n based entirely on performance. Executive Directors have th to share in the value they create for shareholders above a th return over a three-year performance period; however, if the deliver the required level of performance to achieve the thre they receive no payout, and we strongly believe that this co be the right approach for Melrose. We note that the continu volatility has weighed on the current scheme, such that if th crystallisation date had been 31 December 2021 (effectivel point of the performance period), then there would have be to the executive Directors. However, your Board believes th initiatives being undertaken by management in the busines value to shareholders within the remainder of the performa

The Committee has determined to exercise its discretion i the payment of the 2021 annual bonus to the Chief Opera in cash, while he continues to build up his minimum share requirement in compliance with the Directors' Remunerati The Committee's justification for this is set out on page 10

Full details are set out in the Annual Report on Remunerat pages 103 to 116 that will be put to an advisory vote at the

Shareholder engagement

We always strive for the full support of our shareholders in a do. They are critical to our success, we keep them informed support is never taken for granted. We ran a comprehensiv successful consultation with shareholders in 2020 and early renewal of the Melrose long-term incentive arrangements, w central to the strong shareholder support received in favour Employee Share Plan at the general meeting in January 202 voting outcome of 82.64% in favour. There were no other ke relating to our remuneration structure that necessitated a fo engagement exercise with shareholders in 2021; however, w with our key shareholders and proxy advisors during the ye available to discuss any questions and concerns. The Com continue its programme of engagement during 2022 on ma to executive remuneration as appropriate, particularly as we next-scheduled renewal of the Directors' Remuneration Poli

We were very pleased that the 2020 Directors' Remuneral and the Directors' Remuneration Policy both received stro shareholder support at the 2021 AGM and the 2020 AGM receiving voting outcomes of 99.57% and 98.40% respec

Your Board considers that the Melrose remuneration stru highly successful, appropriate for the value creation strat critical to the ongoing long-term performance of the Com encourage you to provide your support for the 2021 Dire Remuneration Report at the 2022 AGM.

Yours sincerely

David Lis

David Lis
Chairman, Remuneration Committee
3 March 2022

Report on Remuneration

of the Directors' Remuneration report, we set out:

erformance and executive remuneration outcomes for ancial year; and

on of the current Directors' remuneration policy (the Remuneration Policy") to the 2021 financial year and ectors' Remuneration Policy was operated in 2021.

Remuneration Policy was approved by shareholders at May 2020 with over 98% of votes cast in favour of the subsequently amended on 21 January 2021 to include oyee Share Plan, which was approved by shareholders on 21 with over 82% of votes cast in favour of the proposal.

of the Directors' Remuneration Policy can be found on 11 of the 2019 Annual Report[1] and the full details of nts can be found on pages 15 to 24 of the circular to dated 29 December 2020[2].

nts of the Annual Report on Remuneration to find them

	Page
emuneration	104 and 113
warded in the Financial Year	None / 107
ector shareholdings and interests	108 and 113
aph	110
	109 to 110
nge in remuneration of the CEO	110 to 111
nce of spend on pay	112
matters relating to Directors' remuneration	103 to 104
ing	116
st Directors / For Loss of Office	None / 105

Remuneration Strategy

npany was first established in 2003, the Remuneration e "Committee") has pursued a consistent remuneration losely aligns the executive Directors with the Company's drives the Company's "Buy, Improve, Sell" model, and ral to its success. This strategy is based around four key amely, that executive remuneration is:

ince Melrose was first established, executive Directors ed the same four simple elements as the rest of the nployees – base salary, annual bonus, pension n (15% of salary, being the same percentage n for all Melrose head office employees) and limited as well as being eligible under a single and consistent ncentive plan based on a single value creation metric.

nt – each year, there is full and detailed disclosure tors' Remuneration Report of each component of on, including an explanation of the calculation of any ment and the current value of any unvested award o the Melrose Employee Share Plan.

he delivery of the value creation strategy – with the fixed nd the annual bonus cap being deliberately pegged well wer quartile of FTSE 100 peers, the opportunity for any eward is heavily weighted to the Melrose Employee Share is entirely based on the creation of shareholder value.

for performance – executive remuneration is heavily o the Melrose Employee Share Plan, which pays nothing nts unless the executive Directors deliver a threshold areholders over a three-year period, and only pays a award if they materially outperform in the creation of r value.

principles are wholly aligned with the UK Corporate ode (the "Code") factors of clarity, simplicity, risk, proportionality and alignment to culture, as set out on 15. The Committee ensured that it took all of these account when establishing the Directors' Remuneration as its application to executive Directors during the period.

v.melroseplc.net/media/2536/melrose-ar2019.pdf.
v.melroseplc.net/media/2587/291220-melrose-circular.pdf.

Operation of the Directors' Remuneration Policy in 2021

2021 has been a positive year for Melrose, despite challenging conditions in the end-markets of our businesses, and the continued impact of the pandemic. The Board is confident that the hard work of management and the actions taken during 2021 will deliver the expected outcomes as we move through 2022. The year marked another milestone in Melrose's "Buy, Improve, Sell" strategy, as we disposed of the Nortek Air Management division, as well as the Brush and Nortek Control businesses from our Other Industrial division. The sale of Brush marked the final disposal from the highly successful FKI acquisition which has overall delivered 2.6x shareholder money, and the Nortek Air Management and Nortek Control disposals have put the Company on track to double shareholder investment on the Nortek acquisition.

Management have continued to push the GKN businesses on their improvement plans during 2021 and will continue to do so through 2022 and beyond. We are starting to see the benefits of the many operational initiatives and restructuring projects that were executed during 2020 and 2021, which have significantly improved the Group's trading position and will continue to do so. Disciplined working capital management contributed to strong cash generation across all GKN businesses and enabled a significant reduction in leverage to mitigate against further market volatility. The Group continues to hold the final business from the Nortek acquisition, Ergotron, which has also had an extremely successful year. Further details on the performance of each of our businesses is included in the Divisional reviews on pages 12 to 29.

In 2021, the GKN UK defined benefit pension plans have been effectively fully funded, ahead of plan, securing the future for their members. This was a key milestone for the Company in terms of its sustainability strategy and continued stewardship of its businesses, as detailed in the Sustainability report on pages 54 to 77.

It is based on this performance, and in line with Melrose's remuneration philosophy of paying only for performance, that the Committee has taken its decisions in respect of executive Director remuneration arrangements for 2021 and 2022.

The Committee understands that shareholders expect executive remuneration to be aligned with the overall experience of the Company, its shareholders, employees and other stakeholders. As is demonstrated elsewhere in this Directors' Remuneration report – in particular, Comparison to Peers (page 105), CEO Pay Ratio (pages 109 to 110, and Wider workforce considerations (page 112), we believe that the remuneration structure operated by Melrose, and the outcomes produced by the operation of this structure, are appropriate and result in a strong alignment between the executive Directors, shareholders and other stakeholders.

2021 key decisions

The Committee remains committed to a responsible approach to executive pay in accordance with the current Directors' Remuneration Policy, which was effective from the conclusion of the 2020 AGM (as amended with effect from the conclusion of the general meeting that took place on 21 January 2021), and its four key remuneration principles.

In line with increases in previous years, an inflationary increase of 3% was made to the executive Directors' base salaries with effect from 1 January 2021, consistent with the salary rises awarded to the wider Melrose head office population. Salaries remained below the lower quartile of the FTSE 100, as is demonstrated by the table on page 105. There were also inflationary increases of 3% made to Non-executive Director basic fees with effect from 1 January 2021, again consistent with the salary changes effected in the wider Melrose employee population.

For 2022, an inflationary increase of 3% was made to the executive Directors' base salaries with effect from 1 January 2022 as set out on page 108, consistent with the salary rises awarded to the wider Melrose head office population. There were also inflationary increases made to Non-executive Director basic fees with effect from 1 January 2022, again consistent with the salary changes effected in the wider Melrose employee population, as well as small increases to the additional fees for holding the position of Senior Independent Director and Chairmanship of the Nomination Committee, all as set out on page 113.

Directors' Remuneration report
Continued

Although the annual bonus outcomes for 2021 were finally determined by the Committee in 2022, we refer to them here for completeness, as they are a key decision relating to the reporting period. The financial element of the annual bonus was fully met, and the Committee did not consider that there was any justification for an exercise of discretion to change this outcome. The Committee carefully considered the strategic objectives and the extent to which these were met during 2021. As is detailed further on page 106, the Committee felt that management's performance met the strategic objectives in full, and likewise, the Committee did not consider that there was any justification for an exercise of discretion to change this outcome. We have therefore determined to make a full award for the strategic objectives of 20%, and therefore a total award for the annual bonus of 100%. In light of the Company's performance during 2021, including the reinstatement of dividends and return of capital made to shareholders, and the fact that the Group took no payments from the UK Coronavirus Job Retention Scheme during 2021, with all amounts received during 2020 having been repaid already prior to the end of 2020, the Committee believes that the bonus outcome for 2021 is appropriate.

The Committee has determined to exercise its discretion in relation to the payment of the 2021 annual bonus to the Chief Operating Officer in cash, while he continues to build up his minimum shareholding requirement in line with the Directors' Remuneration Policy. The Committee's justification for this is set out on page 107.

There was no long-term incentive arrangement due to vest in respect of 2021, with the crystallisation date under the 2020 Employee Share Plan being 31 May 2023. As such there was no payout in respect of the year.

The Committee has reviewed the remuneration outcomes for the year and confirms that the Directors' Remuneration Policy operated as intended during the year. The Committee felt that the incentive outcomes were in line with the overall performance of the Group. Other than as referred to above, there were no deviations from the Directors' Remuneration Policy during the year and the Committee did not exercise any other discretion to alter the outcomes from the application of the performance conditions.

Business performance
As anticipated, 2021 saw a repositioning of our businesses on the improvement tracks that they were on prior to the pandemic. All businesses improved their adjusted operating margin in 2021 compared to 2020, ahead of plan or on track with their respective restructuring projects. We also saw a continuation of the encouraging signs of recovery in the end-markets of some of our businesses that was seen in 2020, although certain markets remain challenging. Further details on this are set out in the Chief Executive's review on pages 10 to 11 and the Divisional reviews on pages 12 to 29.

This Annual Report and financial statements, and specif Group's strategic KPIs on pages 30 to 31, demonstrates progress that was made in 2021 towards the achieveme objective of building better, stronger businesses under o even against a challenging backdrop. The Company's A Plan focuses directly and indirectly on rewarding executi and Melrose senior management for delivering these KP Employee Share Plan is designed to reward the flow-thro successful implementation of the strategy into longer-ter shareholder returns, consistent with previous incentive p

Sustainability
We mentioned in the last Directors' Remuneration Report tha Committee would be reviewing and considering in 2021 how on sustainability matters may be better incorporated into the remuneration structure. We appreciate that stakeholders are remuneration committees to ensure that executive compens and performance targets meaningfully reflect sustainability go such targets are clearly linked to the Company's commercial want to ensure that we do not make changes to our remune for the sake of it; that we include purposeful targets, which are and measurable, but which make sense for our business mo

The Committee is of the view that the most appropriate pla recognise such progress within the Melrose executive remu structure is in the Annual Bonus Plan, as it allows for perfor assessment against a number of strategic elements, in add focus on financial elements. The Committee has considere amendments to the Directors' Remuneration Policy would l in order to achieve this, and has concluded that currently th most appropriately measured through the current annual b as part of the strategic objectives. This gives the Committee maximum flexibility to determine which sustainability object the most important in any particular period, as well as linkin to the Company's business model by enabling an alignmer the Company's typical holding period for its businesses. It w the Committee to determine what allocation of the strategic is appropriate for these objectives, depending on their impo considers this to be important, given that topics relating to s matters are constantly evolving in nature and priority, and g management are still working with the businesses to formu sustainability strategies. Therefore, recognising that shareho not normally be asked to review the Directors' Remuneratio year, no amendments to the Directors' Remuneration Policy proposed at this time. However, the Committee noted that limitations that could be addressed and will continue to revi position as part of its considerations for the next-scheduled of the Directors' Remuneration Policy in 2023.

Single total figure of remuneration for the executive Directors for the 2021 financial year (audited)
The following chart summarises the single figure of remuneration for 2021 in comparison with 2020[1]:

Executive Director	Period	Total salary and fees £000[2]	Taxable benefits £000	Bonus £000	LTIP £000[3]	Pension £000[4]	Total £000	Total Fixed £000
Christopher Miller	2021	551	2	n/a	–	83	**635**	**63**
	2020	490	2	n/a	–	80	**572**	**57**
David Roper[5]	2021	230	1	n/a	–	34	**265**	**26**
	2020	490	3	n/a	–	80	**574**	**57**
Simon Peckham	2021	551	2	551	–	83	**1,186**	**63**
	2020	490	3	107	–	80	**680**	**57**
Geoffrey Martin	2021	450	9	450	–	68	**977**	**52**
	2020	395	10	86	–	65	**556**	**47**
Peter Dilnot[6]	2021	450	15	450	–	68	**983**	**53**
Total	**2021**	**2,232**	**30**	**1,451**	**–**	**335**	**4,047**	**2,59**
	2020[7]	**1,866**	**18**	**193**	**–**	**305**	**2,382**	**2,18**

(1) The "Total" figures in the above table may not add up to the sum of the component parts due to rounding.
(2) The executive Directors, with the rest of the Board, committed to a temporary 20% reduction in salary in 2020 to support the Company's cash management strategy in light of the amounts stated in the table for 2020 are the actual amounts that were paid to the executive Directors.
(3) The 2017 Incentive Plan crystallised on 31 May 2020 for no value. The 2020 Employee Share Plan, which has a commencement date of 31 May 2020, is a five-year plan in total (co three-year performance period and a two-year holding period). Accordingly, no value was vested to participants under either plan in respect of the year to 31 December 2020 and vested to participants under the 2020 Employee Share Plan in respect of the year to 31 December 2021.
(4) All amounts attributable to pension contributions were paid as a supplement to base salary in lieu of pension arrangements.
(5) David Roper retired as an executive Director on 31 May 2021. The amounts included in the single figure of remuneration for 2021 are for the months of the year during which he was ar
(6) Peter Dilnot was appointed as an executive Director on 1 January 2021.
(7) The total amounts for 2020 reflect the total remuneration paid to the executive Directors in role during 2020.

to past directors/for loss of office (audited)

co-founder of Melrose, retired as a Director and as Executive Vice-Chairman of Melrose on 31 May 2021. He received his salary ncluding amounts attributable to pension contributions) from 1 January 2021 up to and including the date of his retirement on David Roper did not participate in the 2021 Annual Bonus Plan and he was not granted any further long-term incentive or other in 2021. He retained two elements of his existing compensation during the year which technically qualify as payments for loss of he continued to receive private medical insurance from retirement until the end of 2021, with a total value of £1,000. In addition, he t to his Conditional Awards under the 2020 Employee Share Plan, qualifying as a "good leaver" under the rules of that plan. The wards will vest in accordance with the rules of the 2020 Employee Share Plan. Other than the amounts disclosed on page 104, neration payment was made to David Roper in the year.

e retired as a Director and as Chairman of the Nomination Committee of Melrose on 31 December 2021. He received his e Director fees from 1 January 2021 up to and including 31 December 2021. Non-executive Directors do not receive any taxable sion contributions or variable remuneration. Other than the amounts disclosed on page 113, no other remuneration payment was e G. Kane in the year and therefore no payment was made for loss of office.

ments for loss of office or any other payments have been made to former Directors during the year.

n to peers

ongoing commitment to full transparency around remuneration structures at Melrose, the Committee has again benchmarked the Executive's 2021 pay against the most recent available remuneration information from our FTSE 100 peers, being 2020[1].

elow shows, the single total figure of remuneration for the Melrose Chief Executive in 2021 was almost £1 million less than the rage in 2020, notwithstanding the reductions in both salaries and bonuses seen across the FTSE 100 in 2020 due to the *hich will have impacted these comparison numbers. This demonstrates in practice the Committee's policy of deliberately setting* s and annual bonus for the executive Directors low, with the opportunity for significant reward being heavily weighted towards the oyee Share Plan, which is entirely performance based, and which ensures that executive Directors only receive substantial they have outperformed and created very significant value for shareholders.

00)	*Melrose Chief Executive*	*FTSE 100 Lower Quartile*	*FTSE 100 Average*	*FTSE 100 Upper Quartile*
	1,186	1,048	2,130	2,755

ements in the single figure table is set out in more detail below, along with the benchmark for the Melrose Chief Executive to the vailable information for our FTSE 100 peers (being 2020).

xed at a level which is well below the lower quartile of FTSE 100 peers. Each executive Director received an inflationary increase in f 3% effective from 1 January 2021.

00)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
	551	668	937	1,078

ectors receive the same 15% of base salary pension contribution[2] as the rest of the Melrose head office employees, thereby nment with the workforce. The Committee also notes that this is within the range of the wider workforce contributions provided in evel of the executive Director pension contributions has not changed since Melrose was founded, and no executive Director r has ever participated in a Group defined benefit or final salary pension scheme.

00)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
bution	83	111	175	217
bution %	15%	11%	17%	20%

ectors receive the same taxable non-pension benefits as the rest of the Melrose employees, being generally private medical d a fuel allowance. The Group Finance Director also received paid train travel to and from London and the Chief Operating Officer r allowance.

00)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
	2	20	73	75

IS

ses are entirely performance driven and are calculated by the Committee using two elements: 80% being based on audited diluted share growth; and 20% based on the achievement of strategic elements. The maximum bonus opportunity is set at 100% of base is significantly below the lower quartile maximum annual bonus opportunity for other FTSE 100 companies as set out in the table *Executive Vice-Chairman does not participate in the annual bonus scheme.*

is noted that for 2020, being the year for which the FTSE 100 comparison figures are provided, the Chief Executive received a of salary, being £107,000.

00)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
	551	0	902	1,369
ortunity %	100%	150%	203%	215%

purposes, the included peer information excludes any payments made under long-term incentive arrangements, as none were payable to the Melrose Chief Executive in 2021.
its attributable to pension contributions were paid as supplements to base salary in lieu of pension arrangements.

Directors' Remuneration report
Continued

2021 Annual Bonus (audited)

The 2021 Annual Bonus has applied a consistent approach to previous years, in line with the current Directors' Remuneration Polic Committee awarded participating executive Directors a bonus of 100% of their 2021 base salary, based on 2021 performance, wit breakdown of the award calculation set out below.

As is shown by the table, the financial element of the 2021 annual bonus was satisfied in full and therefore a full award was made fo of it. The Committee did not seek to exercise any discretion to adjust for this. With respect to the strategic element, having given de thorough consideration to each of the strategic objectives and management's performance against them during 2021, the Commi determined that each of the strategic objectives was fully met during 2021 and therefore that the strategic element was met in full. T Committee determined that no exercise of discretion to adjust this element of the award was required. Full disclosure of the strateg and why the Committee determined that these had been met is provided below. The Committee considers that the payout is cons wider stakeholder experience, including shareholders and employees.

The Committee continues to be aware of the guidance published by the Investment Association and other governance bodies, as institutional shareholders, regarding the payment of executive annual bonuses while the COVID-19 pandemic continues. In light of Company's performance during 2021, including the reinstatement of dividends and return of capital made to shareholders, the Co believes that the executive remuneration awarded for 2021 is appropriate and in line with that guidance. It is noted that the Group t payments from the UK Coronavirus Job Retention Scheme during 2021, with all amounts received during 2020 having been repaic prior to the end of 2020, and it did not raise any capital from shareholders in response to the pandemic.

As mentioned on page 104, the Committee's view is that the annual bonus plan is the appropriate place within the Melrose executi remuneration structure to incorporate process on sustainability matters. The Committee specifically considered environmental, soc governance factors when considering the strategic objectives for 2021 (outlined below) and the extent to which these were met by Directors. Specific objectives for sustainability were included in the 2021 annual bonus scheme as part of the strategic objectives.

Financial Objectives (80%)				Percentage of maximum
	Threshold	**Target**	**Maximum**	**Actual Performance**
EPS Growth	**5%**	**10%**	**20%**	**71%**[1]
% award	20%	40%	80%	80%
EPS Growth sub-total:				

Strategic Objectives (20%)	Percentage of maximum
Completion of restructuring projects – 4%	Management made significant progress with the "Improve" phase of Melrose ownership for the GKN businesses, tackling so: quite complex and chronic challenges, including closures of multiple unviable sites and exiting non-core business. In addition to completing these restructuring projects and ensuring that the full benefits of these projects will be felt for the businesses, management were mindful of the impact on wider stakeholders. As discussed in further detail in the Section 172 statement o pages 50 to 53, no decision to close any site was taken lightly or without exploring all alternative options, and some innovative solutions were found, such as the reindustrialisation of the GKN Automotive site in Firenze, Italy.
Cash generation across the Group – 3%	Against the continuing challenges of the global pandemic, it was another strong year of positive cash generation for all busines across the Group, at a cash conversion rate of 110% before capital expenditure and restructuring costs. Even after all costs including restructuring costs, Melrose was able to end the year having generated free cash flow of £125 million, which was achieved through, amongst other things, strong working capital and inventory management, and which meant that restructurir projects were self funded throughout the year.
Reduction of Group debt and liabilities – 3%	The net debt of the Group at 31 December 2021 was £0.95 billion. This represents a reduction of 67% on the previous year, and has resulted in the Group holding very comfortable leverage of 1.3x adjusted EBITDA, well below the Group's long-term average. This represents the repayment of all of the debt drawn down as part of the GKN acquisition in 2018 (net of the amou used to fund dividends and the return of capital in 2021).
Return to margin target path – 3%	The global pandemic caused major disruption to the improvement plans of all businesses in the Group during 2020. During 2021, management have ensured that all intended projects to reignite these plans were commenced, and have reset the cos base of each business, so that they should meet their stated margin targets as their markets recover to pre-pandemic levels.
Sustainability – 4%	***Publish sustainability targets and commitments:*** Following on from the commitment the Group made in 2020 to net zero Greenhouse gas emissions by 2050, in accordance with its materiality matrix, management worked closely with each of the businesses to set meaningful sustainability targets a commitments in 2021, and established a robust data platform that will enable progress against these targets to be measurec ***Publish inaugural TCFD disclosures:*** Management have conducted a thorough assessment of the Group's (and each business's) climate-related risks and opportunities, detail on which is reflected in the Group's first disclosures in compliance with the requirements of the new Listi Rule on climate-related disclosures, reporting against all the key areas recommended by the Task Force on Climate-Related Financial Disclosures ("TCFD"), which are set out on pages 60 to 61. ***Improve sustainability benchmarking scores and external disclosure:*** The Group's sustainability scores with the relevant agencies have increased significantly, due to both improved performance and the level and detail of reporting. In line with the approved strategy, the Company's MSCI ESG score improved to A in 202 placing Melrose above average for Global Industrial Conglomerates, and its ESG Risk Management score with Sustainalytics improved from 28.4 ("average") in 2020 to 53.6 ("strong") in 2021, which placed it in the top quartile of peers. Furthermore, in currently crowded landscape of ESG ratings agencies, there were improvements across the board.
Improving UK pension scheme funding – 3%	Through a combination of increased annual contributions, special disposal-related contributions and other factors, management were able to eliminate the funding deficit of the GKN UK defined benefit pension schemes and deliver on Melrose's commitment to making the schemes fully funded to a more prudent level, ahead of schedule. These actions have vastly improved the long-term positions of these schemes and provided security for their members, as well as freeing up fut cash flows for the Group, with no funding requirement from future disposal proceeds.
Strategic Objectives sub-total:	
Total annual bonus for 2021:	

(1) The 2020 audited results have been restated to account for discontinued businesses. As a result, adjusted earnings per share for 2020 has been restated from 2.4 pence to a loss However, the Committee has taken the conservative approach of using the original figure for 2020 when calculating growth in EPS between 2020 and 2021.

ıus payments to the Chief Executive and the Group
tor will be made in cash, as both have exceeded their
reholding requirements. As per the terms of the
nuneration Policy, clawback measures will apply
ınual bonus payments.

ms of the Directors' Remuneration Policy, the Chief
icer, who was appointed as a Director on 1 January
ee years from his appointment in which to meet the
reholding requirement of 300% of salary. As at
2021, the Chief Operating Officer did not meet this
although he made purchases of 82,000 ordinary shares
ar towards this requirement, for a total purchase price of
£125,000, which is equal to approximately 50% of his
ual bonus. Under the terms of the Directors'
ı Policy, up to 50% of an executive Director's bonus
e deferred into shares for up to two years, where he
ıot meet the minimum shareholding requirement.

ee has determined to exercise its discretion and to award
erating Officer's annual bonus for 2021 in cash, while he
build up to the minimum shareholding requirement. This
ed to be appropriate in light of his acquisition of shares
ar, which were equal to approximately 50% of his net
bonus, the unprecedented impact of the pandemic on
nce of the 2017 LTIP (in which the Chief Operating Officer
pant), which caused it to crystallise for no value (and
een awarded in shares and therefore contributed
ing the requirement), the further period available to build
/ stake, which will grant him sufficient time outside of the
losed periods in which to make further purchases of
extent required, and that such a payment in cash is not
th shareholders and other stakeholders. The Committee
t the Chief Operating Officer continues to remain fully
nder the 2020 Employee Share Plan, which is for the
d aligned with, the interests of shareholders.

incentive arrangements (audited)

incentives were either granted or crystallised during the
l year under the 2020 Employee Share Plan.

ployee Share Plan, which was approved by shareholders
y 2021, is due to crystallise on 31 May 2023. Participants
mployee Share Plan share in 7.5% of the increase in
tal above a 5% annual charge, measured at the end of a
rformance period commencing on 31 May 2020, which
e considers to be the appropriate performance
ght of the Company's business model and strategy.
ubject to an annual rolling cap and downwards
the event of an earlier than expected aerospace market
ch means that executive Directors will not be rewarded
ins. The awards under the 2020 Employee Share Plan
l as Conditional Awards, which are contingent rights to
award of ordinary shares of the Company or a nil cost
sable into ordinary shares of the Company) on the
date.

ıal Awards of the executive Directors under the 2020
are Plan were made in one grant on 29 December 2020,
proval by shareholders. This approval was granted at the
ng that was held on 21 January 2021. Full details of the
ee Share Plan, including the participation rate
of the executive Directors, are set out in the circular
ember 2020[1].

As part of an ongoing commitment to full transparency around remuneration structures at Melrose, set out below is a 'snapshot' of the current value of the 2020 Employee Share Plan as if the crystallisation date was 31 December 2021 instead of the actual crystallisation date of 31 May 2023. As this demonstrates, as at 31 December 2021, no value had currently accrued to the 2020 Employee Share Plan.

Theoretical value under the 2020 Employee Share Plan if crystallised on 31 December 2021 rather than on the 2023 scheduled payment date
2020
Invested capital from (and including) May 2020 up to (and including) December 2021 £6,336,495,231
Index adjustment/minimum return £559,723,998
Indexed capital £6,896,219,229
2021
Number of issued ordinary shares on 31 December 2021[2] 4,372,429,473
Average price of an ordinary share for 40 business days prior to and including 31 December 2021 155.94p
Deemed market capitalisation of Melrose based on average price of an ordinary share for 40 business days prior to 31 December 2021 £6,818,311,885
Overall change in value for shareholders since 31 May 2020 **(£77,907,344)**
Theoretical value to management and shareholder dilution calculated at 31 December 2021
7.5% of change in value 0
Total number of new shares issued under the 2020 Employee Share Plan 0
Theoretical dilution to shareholders due to the 2020 Employee Share Plan 0
Break-even price of an ordinary share at 31 December 2021 for the 2020 Employee Share Plan to start to deliver value 157.7p

As at 31 December 2021 the minimum return hurdle of £559,723,998 had not been achieved. Management would need to create value for shareholders of an additional £77,907,344, as well as the additional index adjustment that will arise over the period, in order for the 2020 Employee Share Plan to begin to accrue value for participants.

The Committee did not adjust any incentive plan share outcome due to share price appreciation as none crystallised during the year being reported on, nor does it intend to adjust the incentive plan share outcome due to share price appreciation on the crystallisation date of the 2020 Employee Share Plan.

w.melroseplc.net/media/2587/291220-melrose-circular.pdf.
iare Capital Consolidation which became effective on 31 August 2021.

Directors' Remuneration report
Continued

Minimum shareholding requirements and equity exposure of the Board (audited)

Executive Directors are subject to two concurrent minimum shareholding requirements. The first is to always hold at least an amount equal to 300% of salary, for which they are given a period of three years from appointment to meet. The second requirement is for ex Directors to hold all the shares they acquire pursuant to crystallisation of the 2020 Employee Share Plan (to the extent that crystallisati an award of ordinary shares being made), after satisfying tax obligations following the crystallisation of that plan and subject to capital for the two-year holding period.

In the event that an executive Director were to leave the Company, he would be subject to a post-cessation minimum shareholding requ 300% of salary, for a two-year period following the date of cessation. This obligation is enforceable under direct contractual arrangemer the Company and each executive Director. We note that these post-cessation obligations currently apply to David Roper following his re 31 May 2021, and he remains in compliance with them.

In reality, the executive Directors hold well in excess of these minimum amounts (with the exception of the Chief Operating Officer, appointed as an executive Director on 1 January 2021), which reflects their long-term stewardship of the Company and long-term the Company's shares. It is the Committee's view that it is important when considering the remuneration paid in the year under the to take a holistic view of how each executive Director's total wealth is linked to the performance of the Company. In the Committee impact on the total wealth of an executive Director is as important as the single figure in any one year; this approach encourages e Directors to take a long-term view of the sustainable performance of the Company and aligns them with shareholders.

This is demonstrated by the following table, which sets out all subsisting interests in the equity of the Company held by the executi as at 31 December 2021, as well as an indication as to the size of these interests relative to the entire issued share capital of the C also sets out the number of ordinary shares of the Company held by each executive Director at the end of the 2020 and 2021 finar and the impact on the value of these ordinary shares taking the closing mid-market prices for those dates:

Executive Directors [1]	Applicable shareholding requirement (% salary)	Current shareholding (% salary) [1]	Shareholding requirement met?	Shareholding (% ordinary share capital) as at 31 December 2021	Shares beneficially held on 31 December 2020 [4]	Shares beneficially held on 31 December 2021 [4] [5]	Value of shares on 31 December 2020 [6] £	Value of shares on 31 December 2021 [3] £	Diff of s
Christopher Miller	300%	6,612%	Yes	0.521%	27,108,510	22,777,659	48,266,702	36,421,477	
Simon Peckham	300%	3,504%	Yes	0.276%	17,413,217	12,071,895	31,004,233	19,302,960	
Geoffrey Martin	300%	2,365%	Yes	0.152%	7,395,256	6,655,730	13,167,253	10,642,512	
Peter Dilnot	300%[7]	36%	No	0.002%	18,000	100,000	32,049	159,900	

(1) In addition to the share interests set out in the table, each of the executive Directors has an additional exposure by virtue of their Conditional Awards under the 2020 Employee Sh "Long-term incentive arrangements" on page 107).
(2) The shareholding requirement under the current Directors' Remuneration Policy is 300% of base salary.
(3) For these purposes, the value of a share is 159.90 pence, being the closing mid-market price on 31 December 2021, being the last business day of the 2021 financial year.
(4) For these purposes, the interests of each executive Director listed in the table include any ordinary shares held by a person closely associated with that executive Director within t EU Market Abuse Regulation, as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.
(5) Following the share consolidation that took place on 31 August 2021, the Company's ordinary share capital changed to 4,372,429,473 ordinary shares of 160/21 pence each.
(6) For these purposes, the value of a share is 178.05 pence, being the closing mid-market price on 31 December 2020, being the last business day of the 2020 financial year.
(7) Peter Dilnot was appointed as an executive Director on 1 January 2021. Under the Directors' Remuneration Policy, he has three years from appointment to meet this requirement

No executive Director may dispose of any ordinary shares without the consent of the Chairman of the Committee, which will not n withheld provided the executive Director will continue to hold at least the "minimum number" of ordinary shares referred to in the ta following any such disposal.

Between them, the executive Directors in 2021 purchased a further 82,000 ordinary shares in the Company and none were sold. Miller and Simon Peckham gifted 1,800,000 ordinary shares and 4,000,000 ordinary shares respectively during the period to fami for nil consideration, as part of standard family financial planning. There have been no changes in the ordinary shareholdings of the Directors between 31 December 2021 and 3 March 2022.

Please see page 113 for a table setting out the equity interests of the Non-executive Directors as at 31 December 2021.

Key decisions and statement of implementation for 2022

Salary review

The executive Directors in the period have received an inflationary increase of 3% to their base salaries with effect from 1 January 2022, consistent with the wider Melrose head office population. The executive Directors' salaries for 2022 are therefore as follows:

Executive Directors	Position	Salary with effect from 1 January 2022 £000
Christopher Miller	Executive Vice-Chairman	567
Simon Peckham	Chief Executive	567
Geoffrey Martin	Group Finance Director	464
Peter Dilnot	Chief Operating Officer	464

Pensions and benefits

For 2022, standard benefits will be provided to the executive Directors in line with the Directors' Remuneration Policy and the pension contribution rate remains at 15% of salary, the same percentage contribution rate as for all Melrose head office employees.

Annual bonus

The overall framework for the executive Director annual b arrangements for 2022 will remain the same as in 2021, maximum bonus opportunity of 100% of salary, based o and strategic performance metrics, allocated 80% to fina objectives and 20% to strategic objectives (which will inc objectives designed to measure progress in respect of k sustainability matters). The financial performance metric consistent with prior years as audited diluted earnings pe growth, which the Committee considers remains the app metric for the Company. The Committee considers that for the financial performance metrics and the details of th performance measures are commercially sensitive but w the nature of both measures on a retrospective basis, wh appropriate, on a similar basis to the disclosure on page respect of the annual bonus for the year ending 31 Dece

Long-term incentive arrangements

Given the nature of the long-term incentive arrangement Company has in place (see "Long-term incentive arrange on page 107), no grants will be made to the executive Di during 2022.

disclosures

tive remuneration for previous ten years

e with the regulations governing the reporting of executive Director remuneration, the total figure of remuneration set out in the cludes the value of long-term incentives vesting in respect of the relevant financial year. This means that the full value of the of the 2009 Incentive Plan on 11 April 2012 is shown for the year ended 31 December 2012 and that the full value of the 2012 which crystallised in May 2017 is shown for the year ended 31 December 2017, although these each represent rewards earned ous five years. The 2017 Incentive Plan crystallised in May 2020 for no value. Per the terms of the 2020 Employee Share Plan, the relation to long-term incentive arrangements is not payable until May 2023, and only if the performance conditions are met.

	Chief Executive	Non-LTIP £	LTIP £	Total remuneration £	Annual bonus as a percentage of maximum opportunity	Long-term incentives as a percentage of maximum opportunity
December 2021	Simon Peckham	1,186,316	–	1,186,316	100%	–
December 2020	Simon Peckham	680,113	–[1]	680,113	20%	n/a[2]
December 2019	Simon Peckham	976,000	–	976,000	72%	–
December 2018	Simon Peckham	1,049,000	–	1,049,000	95%	–
December 2017	Simon Peckham	994,000	41,770,000[3]	42,764,000	90%	n/a[4]
December 2016	Simon Peckham	987,725	–	987,725	95%	–
December 2015	Simon Peckham	928,541	–	928,541	88%	–
December 2014	Simon Peckham	773,167	–	773,167	58%	–
December 2013	Simon Peckham	927,276	–	927,276	100%	–
December 2012[5]	Simon Peckham	489,372	19,791,212	20,280,584[6]	64%	n/a[7]
	David Roper	259,040	10,656,806	10,915,846[6]	64%	n/a[7]

ive Plan crystallised in May 2020 for no value.
17 Incentive Plan crystallised in May 2020 for no value, because the value that would have been derived on the crystallisation of the 2017 Incentive Shares and options depended holder value created over the relevant period, it would not have been possible to express the value derived as a percentage of the maximum opportunity.
ed in 2017 from the 2012 Incentive Shares represents the Chief Executive's share, determined in accordance with the terms of those shares, of the shareholder value created over a kimately five years. This amount was paid in shares, not cash.
ation in May 2017 of the 2012 Incentive Plan, participants as a whole were entitled to 7.5% of the increase in shareholder value from 22 March 2012 to 31 May 2017. Because the the crystallisation of the 2012 Incentive Shares depended upon the shareholder value created over the relevant period, it is not possible to express the value derived as a he maximum opportunity.
ng 31 December 2012, David Roper was Chief Executive for the period from 1 January 2012 until 9 May 2012 and Simon Peckham was Chief Executive for the period from 9 May 'n the table above, the "Total remuneration" figure shows, in respect of David Roper, his total remuneration in respect of his service in the period from 1 January 2012 to 9 May 2012 f Simon Peckham, his total remuneration in respect of his service in the period from 9 May 2012 to 31 December 2012. Included in this figure for each of David Roper and Simon value of the long-term incentives vesting in the year, pro-rated to reflect the portion of the year for which he was Chief Executive.
ed in 2012 from the 2009 Incentive Shares represents the relevant Chief Executive's share, determined in accordance with the terms of those shares, of the shareholder value created approximately five years.
ation in April 2012 of the 2009 Incentive Plan awarded in 2009, participants as a whole were entitled to 10% of the increase in shareholder value from 18 July 2007 to 23 March 2012. lue derived on the crystallisation of the 2009 Incentive Shares depended upon the shareholder value created over the relevant period, it is not possible to express the value derived of the maximum opportunity.

io

EO to employee pay ratio for 2021 continued to be low at 29:1. The following table provides pay ratio data in respect of the e's total remuneration compared to the 25th, median and 75th percentile UK employees.

	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
December 2021	Option A	34:1	29:1	23:1
December 2020	Option A	20:1	16:1	13:1
December 2019	Option A	30:1	24:1	19:1

s used for the purposes of calculating the pay ratios in the table above were those employed in the UK by any business within the December 2021 (for the avoidance of doubt, including the Chief Executive), and the remuneration figures were determined with he financial year to 31 December 2021. Option A was chosen as it is considered to be the most accurate way of identifying the oyees. This captures all relevant pay and benefits and aligns to how the single figure table is calculated for the Chief Executive and s. The value of each employee's total pay and benefits was calculated using the single figure methodology consistent with the Chief h the exception of the annual bonus, which was calculated using 2020 financial year bonuses (which were paid during 2021) where ncial year data was not available at the last practical date before the finalisation of this report. No elements of pay have been omitted. d, remuneration was approximately adjusted to reflect full-time and full-year equivalents based on the employees' contracted hours rtion of the year they were employed. None of the employees included in the pay ratios were on furlough during any part of 2021.

table provides salary and total remuneration information in respect of the employees at each quartile.

	Element of pay	25th percentile pay employee	Median employee	75th percentile employee
December 2021	Salary and wages[1]	£31,000	£37,000	£46,000
	Total pay and benefits	£35,000	£41,000	£52,000

udes overtime and shift allowances/premiums. The individual at the median received shift premium and overtime during the year.

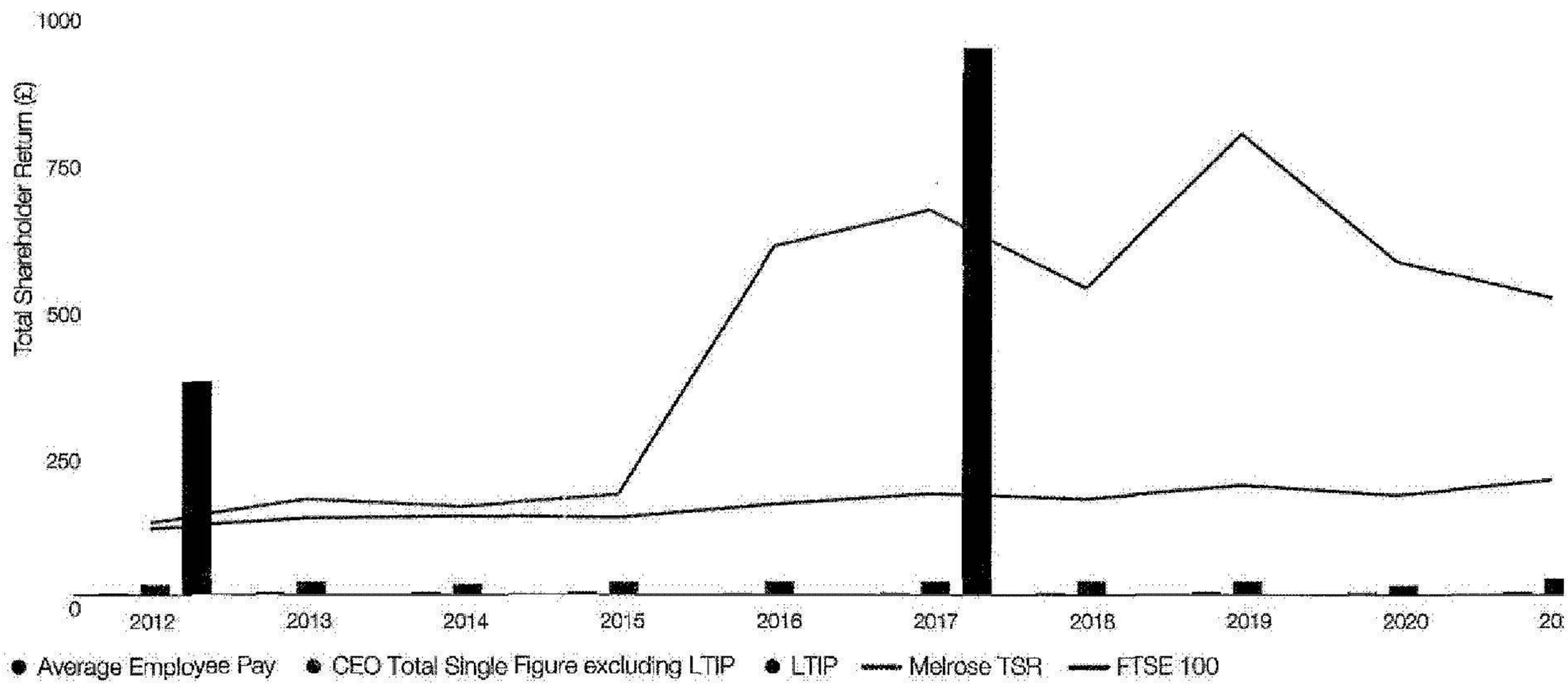
risen slightly since last year. This primarily reflects the return of the Chief Executive's remuneration to full levels following the d voluntary 20% reduction to his salary in 2020 during the pandemic, as well as the significant reduction to his 2020 annual bonus pact of the pandemic. The Chief Executive's salary returned to its full level in 2021, coupled with strong performance in 2021 significantly improved annual bonus payout, for the reasons set out on page 106. We note that there was no element of his entive arrangements that was due to vest in 2021.

Directors' Remuneration report
Continued

Across the businesses, there was also a return to normality in terms of employee pay levels, with furlough schemes no longer bein improved performance resulting in expected higher performance outcomes for employee bonuses earned in relation to 2021 versu However, it is noted that 2021 annual bonus data for approximately 84% of the employees included in the 2021 disclosure was not as at the date of this disclosure, and therefore 2020 annual bonus data has had to be used in its place. As 2020 bonuses were mu average than 2021 bonuses, this has resulted in lower employee numbers and consequentially higher ratios than if the 2021 bonus been available as at the date of this report. Notwithstanding this, the trend in the median CEO pay ratio over time has, to date, broa in line with changes in the Chief Executive's remuneration, and therefore continues to reflect the relationship between the Chief Exe and the experience of UK employees as a whole.

We have considered the pay data for the three employees identified and believe that it fairly reflects pay at the relevant quartiles an workforce. The Committee considers that the median pay ratio is consistent with the relative role and responsibilities of the Chief E the identified employee. Base salaries of all employees, including our executive Directors, are set with reference to a range of facto market practice, experience and performance in role. The Chief Executive's remuneration package is weighted towards variable pa nature of the role, and this means that the ratio is likely to fluctuate depending on the outcomes of incentive plans in each year, and likely to be higher in years where long-term incentive arrangements crystallise. The Chief Executive's remuneration package is othe reasonable compared to the Company's FTSE 100 peers, which is also demonstrated on page 105 of this report.

To give context to the Chief Executive remuneration for the previous ten years and the CEO pay ratio, we have included an illustrati tracking CEO pay and average employee pay over the last ten financial years alongside Melrose's TSR performance and the FTSE performance over the same period. The Committee has always been committed to ensuring that the Chief Executive's reward is c with performance. The chart shows a clear alignment between shareholder returns and the Chief Executive's single figure pay.



Percentage change in Directors' remuneration

The table below sets out, in relation to base salary, taxable benefits and annual bonus, the percentage increase in pay for each Dir compared to the average increase for a group consisting of the Company's senior head office employees and the divisional CEOs of the Group's business units. The reporting legislation in this regard requires companies to publish the annual percentage change remuneration of Directors and employees of the Company. The Company itself does not have any employees other than the execu Directors. However, in the interest of providing a relevant comparison to stakeholders, we choose to voluntarily disclose a comparis the aforementioned group of senior management, which we consider to be an appropriate comparator group because of their leve and the structure of their remuneration packages. The spread of the Company's operations across various countries and industries remuneration policies vary to take account of geography and industry such that the Committee considers that selecting a wider gr employees would not provide a meaningful comparison. The percentages shown relate to the financial year ended 31 December 2 percentage comparison to the financial year ended 31 December 2020.

We are required to report on this change based on actual amounts received by the Directors. For basic salary and fees for the Dire percentage increases have been distorted by the temporary 20% reduction that all Directors agreed to take during 2020 to suppor cash management strategy in light of the pandemic. The contractual increases for their basic salary and fees for both 2020 and 20 on the prior year, as is detailed elsewhere in this report. We also note that, given the low levels of annual bonuses paid in 2020 to th Directors due to the pandemic, a full award of 100% of salary for 2021 has resulted in a large percentage increase.

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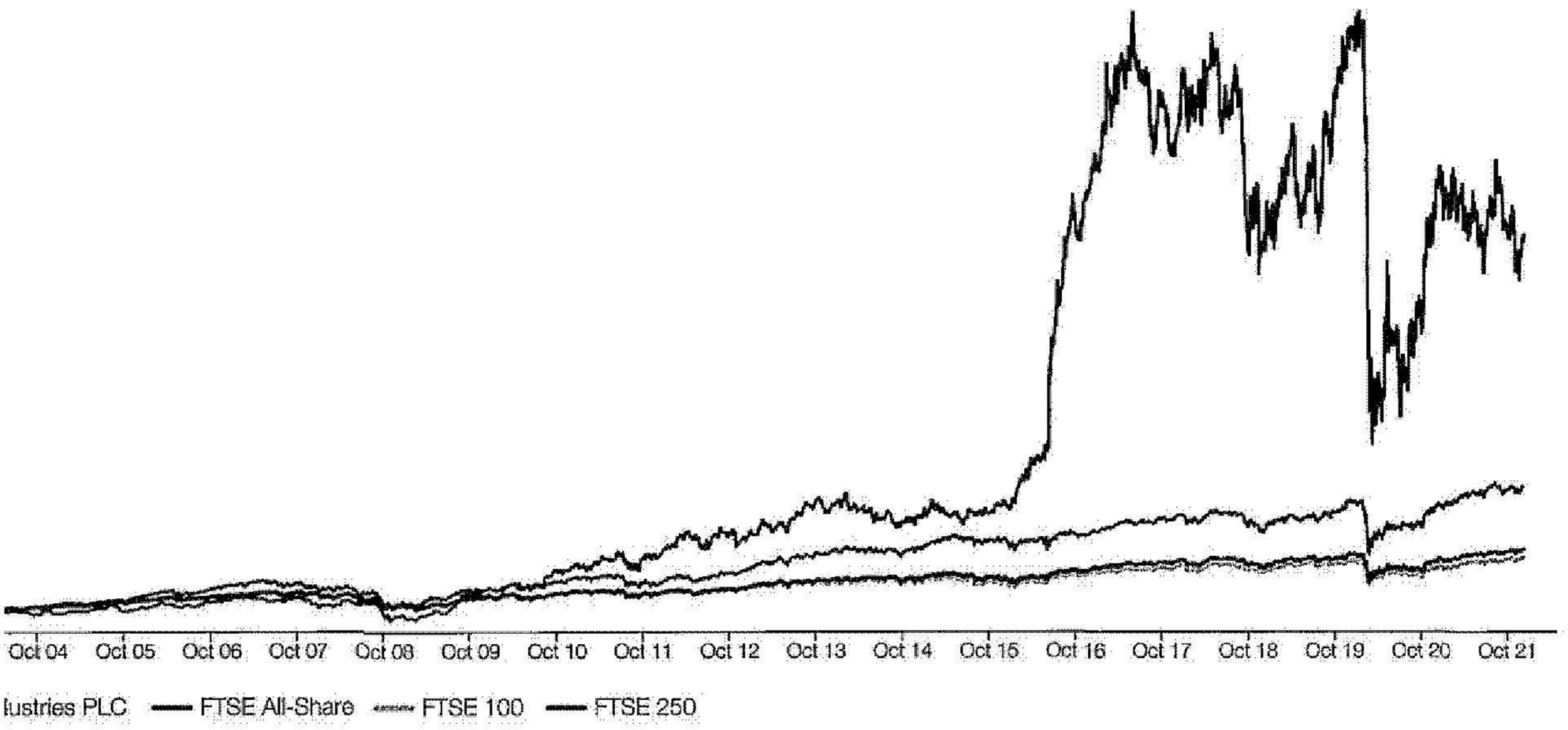
	2021			2020		
uneration	Basic salary/fee percentage change[1]	Benefits percentage change[2]	Annual bonus percentage change[3]	Basic salary/fee percentage change[4]	Benefits percentage change[2]	Annual bonus percentage change[5]
ctors						
er	12%	-30%	n/a	-6%	-20%	n/a
n	12%	-26%	415%	-6%	-2%	-71%
	14%	-6%	422%	-6%	7%[6]	-72%
	–	–	–	–	–	–
Directors						
	12%	n/a	n/a	-6%	n/a	n/a
	8%	n/a	n/a	5%	n/a	n/a
	10%	n/a	n/a	-4%	n/a	n/a
ng	12%	n/a	n/a	-6%	n/a	n/a
	12%	n/a	n/a	278%[8]	n/a	n/a
ce[9]	–	–	–	–	–	–
[10]	–	–	–	–	–	–
ees[11]	**6%**	**92%**	**167%**	**-1%**	**11%**	**45%[12]**

rcentage change is required to be calculated by reference to actual basic salary or fee (as applicable) paid for the financial year ended 31 December 2021 compared to that paid for ar ended 31 December 2020. All Directors agreed to a temporary 20% reduction in their basic salary or fee (as applicable) during 2020 to support the Group's cash management of the pandemic. For the Non-executive Directors, this fee includes both their basic fee and any additional fee received for holding the Chairmanship of the Remuneration e Audit Committee and the Nomination Committee, and for holding the position of Senior Independent Director.
s calculated on the same basis as the benefits data in the single total figure table. It does not include any pension allowances.
rcentage change in bonus is calculated by reference to the bonus payable in respect of the financial year ended 31 December 2021 compared to the financial year ended 2020 for the applicable executive Directors and senior employees. Neither the Executive Vice-Chairman nor the Non-executive Directors are eligible to receive an annual bonus. executive Director annual bonuses for 2020 were significantly reduced as a result of the pandemic, and therefore result in a large increase for 2021.
rcentage change is calculated by reference to actual basic salary or fee (as applicable) paid for the financial year ended 31 December 2020 compared to the financial year ended 2019 and was similarly impacted by the temporary reductions in 2020 basic salary or fee (as applicable) referred to in footnote (1). For the Non-executive Directors, this fee includes fee and any additional fee received for holding the Chairmanship of the Remuneration Committee, the Audit Committee and the Nomination Committee, and for holding the ior Independent Director.
rcentage change in bonus is calculated by reference to the bonus payable in respect of the financial year ended 31 December 2020 compared to the financial year ended 2019 for the applicable executive Directors and senior employees. Neither the Executive Vice-Chairman nor the Non-executive Directors are eligible to receive an annual bonus. executive Director annual bonuses for 2020 were significantly reduced as a result of the pandemic, and therefore result in a large decrease for 2020.
increase to the annual train travel fare.
as appointed to the Board with effect from 1 January 2021 and therefore no prior year comparison is possible.
e was appointed to the Board with effect from 1 October 2019. The increase in her basic fee from 2019 to 2020 reflects the fee actually received for the pro-rated period of 2019 for the period 1 October 2019 to 31 December 2019 versus a full year for 2020, so is not a meaningful comparison. If an annualised figure is assumed for her fee in 2019, the ange is -6%.
nce was appointed to the Board with effect from 1 June 2021 and therefore no prior year comparison is possible.
n was appointed to the Board with effect from 1 June 2021 and therefore no prior year comparison is possible.
ompany's business model of "Buy, Improve, Sell", this group of senior management inevitably varies from year to year, and can vary significantly in acquisition and disposal years. own was impacted by legacy retention awards granted to GKN employees prior to our acquisition, a number of which crystallised during the period.

older Return

eholder return graph below shows the value as at 31 December 2021 of £100 invested in the Company in October 2003, h £100 invested in the FTSE 100 Index, the FTSE 250 Index and the FTSE All-Share Index. This shows a TSR of 1,751% and very clearly the long-term performance of the Company.

e considers the FTSE 100 Index, the FTSE 250 Index and the FTSE All-Share Index to be appropriate indices for the year ended 2021 for the purposes of this comparison because of the comparable size of the companies which comprise the FTSE 100 index 250 Index and the broad nature of companies which comprise the FTSE All-Share Index. The data shown below assumes that all o shareholders made by the Company during this period are reinvested in ordinary shares.



Directors' Remuneration report
Continued

Wider workforce considerations
Melrose is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation ir manner. The Committee is mindful of wider workforce remuneration and conditions, and uses its awareness of these arrangement that Melrose executive pay is aligned with the Company's culture and strategy.

The Committee is responsible for setting the remuneration of the executive Directors and the Non-executive Chairman. It does not responsibility for setting and managing the remuneration of the Melrose senior management team nor the divisional executive team the responsibility of the Melrose Chief Executive, nor the pay policies of the business units, which are the responsibility of the divisi teams. The businesses are responsible for engaging with their respective workforces in relation to remuneration. The Committee r view that such an approach is appropriate in light of Melrose's decentralised business model. The Committee does, however, have workforce pay, policies and incentives at a Melrose level and at a business unit executive level, which enables it to ensure that the taken to executive remuneration is consistent with those workforces. This consistency is evidenced by the 15% pension contributi benefits payable to the executive Directors, which are equal to those for Melrose head office employees and within the range of be wider workforce. In addition, the CEO pay ratio continues to remain low.

Given the differing nature of our businesses, the Committee does not expect a standardised approach to remuneration, nor would appropriate. However, when conducting its review, it does pay particular attention to whether each element of remuneration is con the Company's remuneration philosophy. The Committee receives detail on divisional executive team remuneration, as well as an confirmation from each business, via the Workforce Advisory Panel, that the remuneration provided to its executive team is consist remuneration provided to its wider workforce, and that the incentives operated by that business align with its culture and strategy. these disclosures, and in light of the Company's decentralised structure, the Committee is satisfied that the approaches taken to r at all levels are consistent with the Company's remuneration philosophy.

Melrose and each of its businesses pay all UK employees at least the real living wage, save for year-in industry students (of which t seven in the Group as at 31 December 2021), who are paid in accordance with the national minimum wage rates for their age grou Melrose and each of its businesses offer all employees in the UK the opportunity to work for at least 15 hours per week.

Retirement provisions
The Company provides retirement benefits to Melrose employees and the business units determine the retirement benefits provide respective employees. The Group's commitments with regards to pension contributions are 15% of an employee's salary for mem Melrose pension scheme, including the executive Directors, and these contributions are within the range of pension provisions acr various business unit UK pension schemes.

In line with the "Improve" aspect of Melrose's "Buy, Improve, Sell" strategy, we have continued to improve funding levels in the pens our business units. As further detailed on page 5, Melrose has a stellar record of successfully taking underfunded pension scheme stewardship and bringing them to being fully funded. In particular, under Melrose ownership, the GKN UK defined benefit pension have been effectively fully funded, from a total starting accounting deficit at the time of the GKN acquisition of £0.7 billion.

Long-term incentives
Participation in the 2020 Employee Share Plan is limited to senior Melrose head office employees. However, we also recognise the appropriately incentivise the executive teams of our businesses, in order to ensure that they are invested in helping us to build stror businesses. Consistent with Melrose's decentralised business model, divisional long-term incentive plans have been implemented managers of our key businesses, to incentivise them to create value for the Company and our shareholders. Depending on the am created in relation to that particular business, participants in such incentive plans will receive a cash payment on the sale of the bus sale of the relevant business has not occurred within a certain period, the incentive plan will crystallise and any payment to be mad participants will be based on the increase in value of the business during this period.

Relative Importance of Spend on Pay
The following table sets out the percentage change in dividends and the overall expenditure on pay (as a whole across the Group).

Expenditure	Year ended 31 December 2020 £ million	Year ended 31 December 2021 £ million	Perce
Remuneration paid to all employees[1]	2,071	2,020	
Distributions to shareholders by way of dividend and share buy back	–	798[2]	

(1) The figure is the total staff costs as stated in note 7 to the financial statements. In light of the Company's business model of "Buy, Improve, Sell", your Board does not consider that meaningful in the context of the Group's remuneration structure, which provides a strong alignment with shareholder interests.
(2) The figure for the year ended 31 December 2021 includes the return of capital to shareholders in September 2021.
(3) In light of the prior year figure being zero, no percentage change is possible.

ive Directors

table and share interests (audited)

able sets out the single figure of remuneration for 2021 in comparison with 2020 for the Company's Non-executive Directors[1]:

Directors	Period	Total basic fees £000[2]	Total other fees £000[3]	Other (bonus, pension, LTIP, taxable benefits) £000	Total £000	Total Fixed £000	Total Variable £000
hairman)	2021	371	–	n/a	**371**	**371**	**–**
	2020	330	–	n/a	**330**	**330**	**–**
Independent Director)	2021	80	45	n/a	**125**	**125**	**–**
	2020	71	45	n/a	**116**	**116**	**–**
	2021	80	20	n/a	**100**	**100**	**–**
	2020	71	20	n/a	**91**	**91**	**–**
	2021	80	10	n/a	**90**	**90**	**–**
	2020	71	10	n/a	**81**	**81**	**–**
g	2021	80	–	n/a	**80**	**80**	**–**
	2020	71	–	n/a	**71**	**71**	**–**
	2021	80	–	n/a	**80**	**80**	**–**
	2020	71	–	n/a	**71**	**71**	**–**
ce[5]	2021	46	–	n/a	**46**	**46**	**–**
	2020	–	–	–	**–**	**–**	**–**
	2021	46	–	n/a	**46**	**46**	**–**
	2020	–	–	–	**–**	**–**	**–**
	2021	**863**	**75**	**n/a**	**937**	**937**	**–**
	2020	**685**	**75**	**n/a**	**760**	**760**	**–**

s in the above table may not add up to the sum of the component parts due to rounding.
ecutive Directors, all Non-executive Directors of the Company took a temporary 20% reduction in their basic fee payable during 2020 to support the Group's cash management f the pandemic. The amounts stated in the table for 2020 are the actual amounts that were paid to the Non-executive Directors.
onal fees for holding the Chairmanship of the Remuneration Committee, the Audit Committee and the Nomination Committee, and for holding the position of Senior Independent re no additional fees payable for membership of a Committee. All of our Non-executive Directors are members of at least one Committee.
etired as a Non-executive Director of the Company on 31 December 2021.
ce was appointed as a Non-executive Director of the Company with effect from 1 June 2021 and the fees referred to above for 2021 reflect her fees for the period 1 June 2021 to 31

vas appointed as a Non-executive Director of the Company with effect from 1 June 2021 and the fees referred to above for 2021 reflect her fees for the period 1 June 2021 to 31

able sets out the subsisting interests in the equity of the l by the Non-executive Directors as at 31 December s an indication as to the size of these interests relative sued share capital of the Company:

Directors	Ordinary shares held as at 31 December 2021[6]	Shareholding (% ordinary share capital) as at 31 December 2021
	1,424,480	0.0326%
	190,239	0.0044%
	413,052	0.0094%
g	70,246	0.0016%
	–	–
ce	22,500	0.0005%
	13,500	0.0003%

es, the interests of each Non-executive Director listed in the table include any held by a person closely associated with that Non-executive Director within he EU Market Abuse Regulation, as it forms part of UK domestic law by virtue Jnion (Withdrawal) Act 2018.

ve Directors' fees

Directors' basic fees and the Non-executive Chairman's increased by 3% with effect from 1 January 2022, in ncreases made to executive Directors and other Melrose ployees, and in line with the Company's FTSE 100 that while all Non-executive Directors serve on at Company's committees (and most serve on multiple here are no additional committee membership fees. single figure table above, the Company remains of the ot appropriate for our Non-executive Directors to receive nefits, pension contributions or variable remuneration.

The Non-executive Director fee levels for 2021 and 2022 are set out in the table below. The increases to additional fees for holding the position of Senior Independent Director and for holding the Chairmanship of the Nomination Committee were agreed by the Board to be appropriate in light of the increasing remits of these roles, and nonetheless remain in line with the market.

Fee element	Fee with effect from 1 January 2021 £	Fee with effect from 1 January 2022 £
Non-executive Chairman fee	371,315	382,500
Basic Non-executive Director fee	79,600	82,000
Additional fee for holding the Chairmanship of the Remuneration Committee	20,000	20,000
Additional fee for holding the Chairmanship of the Audit Committee	30,000	30,000
Additional fee for holding the Chairmanship of the Nomination Committee	10,000	15,000
Additional fee for holding the position of Senior Independent Director	15,000	20,000

Service contracts and letters of appointment

Consistent with the best practice guidance provided by the Code, the Company's policy is for executive Directors to be employed on the terms of service agreements, which may be terminated by either the executive Director or the Company on the giving of not less than 12 months' written notice (subject to certain exceptions).

The executive 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 the requirement for annual re-election under both the Code and the Company's Articles of Association.

There is no unexpired term as each of the executive Directors' contracts is on a rolling basis.

Directors' Remuneration report
Continued

The Non-executive Directors do not have service contracts but have letters of appointment for an initial term of three years, which may be renewed by mutual agreement. Generally, a Non-executive Director may be appointed for one or two periods of three years after the initial three-year period has expired, subject to re-election by shareholders at each AGM. 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.

Each executive Director's service contract and each Non-executive Director's letter of appointment are available for inspection at the Company's registered office during normal business hours.

Details of the Non-executive Directors' current terms of appointment are set out below:

Non-executive Directors	First appointment	Expires*
Justin Dowley (Chairman)	1 September 2011	2023
Liz Hewitt (Senior Independent Director)	8 October 2013	2022
David Lis	12 May 2016	2022
Charlotte Twyning	1 October 2018	2024
Funmi Adegoke	1 October 2019	2022
Heather Lawrence	1 June 2021	2024
Victoria Jarman	1 June 2021	2024

* Subject to annual re-election.

Governance

Responsibilities

The Board has delegated to the Committee responsibility for overseeing the remuneration of the Chairman of the Board and the executive Directors.

The Committee's responsibilities include:

- Establishing and maintaining an executive Director remuneration policy that is appropriate, consistent and reflective of Melrose's remuneration philosophy.
- Determining the remuneration policy for the executive Directors.
- Setting and managing remuneration packages of the executive Directors and the Chairman of the Board in accordance with the Directors' Remuneration Policy.
- Overseeing the remuneration of Melrose senior management and divisional CEOs, to enable the Committee to consider their consistency with the executive Director remuneration packages.
- Operating the Company's long-term incentive arrangements.

As described on page 112, although they retain oversight, the Committee is not responsible for setting and managing the remuneration of Melrose senior management and divisional executive teams, nor is it responsible for determining wider business unit employee pay, which are the responsibility of the Chief Executive and the relevant business unit executive team, respectively. Responsibility for determining the remuneration of the Non-executive Directors (other than the Chairman) sits with the Board. No Director plays a part in any decision about his or her own remuneration.

The Committee's terms of reference, which were last reviewed by the Committee in November 2021, are available on our website, **www.melroseplc.net**, and from the Company Secretary at Melrose's registered office.

Evaluation

The Code requires that FTSE 350 companies undertak facilitated Board and Committee evaluation once every The last external Melrose Board and Committee review for which the Company engaged Lintstock Ltd.

Whilst the Company is not required to undertake anoth facilitated Board and Committee evaluation until 2023, the Company continued its ongoing internal review of th each Committee, both internally within each of those bo the Chairman of the Board and the Chairman of each C respectively. These evaluations were conducted and fa completion of questionnaires, and discussions at a Cor meeting, with follow-up actions taking place as relevant were also given the option for meetings to be schedule Chairman of the Committee about any relevant matters wished to raise as part of the ongoing review. Please se Corporate Governance report on pages 90 to 91 for fur

Attendance at meetings

The attendance of the Non-executive Directors at the s meetings of the Committee in 2021 was as follows:

Member	
David Lis (Chairman)	
Justin Dowley	
Archie G. Kane[2]	
Charlotte Twyning	
Funmi Adegoke[3]	
Victoria Jarman[4]	

(1) Reflects regularly scheduled meetings of the Committee that took place ir
(2) Retired from the Board and the Committee on 31 December 2021.
(3) Retired from the Committee at the end of the second Committee meeting
(4) Appointed to the Committee with effect from 1 June 2021 and attended a meetings held during the period 1 June 2021 to 31 December 2021.

Compliance with legislation and the Code

We apply the principles of, and are fully compliant with, provisions of the Code and the Financial Conduct Autho Rules and Disclosure Guidance and Transparency Rule relation to minimum shareholding requirements, post-ce minimum shareholding requirements, pension alignmer clawback, and discretion to override formulaic outcome

The Directors confirm that this report has also been pre accordance with the Companies Act 2006 and Schedu Large and Medium-sized Companies and Groups (Acc Reports) (Amendment) Regulations 2013.

As mentioned on page 103, the four principles of the Me remuneration structure are wholly aligned with the Code clarity, simplicity, risk, predictability, proportionality and a culture, as set out in the table opposite. The Committee it took all of these elements into account when establish Directors' Remuneration Policy, as well as its applicatior Directors during the period.

How the Remuneration Committee has addressed and link to strategy
The Company's performance remuneration is based on supporting the implementation of the Company's strategy, which is primarily to create sustainable long-term shareholder value. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid. The Company seeks to present its remuneration arrangements to investors in the clearest and most transparent way possible. We also remain committed to maintaining an open and transparent dialogue with our investors, both through formal engagement processes, ad-hoc discussions, and through the disclosures in our annual reports.
The fixed elements of remuneration are limited to base salary, pension contribution and benefits, all below the lower quartile of peers and in the case of pension contributions, the same as the rest of the Melrose head office employees. There are only two variable elements of remuneration: the annual bonus and the 2020 Employee Share Plan, both of which are based on simple and transparent metrics. The operation of the Annual Bonus Plan is linked to an earnings-based target (at least 50%) and the achievement of strategic factors. The Company operates a single long-term incentive scheme, which simply rewards the creation of shareholder value over a three-year period above a minimum level of return for shareholders. In the Committee's view, this provides a very simple incentive framework which can be understood by all of the Company's stakeholders.
The Directors' Remuneration Policy includes the following elements to mitigate against the risk of target-based incentives: • Setting defined limits on the maximum award that can be earned, including capping the annual bonus to a maximum of 100% of base salary and the application of the annual rolling cap to the 2020 Employee Share Plan. • Requiring the deferral of up to 50% of the annual bonus award into ordinary shares of the Company in certain circumstances and that all of the ordinary shares awarded in relation to the 2020 Employee Share Plan (other than any ordinary shares sold in order to make adequate provision for any tax liability arising in connection with the crystallisation) be held for a two-year holding period following the crystallisation date. • The post-cessation minimum shareholding requirements, which require executive Directors to maintain the minimum shareholding for a period of two years after leaving the Company. • Aligning the performance condition with the "Buy, Improve, Sell" strategy of the Company. • Ensuring there is sufficient flexibility for the Committee to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes.
Fixed remuneration for the executive Directors is set below the lower quartile of FTSE peers to limit fixed costs for the Group, to provide certainty and to incentivise executive Directors. Variable remuneration is limited to the annual bonus, which is capped at 100% of salary and performance-driven based on financial growth and strategic factors, and the 2020 Employee Share Plan. The method of calculation, limits and discretions under the Directors' Remuneration Policy are clearly set out.
y The restricted fixed remuneration and capped Annual Bonus Plan is compensated by the opportunity for potentially significant reward entirely dependent on performance pursuant to the 2020 Employee Share Plan that supports the Company's value creation strategy.
The focus on responsible stewardship and long-term sustainable performance is a key part of the Company's culture. This is supported by the Directors' Remuneration Policy, which (i) facilitates Committee oversight of workforce pay, policies and incentives; (ii) aligns executive Director pension contributions to those provided to the rest of the Melrose employees; and (iii) deliberately restricts the annual salaries, bonuses and benefits for the executive Directors to below the lower quartile of the FTSE 100.

ıembership

the Committee are independent Non-executive Directors within the definition of the Code. None of the Committee members ınal financial interest (other than as shareholders in the Company) in matters to be decided, nor do they have any conflicts of oss-directorships or any day-to-day involvement in running the business.

ıe Remuneration Committee

, the Committee received advice on the remuneration reporting regulations from PwC LLP. PwC LLP's fees for this advice were ding VAT, which were charged on a time/cost basis. During the year, PwC LLP also provided the Company with reward, tax, d consulting advice.

e appointed PwC LLP to act as its remuneration consultants and the Committee determined to reappoint PwC LLP to act for the view. PwC LLP is a member of the Remuneration Consultants Group, and as such chooses to operate pursuant to a code of quires remuneration advice to be given objectively and independently. The Committee is satisfied that the advice provided by ation to remuneration matters is objective and independent.

Secretary acts as secretary to the Committee and attends Committee meetings.

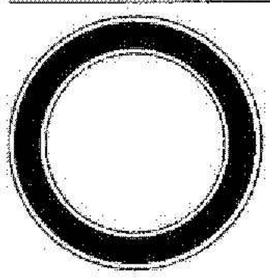
Directors' Remuneration report
Continued

Statement of voting at general meetings

The charts below set out the votes on the Annual Report on Remuneration at the 2021 AGM, on the Directors' Remuneration Poli AGM, on the 2020 Employee Share Plan at the January 2021 general meeting, and on the consequential amendments to the Dire Remuneration Policy at the January 2021 general meeting.

This Annual Report on Remuneration will be put to an advisory vote at the AGM, on 5 May 2022.

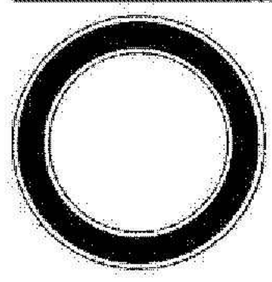
Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2020 (5 May 2021)



- Percentage of votes cast for the resolution 99.57%
- Percentage of votes cast against the resolution 0.43%

Votes withheld 89,212,976

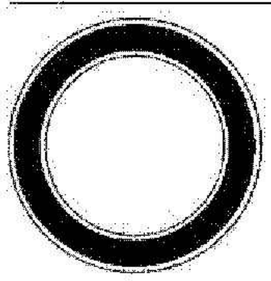
Resolution to approve the Directors' Remuneration Policy (7



- Percentage of votes cast for the reso
- Percentage of votes cast against the re

Votes withheld 422,042,417

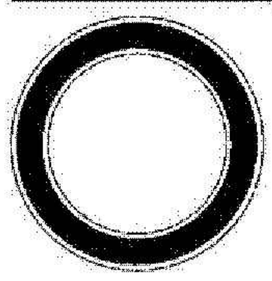
Resolution to approve and implement the 2020 Employee Share Plan (21 January 2021)



- Percentage of votes cast for the resolution 82.64%
- Percentage of votes cast against the resolution 17.36%

Votes withheld 228,313,488

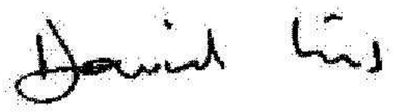
Resolution to approve the amendments proposed to the 2020 Remuneration Policy to accommodate the 2020 Employee Sh (21 January 2021)



- Percentage of votes cast for the resol
- Percentage of votes cast against the re

Votes withheld 108,963,824

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



David Lis
Chairman, Remuneration Committee
3 March 2022

ent of Directors' responsibilities

are responsible for preparing the Annual Report and nents in accordance with applicable law and regulations.

requires the Directors to prepare financial statements ial year. Under that law, the Directors are required Group financial statements in accordance with ccounting Standards in conformity with the of the Companies Act 2006 and with International rting Standards ("IFRSs") adopted pursuant to) No 1606/2002 as it applies in the European Union. tatements also comply with IFRSs as issued by the ctors have also chosen to prepare the parent company nents in accordance with United Kingdom Generally ounting Practice (United Kingdom Accounting l applicable law), including FRS 102 "The Financial ndard applicable in the UK and Republic of Ireland". y law, the Directors must not approve the financial less they are satisfied that they give a true and fair view affairs of the Company and of the profit or loss of the hat period.

e parent company financial statements, the Directors

ole accounting policies and then apply them

ments and accounting estimates that are reasonable

er applicable UK Accounting Standards have been bject to any material departures disclosed and the financial statements; and

financial statements on the going concern basis nappropriate to presume that the Company will business.

e Group financial statements, International Accounting quires that Directors:

ect and apply accounting policies;

rmation, including accounting policies, in a manner s relevant, reliable, comparable and understandable

itional disclosures when compliance with the specific s in IFRSs are insufficient to enable users to the impact of particular transactions, other events and on the entity's financial position and financial e; and

sessment of the Company's ability to continue as a ern.

are responsible for keeping adequate accounting e sufficient to show and explain the Company's nd disclose with reasonable accuracy at any time the on of the Company and enable them to ensure that the nents comply with the Companies Act 2006. They are le for safeguarding the assets of the Company and ng reasonable steps for the prevention and detection of r irregularities.

ble law and regulations, the Directors are also preparing a strategic report, directors' report, directors' eport and corporate governance statement, each of s with law and regulation.

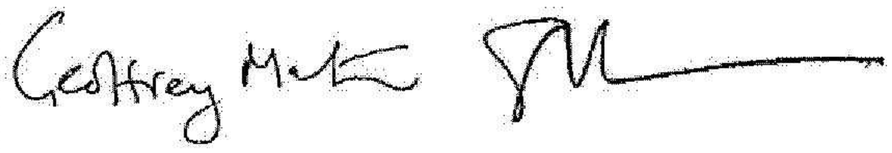
are responsible for the maintenance and integrity of the financial information included on the Company's lation in the United Kingdom governing the preparation tion of financial statements may differ from legislation in ons.

Directors' responsibility statement

We confirm that to the best of our 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;
- the Strategic Report includes 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; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 3 March 2022 and is signed on its behalf by:



Geoffrey Martin
Group Finance Director
3 March 2022

Simon Peckham
Chief Executive
3 March 2022

Independent auditor's report to the members of Melrose Industries PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Melrose Industries PLC (the 'parent company') and its subsidiaries (the 'group') give a true and the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's loss for the year t
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international ac standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards B
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Acc Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Cash Flows;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity; and
- the related notes 1 to 30 and the related notes 1 to 8 to the Parent Company Balance Sheet.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, Unit adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been ap preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FI Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Prac

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsi those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our au financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prov group and parent company for the year are disclosed in note 7 to the financial statements.

We confirm that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group, with the exception c services around the permissibility of paying a dividend in one of the Group's overseas subsidiaries. This entity was no longer a sut year end and no specific reporting was required from the overseas firm in respect of this component. The fee for this work was ap £7,000. In our opinion, based on the monetary value and the nature of services provided, the impact of providing the services was and inconsequential, however this is a breach, albeit insignificant, of the Ethical Standard. Following investigation it was concluded with the Audit Committee that given the size of the services provided and their potential impact, as well as the safeguards in place of these services did not impact upon our integrity, objectivity and independence as auditor to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

ry of our audit approach

atters The key audit matters that we identified in the current year were:

- Impairment of goodwill and acquired intangibles;
- Classification of adjusting items;
- Revenue recognition in respect of RRSPs; and
- Valuation of loss-making contract provisions.

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

The materiality that we used for the group financial statements was £30 million which was determined on the based on a number of benchmarks including adjusted profit before tax, net assets and revenue.

We selected 17 reporting sites where we requested component auditors to perform a full scope audit of the site components' financial information. We also selected 9 corporate components for a full scope audit of their financial information.

We also requested component auditors to audit specific account balances and transactions ("SAB") at a further 23 reporting units. Coverage from full scope and SAB scope components totals 79% of the group's adjusted revenue, 88% of adjusted operating profit and 84% of net assets.

our The number of components scoped in for the year end audit has reduced in comparison to the prior year, as the Nortek Air Management, Brush and Nortek Control businesses were disposed of during the year.

sions relating to going concern

financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the ments is appropriate.

n of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of cluded assessment of the following:

nderstanding of the financing facilities including nature of facilities, repayment terms and covenants;

he impact of risk and uncertainties on the business model and future cash flow forecasts;

l as part of our assessment the nature of the group, its business model and related risks including where relevant the impact , the requirements of the applicable financial reporting framework and the system of internal control;

he directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and ptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern nt. This was done through detailed assessment of the operating and non-operating cash flows for reasonableness and y with the underlying forecast and plans for individual businesses;

he sufficiency of headroom available in the forecasts (cash and covenants) with respect to the risks and uncertainties;

management's sensitivity analysis in order to assess whether that the reasonable worst-case sensitivities capture all the possible downside risks and uncertainties; and

he adequacy of the disclosures provided in the financial statements.

work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or ay cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve when the financial statements are authorised for issue.

he reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the n basis of accounting.

bilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the members of Melrose Industries PLC

Continued

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial state current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identi matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and direc efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion theree not provide a separate opinion on these matters.

5.1 Impairment of Goodwill and acquired intangibles

Key audit matter description	Goodwill on the balance sheet at 31 December 2021 is £2,850 million (2020: £3,640 million), and the acquirec assets balance is £4,193 million (2020: £5,150 million). As required by IAS 36 Impairment of assets ("IAS 36") n performs an impairment review for all goodwill balances on an annual basis and for other assets whenever an impairment is identified. This review identified the following group of groups of Cash Generating Units (CGUs): • Aerospace (goodwill £933 million, other acquired intangible assets £2,542 million) • Automotive (goodwill £1,001 million, other acquired intangible assets £979 million) • Powder Metallurgy (goodwill £507 million, other acquired intangible assets £559 million) • Ergotron (goodwill £409 million, other acquired intangible assets £113 million) Impairment of goodwill and acquired intangibles has been identified as a key audit matter as a result of the qua significance of the balances, and the application of management judgement and estimation in performing impa specifically with respect to: • The selection of the appropriate methodology (fair value less costs to sell or value in use) in determining r amount for each group of CGUs; • the effect on future cash flows as a result of the pace of recovery in the Automotive and the Aerospace ir • the margin improvements as a result of restructuring programmes; and • determination of the correct discount and growth rates to be used in the model. Headroom available at 31 December 2021 has increased for the groups of CGUs noted above as a result of re economic uncertainty. During the year the automotive industry has been adversely impacted by the shortage conductors which disrupted the supply chain. Other economic factors such as cost inflation and increased int have also affected the group. Overall, we have identified a heightened risk in relation to the Automotive group c Further details are included in note 11 to the group financial statements in relation to the sensitivities reflecting inherent in the valuation of goodwill and other non-current assets and also in note 3 to the group financial state relation to the key sources of estimation uncertainty for these businesses. Refer also to page 95 of the report of the audit committee.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the valuation of goodwill and other intangible asse the relevant controls over the forecasts that underpin the value in use and fair value less cost to sell models an around management's preparation of impairment models. We assessed management's impairment paper, underlying analysis and supporting financial models, and cha reasonableness of the assumptions that underpin management's forecasts. Specifically, our work included, bu limited to: • assessing the methodology selected by management to estimate recoverable amount (fair value less cos value in use) against the requirements of IAS 36 and IFRS 13 Fair value measurement; • understanding management's process for assessing the impact on operating margin of ongoing and futu restructuring programmes; • challenging management's assumptions within the impairment models, particularly forecast cash flows a management will achieve improvements to operating margin through ongoing restructuring programmes benchmarking against previous restructuring programmes; • benchmarking long term growth rates to applicable macro-economic and market data, also taking into a assumed recovery for the Covid-19 pandemic; • involving our internal valuation specialists to challenge the discount rate applied, by obtaining the underly in the calculation and benchmarking it against market data and comparable organisations, and by evalua underlying process used to determine the risk adjusted cash flow projections; • evaluating the integrity of the impairment models through testing of the mathematical accuracy, checking application of the input assumptions and testing its compliance with IAS 36; • performed sensitivity analysis to identify the key assumptions that have a significant effect on the model; • assessing the appropriateness of the disclosures included by management in note 3 and 11 to the group statements and re-performing the calculations that underpin those disclosures.
Key observations	We determined that the assumptions applied in the impairment model were within an acceptable range, that th position adopted was reasonable and that the disclosures in respect of reasonably possible changes to key as appropriate.

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tion of adjusting items

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In addition to the statutory results, the group continues to present adjusted profit measures which are before the impact of adjusting items. Judgements made by management regarding the classification of adjusting costs and income therefore have a significant impact on the presentation of the group's results. In total, adjustments of £826 million have been made to the statutory operating loss of £451 million to derive adjusted operating profit of £375 million.

Adjusting items included:

- amortisation of acquisition-related intangible assets (£452 million);
- restructuring costs (£269 million);
- equity accounted investments adjustments (£28 million);
- equity settled compensation scheme charges (£19 million);
- acquisition and disposal related gains (£7 million);
- loss on movement in fair value of derivatives (£114 million); and
- net income from releases and changes in discount rate of fair value items (£49 million).

A key audit matter has been identified in respect of the classification of items recorded as adjusting. While the key measure used by management to monitor performance is adjusted operating profit, adjusted profit before tax is also a key measure used by management in communication with shareholders. There is a risk that costs or income may be classified as adjusting which are underlying or recurring items, and therefore distort the reported adjusted profit, whether due to manipulation or error. Consistency in the identification and presentation of the adjusted costs or income is important for the comparability of year-on-year reporting.

Explanations of each adjustment are set out in note 6 to the group financial statements. Refer also to page 96 (Report of the audit committee).

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We obtained understanding of the relevant controls over the classification of adjusting items in the financial statements.

We evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within adjusted results. Specifically, we:

- assessed the consistency of items included year on year and the application of management's accounting policy, challenging the nature of these items in comparison to ESMA guidance and FRC guidance, and challenging in particular the inclusion of those items that recur annually;
- tested a sample of adjusting items by agreeing to source documentation and evaluating their nature in order to assess whether they are disclosed in accordance with the group's accounting policy, and also to assess consistency of adjusting items between periods in the group financial statements;
- focussed our challenge on certain categories within adjusting items where we assessed that increased level of judgement had been applied by management, and there was increased risk for fraud or error. This included additional testing of restructuring costs, movements in fair value adjustments and impairment of assets;
- agreed the amounts recorded through to underlying financial records and other audit support to test that the amounts disclosed were complete and accurate;
- where management recognised releases to fair value adjustments, we challenged this classification and assessed whether events and conditions existed to cause a release of the provision recognised as part of acquisition accounting;
- for restructuring costs, assessed whether the recognised costs meet the recognition criteria set out in IAS 37 'Provisions'; and
- assessed whether the disclosures within the group financial statements provide sufficient detail for the reader to understand the nature of these items and how adjusted results are reconciled to statutory results.

ons

The value of adjusting items results in a material difference between the statutory and adjusted results. Whilst we note that the majority of adjusting items recur from period to period, their classification and presentation is consistent with the Group's policy.

Independent auditor's report to the members of Melrose Industries PLC

Continued

5.3 Revenue Recognition in respect of RRSPs

Key audit matter description	The group has recognised total revenue of £6,883 million in 2021 (2020: £7,132 million). There are judgements taken within the revenue recognition of material Risk and Revenue Sharing Partnership the Aerospace division (where revenue totals £2,543 million (2020: £2,804 million)). The risk specifically arises Systems businesses and focuses on the timing at which performance obligations are met as well as the value recognised given the increased level of estimation and judgement on application of principles set out in IFRS contracts with customers. This includes the revenue recognised from those contracts identified by managem pricing for the same parts varies across the contract. There is judgement in how the overall price is allocated a supplied where there is a contractual right to aftermarket revenues in consideration of the requirements of IFR variable consideration recognised. The amount of revenue recognised from RRSP contracts during the year v which includes variable consideration of £55 million (2020: £354 million, which included variable consideratior Furthermore, the revenue recognition models used by management for RRSPs involve a number of significar based on any modifications to the contracts including programme share or changes in pricing and historical such as engineering requirements to support programmes and the expected life of mature engines. Any cha assumptions require a higher level of judgement and estimation. This increases the risk that revenue recogniI be appropriate. Refer to page 95 (Report of the audit committee) and pages 143 to 145 (note 3 to the group financial stateme page 145 (note 4 to the financial statements).
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the recognition of revenue for RRSP contracts. For each RRSP contract with material variable consideration, we recalculated the amount of revenue recogni that it has been calculated in accordance with IFRS 15, the contractual agreement and the latest corresponc customer. In particular, we have: • agreed the percentage of revenue entitlement to the customer contract; • reviewed correspondence with the customer in the period, in particular entitlement reports; • challenged estimations made by management at the year-end by taking account of historical settlemen historical estimation accuracy; • challenged the assumptions used in arriving at the element of variable consideration recognised. This w performing a number of procedures listed below; • performed an assessment of the timing at which control is transferred and revenue is recognised by ide performance obligations from the contract and checking the recognition triggers; • obtained and reviewed the contract modifications, including programme share or changes in pricing, ar that they have been appropriately included in the RRSP models; and • tested underlying data included in the trend analysis above and performed independent industry resear that may contradict management's assumptions on margin and engine life. In assessing the key assumptions in the revenue recognition model, we performed specific procedures that i • obtained an understanding of the relevant controls in place within the Aerospace businesses, that hold RF to review the underlying data; • challenged and assessed the position papers prepared by management, and the model prepared; • assessed accuracy of the underlying data that has been used in the determination of the assumptions incl profiles, Industry data and customer correspondence; and • assessed of the disclosure provided in the group financial statements in relation to the changes in these as against the requirements of IFRS 15.
Key observations	We are satisfied that the key assumptions made in determining the value of revenue recognised on RRSP co variable consideration is within an acceptable range and the overall position is reasonable. We consider the disclosure provided in the financial statements in relation to the changes in the key assumpt appropriate and consistent with the requirements of IFRS 15.

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of Loss-making contracts provision

ter	In 2018, upon acquisition of GKN, the group recognised provisions of £629 million in relation to loss-making contracts. At 31 December 2021, following utilisation and release during the year, £167 million remained unutilised (2020: £241 million). The methodology supporting the provisions is inherently complex and involves a high level of management judgement and estimation. We consider the following to be the key judgements and estimates in relation to these provisions: • accounting for the effect of negotiations and correspondence with customers on the existing loss-making contract provisions; • forecast cost projections including the level of material, direct labour, and contract-related overheads; • calculation of utilisation for the year; • assessing changes in inputs and assumptions to evaluate the correct timing of releases; and • the classification of provision utilisation and release in the income statement. While the level of loss-making provisions in Automotive is no longer material, we have identified wider macroeconomic factors such as the semi-conductor shortage and its impact on sales volumes, increasing energy and freight charges, and increasing commodity prices, which all have an impact on the profitability of the components sold by GKN Automotive. While there have not been material changes to the existing provisions which were identified during the Melrose acquisition of GKN, there is still a heightened risk due to the wider macroeconomic factors that impact the valuation of the loss-making sales already identified, but also increases the risk that additional contracts may have now become loss-making. Therefore there is still a heightened risk around the completeness of loss-making sales Refer to page 96 (of the audit committee report) and pages 143 to 145 (note 3 to the group financial statements and pages 169 to 170 (note 21 to the group financial statements).
e of our led to the ter	We obtained an understanding of the relevant controls over the review and estimation of loss-making contract provisions. For a sample of loss-making contract provision balances (including all material provisions) our work included, but was not limited to: • obtaining and checking supporting documentation for key assumptions and inputs, for example: – price data from corresponding contracts; – volumes from independent and recognised industry reports; – invoice and supplier documentation that supports costs; and – executed agreements for changes to pricing or early termination of contracts and other terms; • enquiry of legal, commercial, operational, programme and engineering management to understand any changes to the relevant programmes that would impact valuation (e.g. new tooling, manufacturing improvements and efficiencies, changes in raw material costs); • reviewing relevant third-party correspondence (with customers and suppliers) and assessed the impact on the valuation of the provision; • recalculating the amount of the provision utilised in the year, and challenging assumptions and inputs used to calculate utilisation; • for any releases of provisions, challenging the judgements applied by management and examined appropriate evidence supporting the release (new commercial agreements, price amendments, support for cost reductions such as labour cost and direct overheads savings etc); and • evaluating whether the releases and utilisation are classified in accordance with the accounting policy.
ons	*We are satisfied that the loss-making contracts provision at 31 December 2021 is valued appropriately, that releases and utilisations recorded during the year are appropriate, and that key estimates formed by management are reasonable.*

lication of materiality

ty

teriality as the magnitude of misstatement in the group and parent company financial statements that makes it probable that the isions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of and in evaluating the results of our work.

professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
	£30 million (2020: £30 million)	£15 million (2020: £15 million)
ermining	We considered the following metrics: • adjusted profit before tax; • revenue; and • net assets. Using professional judgement we determined materiality to be £30m.	We determined materiality based on net assets, which was then capped at 50% (2020: 50%) of group materiality in order to address the risk of aggregation when combined with other businesses.
the ıpplied	In determining our benchmark for materiality, we considered a number of different metrics used by investors and other readers of the Financial Statements. This approach is consistent with the prior year to reflect the volatility in the results of the group arising from the impact of Covid-19 and the recovery thereof. Materiality for the current year represents: • 11.9% of adjusted profit before tax (FY20: 19.6%); • 0.4% of revenue (FY20: 0.3%); and • 0.4% of net assets (FY20: 0.4%).	In our professional judgement we believe that use of a balance sheet measure is appropriate for a holding company. This is with reference to the net asset position of the company when compared to the net asset position of the group.

Independent auditor's report to the members of Melrose Industries PLC

Continued

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and unde misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	60% (2020: 60%) of group materiality	60% (2020: 60%) of parent company materia
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • the assessment of the complexity of the group and nature of the group's business model; and • the de-centralised nature of the group's control environment and its variation across the group.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.5million (2020: £ well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit C disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

In order to determine the scoping of components we consider the nature of the Group and its structure. There are now four opera in the continuing operations of the group:

- Aerospace;
- Automotive;
- Powder Metallurgy; and
- Other Industrial

In addition to the operating segments above, the group has a number of central cost centres which report to the Board and inclu companies for corporate functions and costs.

Each division consists of a number of reporting units and manages operations on a geographical and functional basis. There are total, each of which is responsible for maintaining their own accounting records and controls and using an integrated consolidatio report to UK head office. Our group audit scope focused on audit work at 49 components (2020: 60), of which

- 13 relate to components that form part of the Aerospace segment;
- 19 relate to components that form part of the Automotive segment;
- 6 relate to components that form part of the Powder Metallurgy segment;
- 2 relate to components that form part of the Other Industrial segment; and
- 9 relate to corporate cost centres.

Each component was set a specific component materiality, considering its relative size and any component-specific risk factors s audit findings and history of error. The component materialities applied were in the range £7 million to £14 million.

We selected 17 reporting units where we requested component auditors to perform a full scope audit of the components' financial We also requested component auditors to audit specified account balances and transactions ("SAB") at a further 23 reporting unit from full scope and SAB scope components totals 79% of the group's adjusted revenue, 88% of adjusted operating profit and 84%

Aerospace

In respect of the Aerospace division, 7 components were subject to a full audit and 6 components were subject to SAB scope. Th components together accounted for 73% of the Aerospace division's adjusted revenue and 87% of the Aerospace division's adjus profit and divisional costs.

Automotive

In respect of the Automotive division, 8 components were subject to a full audit and 11 components were subject to SAB scope. components accounted for 88% of the Automotive division's adjusted revenue and 91% of the Automotive division's adjusted ope and divisional costs.

Powder Metallurgy

In respect of the Powder Metallurgy division, 1 component was subject to a full audit and 5 components were subject to SAB sco components together accounted for 55% of the Powder Metallurgy division's adjusted revenue and 80% of the Powder Metallurg adjusted operating profit and divisional costs.

Other Industrial

In respect of the Other Industrial division, 1 component was subject to a full audit and 1 component was subject to SAB scope. Th components together accounted for 81% of the Other Industrial division's adjusted revenue and 92% of the Other Industrial divisic operating profit and divisional costs.

Corporate cost centres

In respect of the corporate cost centres, 9 components were subject to a full audit.

Company

The audit of the Company was performed by the group engagement team based at the Company's head office.

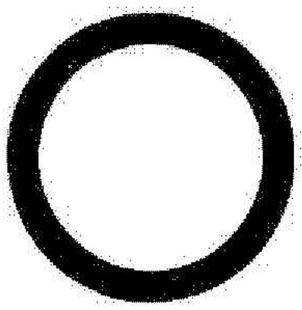
ances
subject to the audit procedures above were subject to analytical procedures by the group engagement team.

erstood and tested design and implementation of relevant controls in key areas, given the number and diverse nature of the of the group, we took controls reliance in certain limited areas of the audit only.

nue

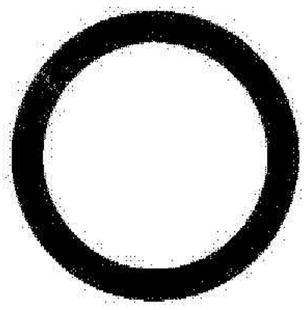
Full audit scope	51%
SAB	28%
Review at group level	21%

Adjusted operating profit



Full audit scope	70%
SAB	18%
Review at group level	12%

Net assets



Full audit scope	83%
SAB	1%
Review at group level	16%

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sideration of climate-related risks
ge and the transition to a low carbon economy ("climate change") were considered in our audit where they have the potential to rectly impact key judgements and estimates within the group financial statements. The Group continues to develop its f the potential impacts of climate change, as explained in the Sustainability Report on pages 54 to 77. Climate risks have the aterially impact the key judgements and estimates within the financial statements. Our audit considered those risks that could be key judgement and estimates in the assessment of the carrying value of non-current assets and impact on future cashflows.

dered whether information included in the climate related disclosures in the Annual Report were consistent with our g of the business and the financial statements with involvement of sustainability specialists.

with other auditors
ttent restrictions on working practices caused by Covid-19 the majority of the audit work was executed remotely. Limited sites ue to the restrictions to travel. In order to address the Impact of Covid, regular communication took place with component audit mponent management teams using conference and video calls, with a particular focus on locations where work was performed audit risks.

he above, the group audit partners including the senior statutory auditor held group-wide, divisional and individual planning and s which covered all businesses. Each division has a dedicated senior member of the group audit team responsible for the nd direction of components, including where appropriate sector-specific expertise. We included the component audit teams in our discuss and review their risk assessment, and reviewed documentation of the findings from their work. We also reviewed the *pers supporting component teams' reporting to us remotely using shared desktop technology.*

formation
rmation comprises the information included in the annual report, other than the financial statements and our auditor's report directors are responsible for the other information contained within the annual report.

n the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, press any form of assurance conclusion thereon.

ility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the ments or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a atement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material of this other information, we are required to report that fact.

hing to report in this regard.

sibilities of directors
more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the financial statements that are free from material misstatement, whether due to fraud or error.

he financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a , disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors o liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

s responsibilities for the audit of the financial statements
s are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, o fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but ntee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. s can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected e economic decisions of users taken on the basis of these financial statements.

cription of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/ nsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of Melrose Industries PLC

Continued

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our re outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures a detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with law regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's re policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, legal counsel, operational staff and the audit committee about their identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relatin
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-co
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged frau
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team including significant component audit teams and involving releva specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financia and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud ar the greatest potential for fraud in the following areas: classification of adjusted items, revenue recognition in respect of RRSPs and loss-making contracts provisions. In common with all audits under ISAs (UK), we are also required to perform specific procedures the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of th regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key la regulations we considered in this context included the UK Companies Act and Listing Rules, UK Bribery Act as well as pensions le tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's environ regulations in the jurisdictions the group operates in.

11.2 Audit response to risks identified

As a result of performing the above, we identified classification of adjusted items, revenue recognition in respect of RRSPs and valu loss-making contracts provision as key audit matters related to the potential risk of fraud. The key audit matters section of our repor matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provision laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and cla
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material mis due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspond HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; an the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members includi specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Compan

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statement prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of have not identified any material misstatements in the strategic report or the directors' report.

ate Governance Statement

es require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate tatement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance materially consistent with the financial statements and our knowledge obtained during the audit:

ors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material es identified set out on page 39;

rs' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is e set out on page 39;

rs' statement on fair, balanced and understandable set out on page 117;

s confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 43 to 49;

n of the annual report that describes the review of effectiveness of risk management and internal control systems set out on and

n describing the work of the audit committee set out on page 94.

s on which we are required to report by exception

cy of explanations received and accounting records

npanies Act 2006 we are required to report to you if, in our opinion:

t received all the information and explanations we require for our audit; or

ccounting records have not been kept by the parent company, or returns adequate for our audit have not been received from ot visited by us; or

company financial statements are not in agreement with the accounting records and returns.

ning to report in respect of these matters.

rs' remuneration

npanies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been art of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

ning to report in respect of these matters.

natters which we are required to address

tenure

ecommendation of the audit committee, we were appointed by the Board of Directors in 2003 to audit the financial statements ding 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous eappointments of the firm is 19 years, covering the years ending 31 December 2003 to 31 December 2021.

ency of the audit report with the additional report to the audit committee

on is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

our report

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

the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements e European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the ordance with the ESEF Regulatory Technical Standard (('ESEF RTS'). This auditor's report provides no assurance over whether ncial report has been prepared using the single electronic format specified in the ESEF RTS.

on (Senior statutory auditor)
half of Deloitte LLP
litor
ed Kingdom

Consolidated Income Statement

Continuing operations	Notes	Year ended 31 December 2021 £m
Revenue	4, 5	**6,883**
Cost of sales		**(5,872)**
Gross profit		**1,011**
Share of results of equity accounted investments	15	**38**
Net operating expenses	7	**(1,500)**
Operating loss	5, 6	**(451)**
Finance costs	7	**(169)**
Finance income	7	**2**
Loss before tax		**(618)**
Tax	8	**172**
Loss after tax for the year from continuing operations		**(446)**
Discontinued operations		
Profit for the year from discontinued operations	13	**1,283**
Profit/(loss) after tax for the year		**837**
Attributable to:		
Owners of the parent		**833**
Non-controlling interests		**4**
		837
Earnings per share		
Continuing operations		
– Basic	10	**(9.6)p**
– Diluted	10	**(9.6)p**
Continuing and discontinued operations		
– Basic	10	**17.7p**
– Diluted	10	**17.7p**

Adjusted[2] results from continuing operations

Adjusted revenue	5	**7,496**
Adjusted operating profit	5, 6	**375**
Adjusted profit/(loss) before tax	6	**252**
Adjusted profit/(loss) after tax	6	**197**
Adjusted basic earnings per share	10	**4.1p**
Adjusted diluted earnings per share	10	**4.1p**

(1) Results for the year ended 31 December 2020 have been restated for discontinued operations (note 1).
(2) Defined in the summary of significant accounting policies (note 2).

dated Statement of Comprehensive Income

	Notes	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
fter tax for the year		**837**	(533)
l not be reclassified subsequently to the Income Statement:			
ıment gain on retirement benefit obligations	24	**297**	244
/(loss) on investments in equity instruments	12	**43**	(16)
arge relating to items that will not be reclassified	8	**(71)**	(42)
		269	186
y be reclassified subsequently to the Income Statement:			
lation on net investments		**(101)**	(42)
comprehensive income from equity accounted investments	15	**13**	16
ome Statement from equity of cumulative translation differences of foreign operations	13	**113**	–
ıs/(losses) on hedge relationships		**54**	(99)
ome Statement on hedge relationships		**46**	8
arge)/credit relating to items that may be reclassified	8	**(19)**	9
		106	(108)
hensive income for the year		**375**	78
ıensive income/(expense) for the year		**1,212**	(455)
ɔ:			
parent		**1,208**	(458)
ı interests		**4**	3
		1,212	(455)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2021 £m
Operating activities		
Net cash from operating activities from continuing operations	27	**263**
Net cash from operating activities from discontinued operations	27	**–**
Net cash from operating activities		**263**
Investing activities		
Disposal of businesses, net of cash disposed	13	**2,703**
Purchase of property, plant and equipment		**(220)**
Proceeds from disposal of property, plant and equipment		**13**
Purchase of computer software and capitalised development costs		**(18)**
Dividends received from equity accounted investments	15	**52**
Purchase of investments	12	**(10)**
Acquisition of subsidiaries, net of cash acquired		**–**
Interest received		**2**
Net cash from/(used in) investing activities from continuing operations		**2,522**
Net cash used in investing activities from discontinued operations	27	**(11)**
Net cash from/(used in) investing activities		**2,511**
Financing activities		
Repayment of borrowings	27	**(1,555)**
Costs of raising debt finance		**(4)**
Repayment of principal under lease obligations		**(54)**
Settlement of interest rate swaps	25	**(47)**
Return of capital	9	**(729)**
Return of capital costs		**(1)**
Dividends paid to owners of the parent	9	**(69)**
Net cash used in financing activities from continuing operations		**(2,459)**
Net cash used in financing activities from discontinued operations	27	**(7)**
Net cash used in financing activities		**(2,466)**
Net increase/(decrease) in cash and cash equivalents, net of bank overdrafts		**308**
Cash and cash equivalents, net of bank overdrafts at the beginning of the year	27	**160**
Effect of foreign exchange rate changes	27	**–**
Cash and cash equivalents, net of bank overdrafts at the end of the year	27	**468**

(1) Results for the year ended 31 December 2020 have been restated for discontinued operations (note 1).

As at 31 December 2021, the Group had net debt of £950 million (31 December 2020: £2,847 million). A definition and r of the movement in net debt is shown in note 27.

dated Balance Sheet

	Notes	31 December 2021 £m	31 December 2020 £m
ssets			
other intangible assets	11	**7,390**	9,198
and equipment	14	**2,528**	3,133
	12	**87**	34
uity accounted investments	15	**429**	430
ssets	22	**250**	180
ncial assets	25	**47**	101
les	17	**707**	439
		11,438	13,515
s			
	16	**893**	1,126
er receivables	17	**1,184**	1,658
ncial assets	25	**23**	47
sets		**11**	23
equivalents	18	**473**	311
		2,584	3,165
	5	**14,022**	16,680
ties			
er payables	19	**2,051**	2,456
g loans and borrowings	20	**462**	165
ons	28	**57**	81
ncial liabilities	25	**119**	58
bilities		**142**	188
	21	**293**	415
		3,124	3,363
abilities		**(540)**	(198)
iabilities			
s	19	**390**	421
g loans and borrowings	20	**903**	2,926
ons	28	**319**	474
ncial liabilities	25	**79**	210
abilities	22	**614**	732
nefit obligations	24	**645**	838
	21	**408**	606
		3,358	6,207
s	5	**6,482**	9,570
		7,540	7,110
apital	26	**333**	333
n account		**3,271**	8,138
e		**109**	109
otion reserve		**729**	–
		(2,330)	(2,330)
d hedging reserve	26	**76**	(30)
ngs		**5,319**	861
table to owners of the parent		**7,507**	7,081
l interests		**33**	29
		7,540	7,110

Statements were approved and authorised for issue by the Board of Directors on 3 March 2022 and were signed on its

n
Director

Simon Peckham
Chief Executive
3 March 2022

Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Translation and hedging reserve £m	Retained earnings £m	**Equity attributable to owners of the parent £m**
At 1 January 2020	333	8,138	109	–	(2,330)	78	1,197	**7,525**
(Loss)/profit for the year	–	–	–	–	–	–	(536)	**(536)**
Other comprehensive (expense)/income	–	–	–	–	–	(108)	186	**78**
Total comprehensive (expense)/income	–	–	–	–	–	(108)	(350)	**(458)**
Equity-settled share-based payments	–	–	–	–	–	–	14	**14**
At 31 December 2020	333	8,138	109	–	(2,330)	(30)	861	**7,081**
Profit for the year	–	–	–	–	–	–	833	**833**
Other comprehensive income	–	–	–	–	–	106	269	**375**
Total comprehensive income	–	–	–	–	–	106	1,102	**1,208**
Capital reduction	–	(4,138)	–	–	–	–	4,138	**–**
Return of capital	–	(729)	–	729	–	–	(729)	**(729)**
Dividends paid	–	–	–	–	–	–	(69)	**(69)**
Equity-settled share-based payments	–	–	–	–	–	–	16	**16**
At 31 December 2021	**333**	**3,271**	**109**	**729**	**(2,330)**	**76**	**5,319**	**7,507**

cont
int

Details of the Group's capital reduction and return of capital are set out in note 1.

Further information on issued share capital and reserves is set out in note 26.

o the Financial Statements

te information

stries PLC ("the Company") is a public company limited by shares. The Company is incorporated in the United Kingdom mpanies Act 2006 and registered in England and Wales. The address of the registered office is given on the back cover. the Group's operations and its principal activities by operating segment are set out in note 5 and in the Divisional ges 12 to 29. The Consolidated Financial Statements of the Group for the year ended 31 December 2021 were accordance with a resolution of the Directors of Melrose Industries PLC on 3 March 2022.

ial Statements are presented in pounds Sterling which is the currency of the primary economic environment in which the ased. Foreign operations are included in accordance with the policies set out in note 2.

ructure

ar, the Group completed the disposal of the Nortek Air Management segment and the Brush and Nortek Control reviously included in the Other Industrial segment. The results of Nortek Air Management, Brush and Nortek Control ssified within discontinued operations for both years presented; with the Income Statement, the Statement of Cash ir associated notes being restated accordingly. At 30 June 2021, the Nortek Control business met the criteria within current Assets Held for Sale and Discontinued Operations to be classified as an asset held for sale. In addition, operations for 2020 include the results of the Wheels and Structures business, which was disposed in November 2020. the Aerospace, Automotive and Powder Metallurgy businesses disposed of certain non-core entities, which have not as discontinued operations. Further detail is shown in note 13.

e Group's strategy, following the disposals of Nortek Air Management and Brush, a return of capital of £729 million, 15 pence per existing ordinary share, was approved by shareholders on 9 July 2021. On 10 August 2021, a court apital reduction of the Company's share premium account by £4,138 million, taking the Company's share premium £8,138 million to £4,000 million. Subsequently, the return of capital was paid in cash to shareholders on 14 September deemable preference share scheme alongside a 9 for 10 share consolidation which reduced the number of ordinary %, from 4,858 million to 4,372 million (further details are contained in note 26).

dards, Amendments and Interpretations affecting amounts, presentation or disclosure reported in the current

financial year, the Group has adopted the following new and revised Standards, Amendments and Interpretations. Their not had a significant impact on the amounts reported in these Financial Statements:

ts to IFRS 9, IAS 39, IFRS 7 and IFRS 4: Interest Rate Benchmark Reform (Phase 2)

ts to IFRS 16: Leases

dards, Amendments and Interpretations in issue but not yet effective

ber 2021, the following Standards, Amendments and Interpretations were in issue but not yet effective:

surance contracts

d *IAS 28* (amendments): Sale or contribution of assets between an investor and an associate or joint venture

ts to IAS 1: Classification of liabilities

ts to IFRS 3: Reference to the Conceptual Framework

ts to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use

ts to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

rovements to IFRS Standards: 2018-2020 Cycle

ts to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies

ts to IAS 8: Definition of Accounting Estimates

ts to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

do not expect that the adoption of the above Standards, Amendments and Interpretations will have a material impact on Statements of the Group in future periods.

ry of significant accounting policies

ounting

ated Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and Financial Reporting Standards ("IFRSs") as issued by the IASB. The Consolidated Financial Statements have been n historical cost basis, except for the revaluation of certain financial instruments and investments which are recognised t the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in assets.

erformance Measures

esents Alternative Performance Measures ("APMs") in addition to the statutory results of the Group. These are accordance with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA").

2. Summary of significant accounting policies continued

APMs used by the Group are set out in the glossary to these Financial Statements on pages 203 to 210 and the reconci between statutory and adjusted results are listed below and described in more detail in note 6.

Adjusted revenue includes the Group's share of revenue from equity accounted investments ("EAIs").

Adjusted profit measures exclude items which are significant in size or volatility or by nature are non-trading or non-recu released to the Income Statement that was previously a fair value item booked on an acquisition, and include adjusted p EAIs.

On this basis, the following are the principal items included within adjusting items impacting operating profit:

- Amortisation of intangible assets that are acquired in a business combination, excluding computer software and devel
- Significant restructuring project costs and other associated costs, including losses incurred following the announceme for identified businesses, arising from significant strategy changes that are not considered by the Group to be part of t operating costs of the business;
- Acquisition and disposal related gains and losses;
- Impairment charges that are considered to be significant in nature and/or value to the trading performance of the busi
- Movement in derivative financial instruments not designated in hedging relationships, including revaluation of associat assets and liabilities;
- Removal of adjusting items, interest and tax on equity accounted investments to reflect operating results;
- The charge for the Melrose equity-settled compensation scheme, including its associated employer's tax charge;
- Costs associated with the gender equalisation of guaranteed minimum pension ("GMP") for occupational schemes; ar
- The net release of fair value items booked on acquisitions.

Further to the adjusting items above, adjusting items impacting profit before tax include:

- Acceleration of unamortised debt issue costs written off as a consequence of Group refinancing;
- Significant settlement gains and losses associated with interest rate swaps following acquisition or disposal related ac not considered by the Group to be part of the normal financing costs; and
- The fair value changes on cross-currency swaps, entered into by GKN prior to acquisition, relating to cost of hedging v deferred in equity.

In addition to the items above, adjusting items impacting profit after tax include:

- The net effect on tax of significant restructuring from strategy changes that are not considered by the Group to be part operating costs of the business;
- The net effect of significant new tax legislation; and
- The tax effects of adjustments to profit/(loss) before tax.

The Board considers the adjusted results to be an important measure used to monitor how the businesses are performir provides a meaningful reflection of how the businesses are managed and measured on a day-to-day basis and achieves and comparability between reporting periods, when all businesses are held for a complete reporting period.

The adjusted measures are used to partly determine the variable element of remuneration of senior management throug Group and are also in alignment with performance measures used by certain external stakeholders. The adjusted measu taken into account when valuing individual businesses as part of the "Buy, Improve, Sell" Group strategy model.

Adjusted profit is not a defined term under IFRS and may not be comparable with similarly titled profit measures reporte companies. It is not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year r comparative periods where provided.

Basis of consolidation

The Group's Financial Statements include the results of the parent undertaking and all of its subsidiary undertakings. In Group's share of the results and equity of joint ventures and associated undertakings (together "equity accounted investi included. The results of businesses acquired during the period are included from the effective date of acquisition and, for during the period, to the effective date of disposal. Where necessary, adjustments are made to the Financial Statements subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been e full.

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

Going concern

The Consolidated Financial Statements have been prepared on a going concern basis as the Directors consider that ade resources exist for the Company to continue in operational existence for the foreseeable future.

ry of significant accounting policies continued

iquidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity headroom t 31 December 2021 and sufficient headroom throughout the going concern forecast period. Forecast covenant considered further below.

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banking facility was extended in the year, from its original maturity in January 2023 to June 2024. The facility has two nants being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half yearly December.

covenants during the period of assessment for going concern are as follows:

	31 December 2021	30 June 2022	31 December 2022
juste EBITDA	**4.25x**	4.0x	3.75x
	3.0x	3.25x	4.0x

is modelled two scenarios in its assessment of going concern; a base case and a reasonably possible sensitised case.

e takes into account the estimated impact of a continued recovery from the COVID-19 pandemic as well as other end perational factors, including supply chain challenges, throughout the going concern period and has been monitored ctual results and cash generation in the year.

bly possible sensitised case models more conservative sales assumptions for 2022 and the first half of 2023. Given that ity headroom of £3 billion and the Group's leverage was 1.3x, comfortably below the covenant test at 31 December ner sensitivity detail is provided.

isonably possible sensitised case, even with significant reductions, no covenant is breached at any of the forecast testing 0 June 2022 and 31 December 2022, with the testing at 30 June 2023 also favourable, and the Group will not require l sources of finance, even following repayment of the £450 million bond in September 2022.

mbinations and goodwill

on of subsidiaries is accounted for using the acquisition method. The cost of acquisition is measured at the fair value of erred, the liabilities incurred or assumed at the date of exchange of control and equity instruments issued by the Group in control of the acquiree. Control is achieved where the Company has the power to govern the financial and operating investee entity so as to obtain benefits from its activities. Costs directly attributable to business combinations are s an expense in the Income Statement as incurred.

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

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

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

cquisition is initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any g interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree over the erest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, easured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more vents or changes in circumstances indicate that the carrying value may be impaired.

essment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held t in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

uisition date, any goodwill acquired is allocated to the cash generating units acquired. Impairment is determined by recoverable amount of the cash generating unit to which goodwill relates. Where the recoverable amount of the cash it is less than the carrying amount, an impairment loss is recognised in the Income Statement and is not subsequently en there is a disposal of a cash generating unit, goodwill relating to the operation disposed of is taken into account in he gain or loss on disposal of that operation. The amount of goodwill allocated to a partial disposal is measured on the elative values of the operation disposed of and the operation retained.

2. Summary of significant accounting policies continued

Equity accounted investments

A joint venture is an entity which is not a subsidiary undertaking but where the interest of the Group is that of a partner in over which the Group exercises joint control with its partners over the financial and operating policies. In all cases voting 50% or lower.

Associated undertakings are entities that are neither a subsidiary nor a joint venture, but where the Group has a significa The results, assets and liabilities of equity accounted investments are accounted for using the equity method of accounti Group's share of equity includes goodwill arising on acquisition.

When a Group entity transacts with an equity accounted investment of the Group, profits and losses resulting from the tr with the equity accounted investments are recognised in the Group's Consolidated Financial Statements only to the exte in equity accounted investments that are not related to the Group.

Revenue

Revenues are recognised either at the point of transfer of control of goods and services, or recognised over time on an a using the costs incurred as the measure of the activity. Costs are recognised as they are incurred.

The nature of agreements into which the Group enters means that certain of the Group's arrangements with its customer multiple elements that can include any combination of:

- Sale of products and services;
- Risk and revenue sharing partnerships ("RRSPs");
- Design and build; and
- Construction contracts.

Contracts are reviewed to identify each performance obligation relating to a distinct good or service and the associated c The Group allocates revenue to multiple element arrangements based on the identified performance obligations within th line with the policies below. A performance obligation is identified if the customer can benefit from the good or service on together with other readily available resources, and it can be separately identified within the contract. This review is perfo reference to the specific contract terms.

Sale of products and services

This revenue stream accounts for the majority of Group sales. Contracts in the Automotive, Powder Metallurgy, Nortek A Management and Other Industrial segments operate almost exclusively on this basis, and it also covers a high proportior Aerospace segment's revenues.

Invoices for goods are raised and revenue is recognised when control of the goods is transferred to the customer. Depen contractual terms this may be at the point of despatch, acceptance by the customer or, in Aerospace, certification by the The revenue recognised is the transaction price as it is the observable selling price per product.

Cash discounts, volume rebates and other customer incentive programmes are based on certain percentages agreed wit customers, which are typically earned by the customer over an annual period. These are allocated to performance obliga recorded as a reduction in revenue at the point of sale based on the estimated future outcome. Due to the nature of thes arrangements an estimate is made based on historical results to date, estimated future results across the contract period contractual provisions of the customer agreement.

Many businesses in the Powder Metallurgy and Automotive segments recognise an element of revenue via a surcharge material cost recovery mechanism. The surcharge is generally based on prior period movement in raw material price indi to current period deliveries.

Risk and revenue sharing partnerships ("RRSPs")

This revenue stream affects a small number of businesses, exclusively in the Aerospace segment. Revenue is recognise RRSPs for both the sale of product as detailed above and sales of services, which are recognised by reference to the sta completion based on the performance obligations in the contract. In most RRSP contracts, there are two separate phase: Group earns revenue; sale of products principally to engine manufacturers and aftermarket support.

The assessment of the stage of completion is dependent on the nature of the contract and the performance obligations w

The value of revenue is based on the standalone selling price for each element of the contract.

Revenue is recognised at the point control passes to the customer. For products and services, this has been identified as despatch, acceptance by the customer or certification by the customer. Where the amount of revenue recognised is not y collection under the terms of the contract, it will be recognised as variable consideration within contract assets. Revenue recognised where recovery is not probable due to potential significant reversals in the future. This can be affected by ass future volumes including aftermarket expectations which are impacted by technology development, fuel price and compet

Participation fees are payments made to engine manufacturers and original equipment manufacturers relating to RRSPs term agreements. They are recognised as contract assets to the extent they can be recovered from future sales. Where p fees have been paid under the RRSP, the amortisation is recognised as a revenue reduction under IFRS 15, as performa obligations are satisfied.

ry of significant accounting policies continued

ring the design and development phase of a typical RRSP contract, the Group performs contractually agreed-upon tasks r. It is usual for the Intellectual Property Rights ("IPRs") that underpin technology advancement or know-how to remain p such that the customer cannot benefit from the IPRs either on their own or together with other resources that are ble to the customer. Where IPRs are transferred to the customer the Group has determined this is not separately om other promises in the contract due to an exclusivity clause for the supply of product. Accordingly, it has been at the Group's promise to transfer goods to its customer is a performance obligation that is separately identifiable and elopment and know-how as an input.

build

stream affects a discrete number of businesses, primarily in the Aerospace segment but also on a smaller scale in the egment. Generally, revenue is only recognised on the sale of product as detailed above, however, on occasions cash is dvance of work performed to compensate the Group for costs incurred in design and development activities. The Group assessment of its performance obligations to understand multiple elements. Where it is determined there is only one type ce obligation, being the delivery of product, any cash advance is factored into the revenue allocated across the deliveries er the contract.

erformance obligation has not been satisfied amounts received are recognised as a contract liability. If there is more than nce obligation, revenue is allocated to each one based on a standalone selling price for each element of the contract.

ature of design and build contracts, there can be significant "learning curves" while the Group optimises its production uring the early phase of these contracts, all costs including any start-up losses are taken directly to the Income s they do not meet the criteria for fulfilment costs.

n contracts

le performance obligations are identified, revenue is recognised as each performance obligation is met. This requires an of total revenue to identify the allocation across the performance obligations, based on the standalone selling price for on.

re one of the following criteria is met, revenue is recognised over time:

ner simultaneously receives and consumes the benefits provided by the Group's performance;

's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment ance completed to date.

ature of the criteria above, only certain contracts in the Group qualify for over time recognition. On this basis revenue is sing the input method, which uses costs incurred and the assessed margin across the contract. The input method is used rogress as it best depicts the transfer of control to the customer. The margin and associated revenue are calculated estimated transaction price and expected total costs, with considerations made for the associated contract risks.

above criteria are not met, revenue is recognised at a point in time when control transfers to the customer which, in line of goods and services above, is the point of delivery or customer acceptance dependent on the terms of the contract.

sideration, such as price or scope amendments, is included based on the expected value or most likely amount. A ncluded unless it is highly probable that the revenue will not significantly reverse in the future. This constraint is sed on a cautious expectation of the life of certain RRSPs and by assessing the impact of a 10% reduction in expected . Variations in contract work, claims and incentive payments are included in revenue from construction contracts based te of the expected value the Group expects to receive. Variations are included when the customer has agreed to the cknowledged liability for the variation in principle. Claims are included when negotiations with the customer have reached stage such that it is virtually certain that the customer will accept the claim.

ome

me is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be iably. Finance income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate

osts

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

ncome earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is n the borrowing costs eligible for capitalisation.

owing costs are recognised in the Income Statement in the period in which they are incurred.

of loans

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

nt and equipment

nt and equipment is stated at cost less accumulated depreciation and any impairment in value.

2. Summary of significant accounting policies continued

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bring the a: operation, and any borrowing costs on qualifying assets. Qualifying assets are defined as an asset or programme where capitalisation is more than 12 months. Purchase price or construction cost is the aggregate amount paid and the fair valu other consideration given to acquire the asset.

Where assets are in the course of construction at the balance sheet date, they are classified as capital work-in-progress. are made to other asset categories when they are available for use, at which point depreciation commences.

Right-of-use assets arise under IFRS 16 and are depreciated over the shorter of the estimated life and the lease term.

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	3-15 years

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

The carrying values of property, plant and equipment are reviewed annually for indicators of impairment, or if events or c circumstances indicate that the carrying value may not be recoverable. If such indication exists an impairment test is perf where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable an recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing val estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current marke assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely ir 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 expect from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference b net disposal proceeds or costs and the carrying amount of the item) is included in the Income Statement in the period tha 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 initially recorded at their fair value at the acquis

Access to the use of brands and intellectual property are valued using a "relief from royalty" method which determines th value of future additional cash flows arising from the use of the intangible asset.

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

Technology assets are valued using a replacement cost approach, or a "relief from royalty" method.

Amortisation of intangible assets is recorded in administration expenses in the Income Statement and is calculated on a s basis over the estimated useful lives of the asset as follows:

Customer relationships and contracts	20 years or less
Brands and intellectual property	20 years or less
Technology	20 years or less
Computer software	5 years or less
Development costs	20 years or less

Where computer software is not integral to an item of property, plant or equipment, its costs are capitalised and categoris intangible assets. Computer software is initially recorded at cost. Where these assets have been acquired through a busi combination, this will be the fair value allocated in the acquisition accounting. Where these have been acquired other thai business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to asset.

Intangible assets (other than computer software and development costs) are tested for impairment annually or more frequ whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losse measured on a similar basis to property, plant and equipment. Useful lives are also examined on an annual basis and ad where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred.

ry of significant accounting policies *continued*

g to clearly defined and identifiable development projects are capitalised when there is a technical degree of exploitation, resources and a potential market or development possibility in the undertaking that are recognisable; and where it is the roduce, market or execute the project. A correlation must also exist between the costs incurred and future benefits and an be measured reliably. Capitalised costs are expensed on a straight-line basis over their useful lives of 20 years or ot meeting such criteria are expensed as incurred.

re valued at the lower of cost and net realisable value and are measured using a first in, first out or weighted average ost includes all direct expenditure and appropriate production overhead expenditure incurred in bringing goods to their under normal operating conditions. Net realisable value is based on estimated selling price less costs expected to be mpletion and disposal. Provisions are made for obsolescence or other expected losses where necessary.

sh equivalents

sh equivalents comprise cash in hand, balances with banks and similar institutions, and short-term deposits which are rtible to cash and are subject to insignificant risks of changes in value.

se of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as e, net of outstanding bank overdrafts.

ring loans and borrowings

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

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

sses are recognised in the Income Statement when the liabilities are derecognised or impaired, as well as through the process.

t refundable advances

refundable advances are reported in "Trade and other payables" in the Balance Sheet. Refundable advances include anced by a government, accrued interest and directly attributable costs. Refundable advances are provided to the Group e expenditures on specific development programmes. The advances are provided on a risk sharing basis, i.e. repayment termined subject to the success of the related programme. Balances are held at amortised cost and interest is calculated ective interest rate method.

e arrangement is identified, a liability to the lessor is included in the Balance Sheet as a lease obligation calculated at the e of minimum lease payments. A corresponding right-of-use asset is recorded in property, plant and equipment. The used to calculate the lease liability is the Group's incremental borrowing rate, unless there is a rate implicit in the lease. ntal borrowing rate is used for the majority of leases. Incremental borrowing rates are based on the term, currency, start date of the lease and reflect the rate the Group would pay for a loan with similar terms and security.

ial recognition, the lease liability is measured at amortised cost using the effective interest rate method. Where there is a ure lease payments due to a rent review, change in index or rate, or a change in the Group's assessment of whether it is ertain to exercise a purchase, extension or break option, the lease obligation is remeasured. A corresponding adjustment e associated right-of-use asset.

assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

ents are apportioned between finance costs and a reduction in the lease obligation so as to reflect the interest on the lance of the obligation. Finance charges are recorded in the Income Statement within finance costs.

a term of 12 months or less and leases for low value are not recorded on the Balance Sheet and lease payments are s an expense in the Income Statement on a straight-line basis over the lease term. Expenses relating to variable lease hich are not included in the lease liability, due to being based on a variable other than an index or rate, are recognised as n the Income Statement.

struments – assets
n and measurement

ssets are classified as either those which are measured at fair value, through profit or loss or Other Comprehensive those measured at amortised cost.

ets are initially recognised at fair value. For those which are not subsequently measured at fair value through profit or udes directly attributable transaction costs. Trade and other receivables, contract assets and amounts due from equity vestments are subsequently measured at amortised cost.

and derecognition of financial assets

ets are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the he Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or fers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Notes to the Financial Statements
Continued

2. Summary of significant accounting policies continued

Impairment of financial assets
For trade receivables and contract assets, the simplified approach permitted under IFRS 9 is applied. The simplified appr requires that at the point of initial recognition the expected credit loss across the life of the receivable must be recognised balances do not contain a significant financing element, the simplified approach relating to expected lifetime losses is app IFRS 9. Cash and cash equivalents and other receivables are also subject to impairment requirements.

Investments
The Group has an investment in unlisted shares that are not traded in an active market, but are classified as financial ass measured at fair value. Fair value is determined by assessment of expected future dividends discounted to net present va changes in fair value are recognised in Other Comprehensive Income and accumulated in retained earnings. Dividends fr investments are recognised in the Income Statement when the Group's right to receive the dividend is established.

Trade and other receivables
Trade and other receivables are measured and carried at amortised cost using the effective interest method, less any imp trade receivables, the carrying amount is reduced by an allowance for expected lifetime losses. Subsequent recoveries of previously written off are credited against the allowance account and changes in the carrying amount of the allowance ac recognised in the Income Statement.

Trade receivables that are assessed not to be impaired individually are also assessed for impairment on a collective basi measuring the expected credit losses, the Group considers all reasonable and supportable information such as the Group experience at collecting receipts, any increase in the number of delayed receipts in the portfolio past the average credit p forward-looking information such as forecasts of future economic decisions.

Other receivables are also considered for impairment and if required the carrying amount is reduced by any loss arising w recorded in the Income Statement, although for the Group this is not material.

Financial instruments – liabilities
Recognition and derecognition of financial liabilities
Financial liabilities are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual prov instruments and are initially measured at fair value, net of transaction costs. The Group derecognises financial liabilities w Group's obligations are discharged, significantly modified, cancelled or they expire.

Classification and measurement
Non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest method, with i expense recognised on an effective interest rate basis. The effective interest method is a method of calculating the amort financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that dis estimated future cash payments throughout the expected life of the financial liability, or, where appropriate, a shorter peri gross carrying amount of the financial liability.

Derivative financial instruments and hedging
The Group uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and comm arising from operating and financing activities. The Group does not hold or issue derivative financial instruments for specu trading purposes. Details of derivative financial instruments are disclosed in note 25 of the Financial Statements.

Derivative financial instruments are recognised and stated at fair value in the Group's Balance Sheet. Their fair value is re at each reporting date. The accounting treatment for the resulting gain or loss will depend on whether the derivative meet to qualify for hedge accounting and are designated as such.

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

Derivative financial instruments with maturity dates of less than one year from the period end date are classified as currer Balance Sheet. Derivatives embedded in non-derivative host contracts are recognised at their fair value in the Group's Ba when the nature, characteristics and risks of the derivative are not closely related to the host contract. Gains and losses a remeasurement of these embedded derivatives at each balance sheet date are recognised in the Income Statement.

Hedge accounting
In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the ite hedged and the hedging instrument, along with its risk management objectives and its strategy for undertaking various he transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents that the hedge w effective, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Gr hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qual (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or ex discontinuation is accounted for prospectively.

ry of significant accounting policies continued

esignates certain hedging instruments as either cash flow hedges or hedges of net investments in foreign operations.

edge

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

esignates the full change in the fair value of a foreign exchange forward contract (i.e. including the forward elements) as nstrument for all of its hedging relationships involving foreign exchange forward contracts.

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

viously recognised in the Statement of Comprehensive Income and accumulated in equity are recycled to the Income the periods when the hedged item is recognised in the Income Statement or when the forecast transaction is no longer ccur. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non- ity, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement the non-financial asset or non-financial liability.

et investments in foreign operations

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

esignates only the spot rate component of cross-currency swaps in net investment hedges. The changes in the fair value forward and currency basis elements are recognised in other comprehensive income and accumulated in equity. If the is time-period related, then the amount accumulated in equity is reclassified to profit or loss on an appropriate basis.

sses accumulated in equity are recognised immediately in the Income Statement when the foreign operation is disposed.

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

iabilities acquired in a business combination

abilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of eporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in with IAS 37: Provisions, contingent liabilities and contingent assets and the amount initially recognised less cumulative *venue recognised in accordance with the principles of IFRS 15: Revenue from contracts with customers.*

d other retirement benefits

perates defined benefit pension plans and defined contribution plans, some of which require contributions to be made to funds separate from the Group.

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

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

xpense on net defined benefit obligations is determined by applying discount rates used to measure defined benefit the beginning of the year to net defined benefit obligations at the beginning of the year. The net interest expense is ithin finance costs.

ient gains and losses comprise actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on excluding interest). Remeasurement gains and losses, and taxation thereon, are recognised in full in the Statement of ve Income in the period in which they occur and are not subsequently recycled.

is and losses may result from differences between the actuarial assumptions underlying the plan obligations and actual uring the period or changes in the actuarial assumptions used in the valuation of the plan obligations.

ontribution plans, contributions payable are charged to the Income Statement as an operating expense when employees d services entitling them to the contributions.

Notes to the Financial Statements
Continued

2. Summary of significant accounting policies continued

Foreign currencies

The individual Financial Statements of each Group company are presented in the currency of the primary economic envi which it operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and fina of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the pres currency for the Consolidated Financial Statements.

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

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

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operati translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the avera rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at transactions are used. Exchange differences arising, if any, are recognised in the Statement of Comprehensive Income a accumulated in equity (attributed to non-controlling interests as appropriate). Such translation differences are recognised as expenses in the period in which the related operation is disposed of. Any exchange differences that have previously b 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 entity and translated at the rate prevailing at the balance sheet date.

Taxation

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

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

A tax provision is recognised for those matters for which the tax determination is uncertain but it is considered probable th be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected t payable. The assessment is based on the judgement of tax professionals within the Company supported by previous exp respect of such activities and in certain cases based on specialist independent advice.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the ta 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 the initial recognition of goodwill or an asset or liability in a transaction that is n business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- where the timing of the reversal of the temporary differences associated with investments in subsidiaries and interests i accounted investments can be controlled and it is probable that the temporary differences will not reverse in the foresee

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unus losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differen 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 busine 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 equity accou investments, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will 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 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 r the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the relevant bal date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against c liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its cu assets and liabilities on a net basis.

y of significant accounting policies continued

items recognised directly in other comprehensive income is recognised in the Statement of Comprehensive Income Income Statement.

penses and assets are recognised net of the amount of sales tax except:

ales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

vables and payables are stated with the amount of sales tax included.

nt of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the t.

payments

s applied the requirements of IFRS 2: Share-based payment. The Group issues equity-settled share-based payments to yees. Equity-settled share-based payments are measured at fair value of the equity instrument excluding the effect of ased vesting conditions at the date of grant. The fair value determined at the grant date of the equity-settled share-based xpensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually sted for the effect of non-market based vesting conditions.

neasured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

assets and disposal groups

ssets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs urrent assets and businesses are classified as held for sale if their carrying amount will be recovered principally through tion rather than through continuing use. This condition is regarded as having been met only when the sale is highly the asset or business is available for immediate sale in its present condition. Management must be committed to the ould be expected to qualify for recognition as a completed sale within one year from the date of classification.

grants

grants are not recognised in the Income Statement until there is reasonable assurance that the Group will comply with attached to them and that the grants will be received. Government grants are recognised in the Income Statement on a sis over the periods in which the Group recognises the related costs for which the grants are intended to compensate.

overnment grants where the primary condition is that the Group should purchase, construct or otherwise acquire non- (including property, plant and equipment) are recognised as deferred government grants in the Balance Sheet and the Income Statement on a systematic and rational basis over the useful lives of the related assets.

grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving ancial support to the Group with no future related costs are recognised in the Income Statement in the period in which receivable.

accounting judgements and key sources of estimation uncertainty

tion of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, l assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The l associated assumptions are based on historical experiences and other factors that are considered to be relevant. may differ from these estimates.

and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the s both current and future periods.

ements

of preparing the Financial Statements, a critical judgement within the scope of paragraph 122 of IAS 1: Presentation of ements is made during the process of applying the Group's accounting policies.

ms

re required as to whether items are disclosed as adjusting, with consideration given to both quantitative and qualitative er information about the determination of adjusting items in the year ended 31 December 2021 is included in note 2.

other critical judgements other than those involving estimates, that have had a significant effect on the amounts the Financial Statements. Those involving estimates are set out below.

of estimation uncertainty

concerning the future and other key sources of estimation uncertainty at the balance sheet date, that may have a of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are ow.

Notes to the Financial Statements
Continued

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

a) Assumptions used to determine the recoverable amount of goodwill and other assets

The carrying value of goodwill in the Group at 31 December 2021 was £2,850 million (31 December 2020: £3,640 millior

Determining whether the goodwill of groups of cash generating units ("CGUs") is impaired requires an estimation of its re amount which is compared against the carrying value. The recoverable amount is deemed to be the higher of the value i value less costs to sell. The value in use calculation requires the Directors to estimate the future cash flows expected to groups of CGUs and a suitable discount rate in order to calculate present value. The fair values of the groups of CGUs a using a combination of estimated discounted cash flows and EBITDA multiple valuations, as in the current environment i difficult to assess a sales value using observable market inputs (level 1) or inputs based on market evidence (level 2) an unobservable inputs (level 3) have been used.

Certain groups of CGUs are more at risk than others and this could possibly lead to an impairment or loss on disposal in year, depending on how markets continue to recover from COVID-19 implications. The voluntary sensitivity disclosure in shows there is no reasonably possible change in key assumptions that could result in an impairment in any of the groups

The Aerospace group of CGUs is the most sensitive to a change in estimates. As at 31 December 2021, the carrying am goodwill and other intangible assets (not including computer software and development costs) in the Aerospace group of £3,475 million (31 December 2020: £3,735 million).

In order for a material impairment to be recorded, a change in discount rate for the Aerospace group of CGUs from 7.8% would be required.

b) Assumptions used to determine the carrying amount of the Group's net retirement benefit obligations

The Group's pension plans are significant in size. The defined benefit obligations in respect of the plans are discounted a reference to market yields on high-quality corporate bonds. Significant estimation is required when setting the criteria for included in the population from which the yield curve is derived. The most significant criteria considered for the selection include are the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are exclude

In addition, assumptions are made in determining mortality and inflation rates to be used when valuing the plan's definec obligations. At 31 December 2021, the retirement benefit obligation was a net deficit of £461 million (31 December 2020: million).

Further details of the assumptions applied and a sensitivity analysis on the principal assumptions used to determine the benefit liabilities of the Group's obligations are shown in note 24. Whilst actual movements might be different to sensitivit these are a reasonably possible change that could occur.

c) Loss-making contracts

Loss-making contract provisions represent the forecast unavoidable costs required to meet the obligations of long-term a in excess of the contractual inflow expected to be generated in respect of these agreements. In assessing the unavoidab management has considered the possibility that future actions could impact the profitability of the contracts. Calculation includes estimations of volumes, price and costs to be incurred over the life of the contract, which are discounted to a cu Future changes within these estimates, or commercial progress could have a material impact on the provision in future p December 2021, the carrying value of the loss-making contract provision in the Group was £167 million (31 December 2(million). In the last three years significant progress has been made resolving commercial and operational issues within a of loss-making contracts inherited on acquisition of GKN. The release has on average been 18% of the balance immedia reassessment. If the Group were to achieve a similar level of success on the amount outstanding at 31 December 2021, be a further £30 million released to adjusting items in the next year.

d) Estimates of future revenues and costs of long-term contractual arrangements

The Group has certain large, complex contracts where significant judgements and estimates are required in order to allo associated consideration.

A key judgement is the measurement of variable consideration, in particular relating to risk and revenue sharing partners ("RRSPs"). A detailed review of the Group's RRSP contracts determined where terms and conditions result in variable co and this is further set out in note 17. Distinguishing between a contractual right and the economic compulsion of partners to the sale of original equipment ("OE") components and aftermarket activities relies on an interpretation of complex lega This specific point governs whether variable consideration is recognised on the sale of OE components and this can sign impact the level of profitability from one period to the next. Further disclosure is set out in note 4.

The forecast revenues and costs in respect of RRSP contracts are inherently imprecise and significant estimates are req assess the pattern of future maintenance activity, the costs to be incurred and escalation of revenue and costs. The estir account of the uncertainties, constraining the expected level of revenue as appropriate. Measurement of variable conside driven by forecasting aftermarket revenue per delivered engine which is in turn contingent on overall programme succes discounting that might be offered by the engine manufacturers (the Group's customers), engineering requirements neede performance of the engine and the allocation of revenue to individual units. In addition, where programmes are at an earl wider implications of any competing engines as well as complications outside of the Group can be difficult to assess. Any inputs could change in the next year as programmes evolve and due to the size and scale of these contracts, almost any could result in material changes in future periods.

accounting judgements and key sources of estimation uncertainty continued

onsideration contract asset calculated is the best estimate of revenue allocated to completed performance obligations sumptions and constraints as detailed further in note 17. A reasonably possible change in assumptions, such as quirements to support programmes and the expected life of certain engines, could lead to the variable consideration alance Sheet of £305 million (2020: £247 million) increasing to between £335 million and £345 million. This would lead of additional profit in the next year of between £30 million and £40 million.

the Group's revenue is as follows:

perations	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
gnised at a point in time	**5,946**	6,038
gnised over time	**937**	1,094
	6,883	7,132

ontinued operations (note 1).

ne accounting policies in note 2, the Group has four primary revenue streams. There is little judgement or estimation in ecognition of three of these areas: (i) sale of products and services, (ii) design and build and (iii) construction contracts. ne fourth area, as disclosed in note 3d, there is estimation involved in accounting for certain RRSP contracts, which arise the Aerospace business. RRSP contracts generally include the sale of products and services as well as certain aspects build arrangements. Further details are set out below.

enue sharing partnerships

s approximately £11 billion (31 December 2020: £9 billion) in respect of contractual transaction prices including a stimate of variable consideration, on four engine programmes, out of a wider population of such programmes, which has l to contracted performance obligations not satisfied at 31 December 2021. These performance obligations will be evenue will be recognised over a period of up to 30 years (2020: 28 years).

f revenue recognised from RRSP contracts during the year was £402 million, which includes variable consideration of)20: £354 million, which included variable consideration of £13 million). Within this there is revenue from the delivery of is recognised at a point in time of £377 million (2020: £326 million) and revenue from provision of service which is er time of £25 million (2020: £28 million). Due to the nature of certain of these RRSP arrangements, there is associated deration and the contract asset, including movements during the year, is disclosed in note 17.

products and services delivered in RRSP contracts varies depending on the individual terms. Typically, they include a velopment phase (which has been determined not to be a distinct performance obligation and so no revenue is nd two other phases where the Group does have performance obligations and earns revenue:

tructural OE engine components, such as turbine cases, principally to engine manufacturers, where revenue is ed at a point in time; and

ket support which can include: sale of spare parts where revenue is recognised at a point in time and stand ready for life of engine obligations to maintain permanent technical, and other programme related, support functions. ns can occur at any time during the engine life and include: engineering and technical support for engine configuration and provision of aftermarket inventory support solutions.

e recognised over time

these RRSP contracts on long-term engine programmes means that, as a partner, the Aerospace business can share d from maintenance, repair and overhaul services which are provided by the engine manufacturers (the Group's their sub-contractors, but not the Group. The Group has a stand ready obligation to contribute to certain of the hich typically results in the provision of services such as technical and other programme support activities over the e engine. These services occur over the life of the engine and due to the nature of compensation from customer , which is often flight hour based, as well as costs which are less predictable, revenue is recognised over time using the acturer's actual overhaul costs as an input method. This method is considered appropriate as it best reflects the eipt and consumption of benefit from the Group's stand ready performance obligation.

act revenue includes amounts from: expected sales of OE engine components, expected sales of spare parts and venue per delivered engine for stand ready services for the life of engine obligations. The total contract revenue is of the performance obligations.

n £24 million (2020: £nil) of revenue recognised from changes in assumptions which will also impact the revenue veen future years. Assumption changes were made following operational progress by customers.

Notes to the Financial Statements
Continued

5. Segment information

Segment information is presented in accordance with IFRS 8: Operating Segments which requires operating segments t on the basis of internal reports about components of the Group that are regularly reported to the Group's Chief Operatin Maker ("CODM"), which has been deemed to be the Group's Board, in order to allocate resources to the segments and performance.

Following the disposal of the Nortek Air Management segment during the year its results are classified within discontinu and the comparative results for 2020 have been restated accordingly. In addition, the results of the Brush and Nortek Cc businesses, which were disposed of in the year, have also been classified as discontinued operations. The Brush and N businesses were previously included within the Other Industrial segment and the comparative results for 2020 have bee accordingly.

The operating segments are as follows:

Aerospace – a multi-technology global tier one supplier of both civil and defence airframes and engine structures.

Automotive – a global technology and systems engineer which designs, develops, manufactures and integrates an exte of driveline technologies, including electric vehicle components.

Powder Metallurgy – a global leader in precision powder metal parts for the automotive and industrial sectors, as well a production of powder metal.

Other Industrial – comprises the Group's Ergotron and Hydrogen Technology businesses. The Hydrogen Technology b launched in the year.

In addition, there are central cost centres which are also reported to the Board. The central corporate cost centres conta Group head office costs and charges related to the divisional management long-term incentive plans.

Reportable segment results include items directly attributable to a segment as well as those which can be allocated on a basis. Inter-segment pricing is determined 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, external customers. Inter-segment sales are not material and have not been disclosed.

The following tables present the results and certain asset and liability information regarding the Group's operating segm central cost centres for the year ended 31 December 2021.

a) Segment revenues

The Group derives its revenue from the transfer of goods and services over time and at a point in time. The Group has a the disaggregation of revenue recognised from contracts with customers by operating segment is appropriate as this is t regularly reviewed by the CODM in evaluating financial performance. The Group also believes that presenting this disag revenue based on the timing of transfer of goods or services provides useful information as to the nature and timing of re contracts with customers.

Year ended 31 December 2021 **Continuing operations**	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial[1] £m
Adjusted revenue	**2,543**	**3,745**	**975**	**233**
Equity accounted investments	(5)	(581)	(27)	–
Revenue	**2,538**	**3,164**	**948**	**233**
Timing of revenue recognition				
At a point in time	1,601	3,164	948	233
Over time	937	–	–	–
Revenue	**2,538**	**3,164**	**948**	**233**

Year ended 31 December 2020 – restated[2] Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial[1] £m
Adjusted revenue	**2,804**	**3,797**	**905**	**217**
Equity accounted investments	(6)	(566)	(19)	–
Revenue	**2,798**	**3,231**	**886**	**217**
Timing of revenue recognition				
At a point in time	1,704	3,231	886	217
Over time	1,094	–	–	–
Revenue	**2,798**	**3,231**	**886**	**217**

(1) Includes revenue in respect of Ergotron of £233 million (2020: £217 million).
(2) Restated for discontinued operations (note 1).

t information continued
operating profit

December 2021 rations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial[1] £m	Corporate[2] £m	Total £m
rating profit/(loss)	**112**	**172**	**91**	**51**	**(51)**	**375**
ded in adjusted operating profit[3]:						
f intangible assets acquired in nbinations	(245)	(142)	(49)	(16)	–	(452)
costs	(92)	(147)	(18)	–	(12)	(269)
derivatives and associated ets and liabilities	4	(1)	(3)	–	(114)	(114)
ted investments adjustments	–	(28)	–	–	–	(28)
-settled compensation scheme	–	–	–	–	(19)	(19)
d changes in discount rates of fair	23	14	11	–	1	49
d disposal related gains and losses	2	1	8	–	(4)	7
ss)/profit	**(196)**	**(131)**	**40**	**35**	**(199)**	**(451)**
						(169)
ie						2
ax						**(618)**
						172
rear from continuing operations						**(446)**

December 2020 – restated[4] ations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial[1] £m	Corporate[2] £m	Total £m
rating profit/(loss)	**14**	**82**	**39**	**52**	**(46)**	**141**
ded in adjusted operating profit[3]:						
f intangible assets acquired in nbinations	(256)	(147)	(52)	(17)	–	(472)
costs	(110)	(60)	(48)	(1)	(2)	(221)
assets	(133)	(21)	(30)	–	–	(184)
ted investments adjustments	–	(30)	–	–	–	(30)
-settled compensation scheme	–	–	–	–	(11)	(11)
d disposal related gains and losses	–	–	–	–	(5)	(5)
equalisation on UK pension schemes	(1)	(1)	–	–	–	(2)
derivatives and associated ets and liabilities	(9)	(2)	–	–	193	182
d changes in discount rates of fair	85	(4)	34	–	–	115
ss)/profit	**(410)**	**(183)**	**(57)**	**34**	**129**	**(487)**
						(195)
e						3
ax						**(679)**
						114
ear from continuing operations						**(565)**

d operating profit in respect of Ergotron of £58 million (2020: £52 million).
ed operating loss of £51 million (2020: £46 million), includes £17 million (2020: £12 million) of costs in respect of divisional management long-term incentive plans.
n adjusting items are discussed in note 6.
continued operations (note 1).

Notes to the Financial Statements
Continued

5. Segment information continued

c) Segment total assets and liabilities

	Total assets		Total liat
	31 December 2021 £m	Restated[1] 31 December 2020 £m	**31 December 2021 £m**
Aerospace	**6,267**	6,614	**2,231**
Automotive	**4,608**	5,172	**2,042**
Powder Metallurgy	**1,669**	1,816	**405**
Other Industrial[2]	**631**	604	**86**
Corporate	**847**	513	**1,718**
Continuing operations	**14,022**	14,719	**6,482**
Discontinued operations	**–**	1,961	**–**
Total	**14,022**	16,680	**6,482**

(1) Restated for discontinued operations (note 1).
(2) Includes total assets of £617 million (31 December 2020: £604 million) and total liabilities of £86 million (31 December 2020: £76 million) in respect of Ergotron.

d) Segment capital expenditure and depreciation

	Capital expenditure[1]		Depreciation of owned assets[1]		Deprecia leased a
	Year ended 31 December 2021 £m	Restated[2] Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Restated[2] Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**
Aerospace	**66**	98	**122**	121	**24**
Automotive	**113**	130	**198**	199	**15**
Powder Metallurgy	**40**	33	**51**	61	**9**
Other Industrial[3]	**3**	2	**3**	3	**1**
Corporate	**–**	–	**1**	1	**1**
Continuing operations	**222**	263	**375**	385	**50**
Discontinued operations	**12**	27	**17**	33	**7**
Total	**234**	290	**392**	418	**57**

(1) Including computer software and development costs. Capital expenditure excludes lease additions.
(2) Restated for discontinued operations (note 1).
(3) Capital expenditure includes £2 million (2020: £2 million) in respect of Ergotron. Depreciation of owned and leased assets in both years relates to Ergotron.

e) Geographical information

The Group operates in various geographical areas around the world. The parent company's country of domicile is the UI Group's revenues and non-current assets in the rest of 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 c assets; non-current other receivables; and non-current derivative financial assets) by geographical location are detailed

	Revenue[1] from external customers		Segment
	Year ended 31 December 2021 £m	Restated[2] Year ended 31 December 2020 £m	**31 December 2021 £m**
UK	**580**	571	**1,977**
Rest of Europe	**1,857**	1,892	**4,375**
North America	**3,437**	3,642	**2,937**
Other	**1,009**	1,027	**1,145**
Continuing operations	**6,883**	7,132	**10,434**
Discontinued operations	**884**	1,782	**–**
Total	**7,767**	8,914	**10,434**

(1) Revenue is presented by destination.
(2) Restated for discontinued operations (note 1).

liation of adjusted profit measures

n note 2, adjusted profit measures are an alternative performance measure used by the Board to monitor the operating f the Group.

profit

rations	Notes	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
		(451)	(487)
f intangible assets acquired in business combinations	a	**452**	472
costs	b	**269**	221
derivatives and associated financial assets and liabilities	c	**114**	(182)
ted investments adjustments	d	**28**	30
-settled compensation scheme charges	e	**19**	11
d changes in discount rates of fair value items	f	**(49)**	(115)
d disposal related gains and losses	g	**(7)**	5
assets	h	**–**	184
equalisation on UK pension schemes	i	**–**	2
nts to operating loss		**826**	628
rating profit		**375**	141

continued operations (note 1).

isation charge on intangible assets acquired in business combinations of £452 million (2020: £472 million) is excluded sted results due to its non-trading nature and to enable comparison with companies that grow organically. However, ngible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded sted results.

ing and other associated costs in the year totalled £269 million (2020: £221 million), including a write down of assets in tes of £112 million (2020: £20 million). These are shown as adjusting items due to their size and non-trading nature and year ended 31 December 2021 these included:

arge of £92 million (2020: £110 million) within the Aerospace division primarily relating to the commencement of ificant multi-year restructuring projects, necessary for the business to achieve its full potential target operating margins. se included the initial stages of European footprint consolidations in both the Civil and Engines businesses, which menced in the first half of the year, and significant restructuring programmes in North America, across all three space sub-segments, which commenced in the second half of the year.

arge of £147 million (2020: £60 million) within the Automotive division, primarily relating to two significant footprint solidation actions in Europe, which significantly progressed during the year, along with costs incurred on multiple dwide restructuring projects as the business accelerates its efforts to position its cost base during 2022 at a level that allow the business to achieve target operating margins when supply constraints ease.

arge of £18 million (2020: £48 million) within the Powder Metallurgy division relating to multiple restructuring projects erway that will set the business' cost base during 2022 at a level such that target operating margins can be achieved n supply constraints ease.

t charge of £12 million (2020: £3 million) within the Other Industrial and Corporate divisions which includes a non-cash unting loss resulting from actions taken in the year to secure and buy-out pensioner members from the GKN UK 2016 sion Plan, see note 24 for further details.

ts in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts where counting is not applied) entered into within the GKN businesses to mitigate the potential volatility of future cash flows, on foreign currency customer and supplier contracts, including foreign exchange movements on the associated financial l liabilities are shown as an adjusting item because of its volatility and size. This totalled a charge of £114 million (2020: £182 million) in the year.

has a number of equity accounted investments ("EAIs") in which it does not hold full control, the largest of which is a st in Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"), within the Automotive business. The EAIs £613 million (2020: £591 million) of revenue in the year, which is not included in the statutory results but is shown within evenue so as not to distort the operating margins reported in the businesses when the adjusted operating profit earned EAIs is included.

, the profits and losses of EAIs, which are shown after amortisation of acquired intangible assets, interest and tax in the esults, are adjusted to show the adjusted operating profit consistent with the adjusted operating profits of the s of the Group. The revenue and profit of EAIs are adjusted because they are considered to be significant in size and ant in assessing the performance of the business.

Notes to the Financial Statements
Continued

6. Reconciliation of adjusted profit measures continued

e. The charge for the Melrose equity-settled Employee Share Scheme, including its associated employer's tax charge, (2020: £11 million) is excluded from adjusted results due to its size and volatility. The shares that would be issued, b Scheme's current value at the end of the reporting period, are included in the calculation of the adjusted diluted earn share, which the Board considers to be a key measure of performance.

f. The net release of fair value items in the year of £49 million (2020: £115 million) where items have been resolved for favourable amounts than first anticipated are shown as an adjusting item, avoiding positively distorting adjusted oper During the year this included a net release of £22 million in respect of loss-making contract provisions, held within th businesses, where either contractual terms have been renegotiated with the relevant customer or operational efficier been identified and demonstrated for a sustained period.

g. An acquisition and disposal related net credit of £7 million (2020: charge of £5 million) arose in the year. These items from adjusted results due to their non-trading nature.

h. The write down of assets in 2020 of £184 million, mostly recognised in the second quarter of the year as a result of tl COVID-19, included £133 million within the Aerospace division. The write down of these assets was shown as an ad due to the unprecedented nature of the COVID-19 pandemic, its non-trading nature and size.

i. During 2020, the Company incurred a further charge of £2 million in respect of gender equalisation of guaranteed mi pensions for occupational pension schemes in the UK. For consistency with the accounting treatment in 2018 and be non-trading nature the charge was excluded from adjusted results.

b) Profit before tax

Continuing operations	Notes	Year ended 31 December 2021 £m
Loss before tax		**(618)**
Adjustments to operating loss as above		**826**
Settlement of interest rate swaps	j	**45**
Equity accounted investments – interest	k	**2**
Fair value changes on cross-currency swaps	l	**(3)**
Bank facility negotiation fees	m	**–**
Total adjustments to loss before tax		**870**
Adjusted profit/(loss) before tax		**252**

(1) Restated for discontinued operations (note 1).

j. On disposal of Nortek Air Management and Brush, the significant proceeds received together with future expectation requirements enabled the Group to settle certain interest rate swap instruments that were no longer needed. Specific from the cash flow hedge reserve, under IFRS 9, of £45 million has been accelerated and shown as an adjusting iter non-trading nature.

k. As explained in paragraph d above, the profits and losses of EAIs are shown after adjusting items, interest and tax in results. They are adjusted to show the profit before tax and the profit after tax, consistent with the subsidiaries of the

l. The fair value changes on cross-currency swaps relating to cost of hedging which are not deferred in equity, is show adjusting item because of its volatility and non-trading nature.

m. Following the impact of COVID-19 in 2020, the Group paid fees in negotiating waivers and amendments to its bank f covenants for the remaining period of the facilities. These fees were immediately written off and are shown as an adj because of their non-trading nature.

liation of adjusted profit measures continued

r tax

rations	Notes	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
		(446)	(565)
loss before tax as above		**870**	638
djustments to loss before tax	8	**(180)**	(99)
gnificant legislative changes	8	**(70)**	–
gnificant restructuring	8	**32**	7
ted investments – tax	k	**(9)**	(8)
nts to loss after tax		**643**	538
it/(loss) after tax		**197**	(27)

continued operations (note 1).

s

rations	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
expenses comprise:		
tribution costs	**(59)**	(57)
expenses[2]	**(1,441)**	(1,264)
rating expenses	**(1,500)**	(1,321)

continued operations (note 1).
illion (2020: £598 million) of adjusting items (note 6).

rations	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
s is stated after charging/(crediting):		
ories	**5,872**	6,330
f intangible assets acquired in business combinations	**452**	472
nd impairment of property, plant and equipment	**483**	552
nd impairment of computer software and development costs	**54**	69
e[2]	**4**	3
	2,020	2,071
development costs[3]	**201**	193
sal of property, plant and equipment	**(3)**	(6)
iting down inventory to net realisable value	**76**	144
revious write-downs of inventory	**(67)**	(54)
cognised on trade receivables	**2**	17
versed on trade receivables	**(3)**	(14)

continued operations (note 1).
elating to short-term leases of £2 million (2020: £1 million), low value leases of £1 million (2020: £1 million) and variable lease payments not included in lease liabilities of
£1 million).
sts totalling £143 million (2020: £137 million).

Notes to the Financial Statements
Continued

7. Expenses continued

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2021 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**5.9**
Fees payable to the Company's auditor and their associates for other audit services to the Group:	
The audit of the Company's subsidiaries	**1.0**
Non-statutory audit of certain of the Company's businesses	**3.8**
Total audit fees	**10.7**
Audit-related assurance services:	
Review of the half year interim statement	**0.4**
Other assurance services	**0.5**
Total audit-related assurance services	**0.9**
Total audit and audit-related assurance services	**11.6**
Tax services	**–**
Reporting accountant services	**0.1**
Total audit and non-audit fees	**11.7**

Details of the Company's policy on the use of the auditors for non-audit services and how auditor's independence and ob safeguarded are set out in the Audit Committee report on page 94 to 98. No services were provided pursuant to continge arrangements.

An analysis of staff costs and employee numbers is as follows:

Continuing operations	Year ended 31 December 2021 £m
Staff costs during the year (including executive Directors)	
Wages and salaries[2]	**1,644**
Social security costs[3]	**283**
Pension costs (note 24)	
– defined benefit plans[4]	**8**
– defined contribution plans	**69**
Share-based compensation expense[5] (note 23)	**16**
Total staff costs	**2,020**

(1) Restated for discontinued operations (note 1).
(2) Includes net amounts received of £6 million (2020: £84 million) from global government assistance schemes during the COVID-19 pandemic. All amounts received from government in 2020 were repaid.
(3) Includes an employer's tax charge of £3 million (2020: credit of £3 million) on the change in value of the employee share plans, shown as an adjusting item (note 6).
(4) Includes a past service cost of £nil (2020: £2 million) in respect of GMP equalisation, shown as an adjusting item (note 6).
(5) Shown as an adjusting item (note 6).

	Year ended 31 December 2021 Number
Average monthly number of persons employed (including executive Directors)	
Aerospace	**14,316**
Automotive	**19,141**
Powder Metallurgy	**6,080**
Other Industrial	**1,163**
Corporate	**50**
Continuing operations	**40,750**
Discontinued operations	**7,908**
Total average number of persons employed	**48,658**

(1) Restated for discontinued operations (note 1).

es continued

f finance costs and income is as follows:

erations	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
s and income		
nk loans and overdrafts[2]	**(138)**	(136)
of costs of raising finance[3]	**(10)**	(20)
ost on pensions	**(8)**	(19)
t	**(14)**	(16)
count on provisions	**(2)**	(2)
anges on cross-currency swaps[4]	**3**	(2)
costs	**(169)**	(195)
ne	**2**	3
nce costs	**(167)**	(192)

continued operations (note 1).
million (2020: £nil) charge in respect of the settlement of interest rate swaps which are shown as an adjusting item (note 6).
020: £8 million) in respect of bank facility negotiation fees. These costs are shown as adjusting items (note 6).
e shown as adjusting items (note 6).

erations	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
ax credit in the year:		
ax charge	**63**	56
n respect of prior years	**(1)**	(13)
tax charge	**62**	43
nd reversal of temporary differences	**(127)**	(248)
n respect of prior years	**(4)**	(9)
ange in value of derivative financial instruments	**(27)**	41
o deferred tax attributable to changes in tax rates	**(5)**	(6)
on of deferred tax	**4**	65
f previously unrecognised deferred tax assets	**(75)**	–
d tax credit	**(234)**	(157)
continuing operations	**(172)**	(114)
n discontinued operations	**53**	104
dit for the year	**(119)**	(10)

ax credit on continuing operations in the year:	£m	£m
redit) in respect of adjusted profit before tax	**55**	(14)
ognised as an adjusting item	**(227)**	(100)
continuing operations	**(172)**	(114)

scontinued operations (note 1).

e of £55 million (2020: credit of £14 million) arising on adjusted profit before tax of £252 million (2020: loss of £41 lts in an effective tax rate of 21.8% (2020: 34.1%).

lion (2020: £100 million) tax credit recognised as an adjusting item includes £180 million (2020: £99 million) in respect of adjustments to loss before tax of £870 million (2020: £638 million), £9 million (2020: £8 million) in respect of the tax on nted investments, a charge of £32 million (2020: £7 million) in respect of internal Group restructuring and a £70 million £nil) in respect of additional deferred tax asset recognition, primarily as a result of legislative changes in The and rate changes in both The Netherlands and the UK.

Notes to the Financial Statements
Continued

8. Tax continued

The tax (credit)/charge for the year for continuing and discontinued operations can be reconciled to the (loss)/profit before
Income Statement as follows:

	Year ended 31 December 2021 £m
(Loss)/profit before tax:	
Continuing operations	(618)
Discontinued operations (note 13)	3
	(615)
Tax credit on loss before tax at the weighted average rate of 23.0% (2020: 27.0%)	(141)
Tax effect of:	
Disallowable expenses and other permanent differences within adjusted profit	(2)
Disallowable items included within adjusting items	31
Temporary differences not recognised in deferred tax	4
Recognition of previously unrecognised deferred tax assets	(75)
Tax credits, withholding taxes and other rate differences	11
Adjustments in respect of prior years	(5)
Tax charge classified within adjusting items	63
Effect of changes in tax rates	(5)
Total tax credit for the year	(119)

(1) Restated for discontinued operations (note 1).

The reconciliation has been performed at a blended Group tax rate of 23.0% (2020: 27.0%) which represents the weighte
the tax rates applying to profits and losses in the jurisdictions in which those results arose in the year.

Tax charges/(credits) included in Other Comprehensive Income are as follows:

	Year ended 31 December 2021 £m
Deferred tax on retirement benefit obligations	71
Deferred tax on hedge relationship gains and losses	19
Total charge for the year	90

Franked investment income – litigation

Since 2003, the GKN group has been involved in litigation with HMRC in respect of various advance corporate tax payme
corporate tax paid on certain foreign dividends which, in its view, were levied by HMRC in breach of the Group's EU comi
rights. The most recent Supreme Court judgment in the case was published in July 2021. The Supreme Court ruled on a
technical points, the most important being that, if any interest is due to taxpayers, it should be calculated on a statutory or
and not compounded. Whilst this limits the size of the claims against HMRC, a number of points remain outstanding, inclu
whether or not the taxpayer claims are within the relevant time limits and thus whether they are valid claims at all, which t
Court referred back to the High Court in November 2020. Accordingly, significant uncertainty over the future outcome rem

The continuing complexity of the case and uncertainty over the issues raised (and in particular the timetable issue referre
High Court) means that it is not possible to predict the final outcome of the litigation with any reasonable degree of certair

9. Dividends

	Year ended 31 December 2021 £m
Interim dividend for the year ended 31 December 2021 of 0.75p	33
Final dividend for the year ended 31 December 2020 of 0.75p	36
	69

Proposed final dividend for the year ended 31 December 2021 of 1.00p per share totalling £44 million. The final dividend
share was proposed by the Board on 3 March 2022 and in accordance with IAS 10: Events after the reporting period, has
included as a liability in the Consolidated Financial Statements.

A return of capital of 15 pence per ordinary share, totalling £729 million was paid in September 2021 (note 1).

gs per share

utable to owners of the parent	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
asis of earnings per share	**833**	(536)
r the year from discontinued operations (note 13)	**(1,283)**	(32)
basic of earnings per share from continuing operations	**(450)**	(568)

	Year ended 31 December 2021 Number	Year ended 31 December 2020 Number
rage number of ordinary shares for the purposes of basic earnings per share (million)	**4,695**	4,858
s for the purposes of diluted earnings per share (million)	**–**	–
erage number of ordinary shares for the purposes of diluted earnings per share (million)	**4,695**	4,858

hare	Year ended 31 December 2021 pence	Restated[1] Year ended 31 December 2020 pence
gs per share		
ng and discontinued operations	**17.7**	(11.0)
ng operations	**(9.6)**	(11.7)
nued operations	**27.3**	0.7
ngs per share		
ng and discontinued operations	**17.7**	(11.0)
ng operations	**(9.6)**	(11.7)
nued operations	**27.3**	0.7

ings from continued operations	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
ings for the basis of adjusted earnings per share[2]	**193**	(30)

rnings per share from continuing operations

	Year ended 31 December 2021 pence	Restated[1] Year ended 31 December 2020 pence
ic earnings per share	**4.1**	(0.6)
ed earnings per share	**4.1**	(0.6)

scontinued operations (note 1).
ngs for the year ended 31 December 2021 comprises adjusted profit after tax of £197 million (2020: loss of £27 million) (note 6), net of an allocation to non-controlling illion (2020: £3 million).

Notes to the Financial Statements
Continued

11. Goodwill and other intangible assets

	Goodwill £m	Customer relationships and contracts £m	Brands and intellectual property £m	Other[1] £m	Computer software £m	Development costs £m
Cost						
At 1 January 2020	4,038	4,961	776	1,037	48	513
Additions	–	–	–	–	17	25
Acquisition of businesses[2]	15	10	–	9	–	–
Disposals	–	–	–	–	(5)	(8)
Exchange adjustments	(30)	(55)	–	(1)	(1)	(1)
At 31 December 2020	4,023	4,916	776	1,045	59	529
Additions	–	–	–	–	6	13
Disposals	–	–	–	–	(1)	(3)
Disposal of businesses[3]	(778)	(331)	(250)	(3)	(14)	(11)
Transfer to held for sale[4]	(330)	(120)	(37)	(26)	–	–
Exchange adjustments	(65)	(59)	(9)	(5)	(1)	(6)
At 31 December 2021	**2,850**	**4,406**	**480**	**1,011**	**49**	**522**
Amortisation and impairment						
At 1 January 2020	(385)	(726)	(156)	(203)	(23)	(96)
Charge for the year:						
Adjusted operating profit	–	–	–	–	(13)	(44)
Adjusting items	–	(379)	(43)	(104)	–	–
Impairments[5]	–	–	–	–	(1)	(17)
Disposals	–	–	–	–	5	8
Exchange adjustments	2	22	1	1	1	–
At 31 December 2020	(383)	(1,083)	(198)	(306)	(31)	(149)
Charge for the year:						
Adjusted operating profit	–	–	–	–	(8)	(46)
Adjusting items	–	(339)	(30)	(107)	–	–
Impairments[5]	–	–	–	–	–	(3)
Disposals	–	–	–	–	1	–
Disposal of businesses[3]	214	143	117	3	7	2
Transfer to held for sale[4]	165	42	13	26	–	–
Exchange adjustments	4	11	3	1	2	1
At 31 December 2021	**–**	**(1,226)**	**(95)**	**(383)**	**(29)**	**(195)**
Net book value						
At 31 December 2021	**2,850**	**3,180**	**385**	**628**	**20**	**327**
At 31 December 2020	3,640	3,833	578	739	28	380

(1) Other includes technology and order backlog intangible assets recognised on acquisitions.
(2) Acquisition of businesses in 2020 related to the purchase of FORECAST 3D in the Powder Metallurgy division.
(3) Disposal of businesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).
(4) Transfer to held for sale in 2021 relates to the Nortek Control business, which was subsequently disposed of during the second half of the year (note 1).
(5) Includes £3 million (2020: £nil) within restructuring costs and £nil (2020: £18 million) within impairment of assets, both shown as adjusting items (note 6).

The goodwill generated as a result of major acquisitions represents the premium paid in excess of the fair value of all net including intangible assets, identified at the point of acquisition. The carrying value of goodwill includes a premium, paid ir secure shareholder agreement to the business combination, that is less than the value that the Directors believed could b the acquired businesses through the application of their specialist turnaround experience.

The goodwill arising on bolt-on acquisitions is attributable to the anticipated profitability and cash flows arising from the bu acquired, synergies as a result of the complementary nature of the business with existing Melrose businesses, the assem workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group.

The future improvements applied to the acquired businesses, achieved through a combination of revised strategic directic operational improvements and investment, are expected to result in improved profitability of the acquired businesses duri of ownership and are also expected to result in enhanced disposal proceeds when the acquired businesses are ultimately The combined value achieved from these improvements is expected to be in excess of the value of goodwill acquired.

Goodwill acquired in business combinations, net of impairment, has been allocated to the businesses, each of which com several cash generating units ("CGUs"). The goodwill is tested annually for impairment, or as required if indicators of impa identified. The date of the annual impairment test is 31 October, aligned with internal forecasting and review processes.

ill and other intangible assets continued

	31 December 2021 £m	Restated[1] 31 December 2020 £m
	409	406
	933	942
lurgy	**1,001**	1,026
	507	524
erations	**2,850**	2,898
operations	**–**	742
	2,850	3,640

continued operations (note 1).
ised groups of CGUs effective 1 November 2020 whereby the Aerostructures and Aerospace Engine Systems groups of CGUs were organised into one Aerospace group
e Automotive Driveline and Automotive ePowertrain groups of CGUs were organised into one Automotive group of CGUs.

testing

sts goodwill annually or more frequently if there are indications that goodwill might be impaired. In accordance with IAS nt of assets, the Group values goodwill at the recoverable amount, being the higher of the value in use basis and the fair sts to sell basis. Due to the maturity of the different groups of CGUs within Melrose's strategic life cycle of "Buy, Improve, e in use methodology generally yields a higher recoverable amount for businesses owned for a longer time and fair value sell give a higher value where the improvement phase is ongoing.

calculations have been used to determine the recoverable amount of goodwill and other relevant net assets allocated to groups of CGUs. The calculation used the latest approved forecasts extrapolated into perpetuity using growth rates , which do not exceed the long-term growth rate for the relevant market.

s costs to sell calculations have been used to determine the recoverable amount of goodwill and other relevant net ted to the Aerospace, Automotive and Powder Metallurgy groups of CGUs. When applying the fair value less cost to sell it has been difficult to assess a sale value using observable market inputs (level 1) or inputs based on market evidence e current environment and so unobservable inputs (level 3) have been used. A combination of discounted cash flows and iple valuations have been used to establish fair values for each of the groups of CGUs.

, the value in use basis prohibits inclusion of benefits from future uncommitted restructuring plans although this is en applying the fair value less costs to sell basis, to the extent that similar actions would be carried out by a market

pairment testing completed no impairment was identified in respect of any of the groups of CGUs. There is no reasonably ige in key assumptions that could result in an impairment in any of the groups of CGUs. Given the continued market the COVID-19 pandemic, additional sensitivity information has been included to help understanding of the headroom in roups of CGUs.

ssumptions and estimates

impairment tests and the key assumptions are set out in the tables below:

Js – value in use	31 December 2021 Pre-tax discount rates	31 December 2021 Long-term growth rates	31 December 2021 Years in forecast	31 December 2020 Pre-tax discount rates	31 December 2020 Long-term growth rates	31 December 2020 Years in forecast
	10.1%	**3.0%**	**3**	9.4%	3.0%	3

Js – fair value less costs to sell	31 December 2021 Post-tax discount rates	31 December 2021 Long-term growth rates	31 December 2021 Years in forecast	31 December 2020 Post-tax discount rates	31 December 2020 Long-term growth rates	31 December 2020 Years in forecast
	7.8%	**3.0%**	**5**	7.5%	2.8%	5
	8.8%	**2.5%**	**5**	9.0%	2.5%	5
lurgy	**8.8%**	**2.5%**	**5**	9.0%	2.5%	5

ised groups of CGUs effective 1 November 2020 whereby the Aerostructures and Aerospace Engine Systems groups of CGUs were organised into one Aerospace group
e Automotive Driveline and Automotive ePowertrain groups of CGUs were organised into one Automotive group of CGUs.

Notes to the Financial Statements
Continued

11. Goodwill and other intangible assets continued

Risk adjusted discount rates

Cash flows within the Ergotron group of CGUs are discounted using a pre-tax discount rate. Cash flows within the Aerosp Automotive and Powder Metallurgy groups of CGUs are discounted using a post-tax discount rate specific to each group Discount rates reflect the current market assessments of the time value of money and the territories in which the group o operates. In determining the cost of equity, the Capital Asset Pricing Model ("CAPM") has been used. Under CAPM, the c is determined by adding a risk premium, based on an industry adjustment ("Beta"), to the expected return of the equity m the risk-free return. The relative risk adjustment reflects the risk inherent in each group of CGUs relative to all other secto geographies on average.

The cost of debt is determined using a risk-free rate based on the cost of government bonds, and an interest rate premiu to a corporate bond with a similar credit rating to the Group.

Assumptions applied in financial forecasts

The Group prepares cash flow forecasts derived from financial budgets and medium-term forecasts. Each forecast has b using a cash flow period deemed most appropriate by management, considering the nature of each group of CGUs. The assumptions used in forecasting cash flows relate to future budgeted revenue and operating margins likely to be achieve expected rates of long-term growth by market sector. Underlying factors in determining the values assigned to each key a are shown below:

Revenue growth and operating margins:

Revenue growth assumptions in the forecast period are based on financial budgets and medium-term forecasts by mana taking into account industry growth rates and management's historical experience in the context of wider industry and ec conditions. Projected sales are built up with reference to markets and product categories. They incorporate past performa historical growth rates, projections of developments in key markets, secured orders and orders forecast to be achieved in medium-term given trends in the relevant market sector. Revenue assumptions are made using external market data, wh and also consider the recovery period to return to pre COVID-19 levels.

Operating margins have been forecast based on historical levels achieved considering the likely impact of changing econ environments and competitive landscapes on volumes and revenues and the impact of management actions on costs. Pr margins reflect the impact of all initiated projects to improve operational efficiency and leverage scale and increases from sale volumes. The projections do not include the impact of future restructuring projects to which the Group is not yet com testing has been performed using a value in use methodology. Where testing has been performed using the fair value les sell methodology, the assumptions to derive operating margins take into account both normal cost saving activities and, v applicable a significant contribution from planned restructuring activity. Forecasts for other operating costs are based on i forecasts and supply and demand factors, taking into account climate change implications for affected markets.

Aerospace – The key drivers for growth in revenue and operating margins are global demand for commercial and militar Consumer spending, passenger load factors, raw material input costs, market expectations for aircraft production require technological advancements, and other macro-economic factors influence demand for these products.

Automotive – The key drivers for growth in revenue and operating margins are global demand for a large range of cars, smaller low-cost cars to larger premium vehicles. This is impacted in the short to medium-term by expectations of recove chains, interrupted by the COVID-19 pandemic. Demand is influenced by technological advancements, particularly in ele hybrid vehicles, market expectations for global vehicle production requirements, fuel prices, raw material input costs and of their recovery, consumer spending, credit availability, and other macro-economic factors.

Powder Metallurgy – The key drivers for growth in revenue and operating margins are trends in the automotive and indu markets. This is impacted in the short to medium-term by expectations of recovery in supply chains, interrupted by the C pandemic. Market expectations for global light vehicle production requirements, raw material input costs and technologic advancements, particularly in additive manufacturing, influence demand for these products along with other macro-econo

Ergotron – The key driver for growth in revenue and operating margins is demand for technology and wellness products markets in which Ergotron operates. Seasonal factors, public authority spending, corporate and consumer spending, emp levels, the public awareness of wellness, regulation, technological advancements and other macro-economic factors influ demand for these products.

Long-term growth rates:

Long-term growth rates are based on long-term forecasts for growth in the sectors and geography in which the group of C operates. Long-term growth rates are determined using long-term growth rate forecasts that take into account the interna presence and the markets in which each business operates.

Sensitivity analysis

There is no reasonably possible change in key assumptions that could result in an impairment in any of the groups of CG the continued market recovery from the COVID-19 pandemic, additional sensitivity information has been included to help understanding of the headroom in each of the groups of CGUs.

Aerospace group of CGUs – sensitivity analysis

Sensitivity analysis has been carried out and a change in the discount rate and long-term growth rate from 7.8% to 8.9% to 1.5% respectively would reduce headroom to £nil. A failure to execute restructuring plans or a delay in currently anticip recovery would impact operating profit and operating margin assumptions and a reduction in the terminal operating profit would reduce the terminal operating margin by 2.8 percentage points and would reduce headroom to £nil.

ill and other intangible assets continued

roup of CGUs – sensitivity analysis

alysis has been carried out and a change in the discount rate from 8.8% to 11.2% would reduce headroom to £nil.

llurgy group of CGUs – sensitivity analysis

alysis has been carried out and a change in the discount rate from 8.8% to 11.1% would reduce headroom to £nil.

up of CGUs – sensitivity analysis

alysis has been carried out and a change in the discount rate from 10.1% to 14.3% would reduce headroom to £nil.

significant intangible assets

of significant customer relationships and contracts, brands, intellectual property and technology is as follows:

	Customer relationships and contracts				Brands, intellectual property and technology			
	Remaining amortisation period		Net book value		Remaining amortisation period		Net book value	
	31 December 2021 years	31 December 2020 years	**31 December 2021 £m**	Restated[1] 31 December 2020 £m	**31 December 2021 years**	31 December 2020 years	**31 December 2021 £m**	Restated[1] 31 December 2020 £m
	5	6	**51**	61	**13**	14	**62**	67
	17	18	**1,967**	2,145	**17**	18	**575**	648
	9	10	**670**	790	**17**	18	**309**	356
urgy	**14**	15	**492**	551	**17**	18	**67**	77
erations			**3,180**	3,547			**1,013**	1,148
operations			**–**	286			**–**	169
			3,180	3,833			**1,013**	1,317

continued operations (note 1).
sed groups of CGUs effective 1 November 2020 whereby the Aerostructures and Aerospace Engine Systems groups of CGUs were organised into one Aerospace group
Automotive Driveline and Automotive ePowertrain groups of CGUs were organised into one Automotive group of CGUs.

nents

arried at fair value	**31 December 2021 £m**	31 December 2020 £m
	87	34

ar, the Group invested £10 million in HiiROC Limited, a hydrogen technology company, for a 10% equity share.

ntinues to hold a 4% investment in PW1100G-JM Engine Leasing LLC, an engine leasing business. There was a gain ment to fair value of £43 million (2020: a loss of £16 million) and a foreign exchange translation impact of £nil (2020: nd of £17 million (2020: £4 million) was received during the year which was recorded within operating profit.

nents are classified as a level 3 fair value under the IFRS 13 fair value hierarchy. To calculate the value at 31 December ected dividend flow was discounted to net present value using a discount rate of 9.0%. If the discount rate changed from the fair value would have changed by £9 million.

tinued operations

021, the Group completed the sale of the Brush business, previously included in the Other Industrial division, for net ation of £127 million. The costs charged to the Income Statement associated with the disposal were £2 million. The sal was £24 million after the recycling of cumulative translation gains of £22 million.

021, the Group announced the completion of the sale of the Nortek Air Management business for net cash consideration on. The costs charged to the Income Statement associated with the disposal were £41 million. The profit on disposal illion after the recycling of cumulative translation losses of £110 million.

21, the Nortek Control business met the criteria within IFRS 5: Non-current Assets Held for Sale and Discontinued be classified as an asset held for sale. On 4 October 2021, the Group completed the sale of the Nortek Control et cash consideration of £212 million. The costs charged to the Income Statement associated with the disposal were £1 ss on disposal was £38 million after the recycling of cumulative translation losses of £26 million.

ar, the Aerospace, Automotive and Powder Metallurgy businesses disposed of certain non-core entities. Cumulative eeds from these activities amounted to £3 million and a profit on disposal was £2 million after the recycling of cumulative ns of £1 million, and disposal costs of £5 million.

Notes to the Financial Statements
Continued

13. Discontinued operations continued

The results of Nortek Air Management, Brush and Nortek Control have been classified within discontinued operations for presented. In addition, discontinued operations for 2020 include the results of the Wheels and Structures business which disposed in November 2020.

Financial performance of discontinued operations:

	Year ended 31 December 2021 £m
Revenue	884
Operating costs[2]	(879)
Operating profit	5
Finance costs	(2)
Profit before tax	3
Tax	(53)
(Loss)/profit after tax	(50)
Gain/(loss) on disposal of net assets of discontinued operations, net of recycled cumulative translation differences	1,333
Profit for the year from discontinued operations	**1,283**

(1) Restated for discontinued operations (note 1).
(2) Operating costs in the year ended 31 December 2021 included an £85 million charge on remeasurement to fair values less costs of disposal relating to the Nortek Cont reclassification to assets held for sale.

inued operations continued

ts and liabilities held for sale and disposed of during the year were as follows:

	Held for sale			
	Reclassified	Remeasured	Held for sale	Businesses disposed
	£m	£m	£m	£m
ther intangible assets	267	(85)	182	901
and equipment	18	–	18	254
nefit surplus	–	–	–	53
	46	–	46	233
er receivables	36	–	36	248
equivalents	–	–	–	53
	367	(85)	282	1,742
er payables	(35)	–	(35)	(333)
ons	(13)	–	(13)	(138)
	(6)	–	(6)	(112)
eferred tax	(18)	–	(18)	(67)
	(72)	–	(72)	(650)
	295	**(85)**	**210**	**1,092**
ne value of net assets classified as held for sale in the o disposal			13	
d for sale disposed			223	223
ts disposed				**1,315**
ation, net of costs[1]				2,763
nslation difference recycled on disposals				(113)
osal of businesses				**1,335**
sal of businesses classified as discontinued operations				1,333
sal of businesses classified within continuing operations				2
				1,335
w arising on disposal:				
received in cash and cash equivalents, net of costs[1]				2,763
l cash equivalents disposed[2]				(60)
				2,703

on of £2,812 million net of £49 million of disposal costs.
on related to Nortek Control.

Notes to the Financial Statements
Continued

14. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m
Cost		
At 1 January 2020	1,335	2,805
Additions	74	230
Right-of-use asset reassessments	14	–
Acquisition of businesses	3	8
Disposals	(33)	(54)
Exchange adjustments	1	6
At 31 December 2020	1,394	2,995
Additions	68	192
Right-of-use asset reassessments	4	(1)
Disposals	(12)	(42)
Disposal of businesses[1]	(256)	(314)
Transfer to held for sale[2]	(24)	(13)
Exchange adjustments	(31)	(95)
At 31 December 2021	**1,143**	**2,722**
Accumulated depreciation and impairment		
At 1 January 2020	(168)	(540)
Charge for the year	(86)	(349)
Disposals	4	44
Impairments[3]	(68)	(93)
Exchange adjustments	2	(2)
At 31 December 2020	(316)	(940)
Charge for the year	(69)	(326)
Disposals	2	40
Disposal of businesses[1]	112	204
Transfer to held for sale[2]	9	10
Impairments[3]	(40)	(69)
Exchange adjustments	2	44
At 31 December 2021	**(300)**	**(1,037)**
Net book value		
At 31 December 2021	**843**	**1,685**
At 31 December 2020	1,078	2,055

(1) Disposal of businesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).
(2) Transfer to held for sale in 2021 relates to the Nortek Control business, which was subsequently disposed of during the second half of 2021 (note 1).
(3) Includes £109 million (2020: £20 million) within restructuring costs and £nil (2020: £141 million) within impairment of assets, both shown as adjusting items (note 6).

Assets under the course of construction at 31 December 2021 totalled £150 million (31 December 2020: £227 million).

The basis of testing for impaired assets, which resulted in a charge totalling £109 million, used a mix of the value in use less costs to sell methodologies. The aggregate recoverable amount was £19 million and where a value in use methodol used, discount rates ranged from 8.3% to 10.5%.

y, plant and equipment continued

and equipment includes the net book value of right-of-use assets as follows:

set	Land and buildings £m	Plant and equipment £m	Total £m
020	478	88	566
	39	17	56
set reassessments	14	–	14
	(52)	(22)	(74)
	(18)	(2)	(20)
	(68)	(14)	(82)
stments	(12)	–	(12)
r 2020	381	67	448
	31	14	45
set reassessments	4	(1)	3
	(39)	(18)	(57)
	(3)	–	(3)
sinesses[1]	(75)	(3)	(78)
d for sale[2]	(8)	–	(8)
	(15)	–	(15)
stments	(11)	(11)	(22)
er 2021	**265**	**48**	**313**

esses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).
or sale in 2021 relates to the Nortek Control business, which was subsequently disposed of during the second half of 2021 (note 1).

accounted investments

	31 December 2021 £m	31 December 2020 £m
ounts relating to equity accounted investments:		
t assets	**403**	334
urrent assets	**350**	371
t liabilities	**(310)**	(263)
urrent liabilities	**(14)**	(12)
uity accounted investments	**429**	430

esults from continuing operations	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
	613	591
s	**(547)**	(529)
ting profit	**66**	62
	(21)	(22)
ome	**2**	–
x	**47**	40
	(9)	(8)
ts of equity accounted investments	**38**	32

equity accounted investments	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
	430	436
s of equity accounted investments	**38**	32
to the Group	**(52)**	(54)
stments	**13**	16
er	**429**	430

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Notes to the Financial Statements
Continued

15. Equity accounted investments continued

Within the Group's share of equity accounted investments there is one significant joint venture, held within the Automoti Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"). SDS had total sales in the year of £1,159 million (2020: ! million), adjusted operating profit of £116 million (2020: £116 million), adjusting items of £41 million (2020: £44 million), ; operating profit of £75 million (2020: £72 million), an interest credit of £4 million (2020: £nil) and a tax charge of £16 mill million), leaving retained profit of £63 million (2020: £57 million).

Total net assets of SDS at 31 December 2021 were £790 million (31 December 2020: £798 million). These comprised n assets of £636 million (31 December 2020: £684 million), current assets of £668 million (31 December 2020: £598 millic liabilities of £508 million (31 December 2020: £484 million) and non-current liabilities of £6 million (31 December 2020: ! 2021, SDS paid a dividend to the Group of £50 million (2020: £53 million). Further information about SDS can be found the Melrose Industries PLC Company Financial Statements.

16. Inventories

	31 December 2021 £m
Raw materials	**413**
Work in progress	**280**
Finished goods	**200**
	893

In 2021 the write down of inventories to net realisable value amounted to £93 million (2020: £163 million), of which £8 m to restructuring activities (2020: £1 million in restructuring activities and £14 million in write down of assets) and is includ adjusting items (note 6). The reversal of write downs amounted to £77 million (2020: £65 million). Write downs and reve years relate to ongoing assessments of inventory obsolescence, excess inventory holding and inventory resale values a the Group's businesses.

The Directors consider that there is no material difference between the net book value of inventories and their replacem

17. Trade and other receivables

Current	31 December 2021 £m
Trade receivables	**847**
Allowance for expected credit loss	**(23)**
Other receivables	**200**
Prepayments	**40**
Contract assets	**120**
	1,184

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

Non-current	31 December 2021 £m
Other receivables	**32**
Contract assets	**491**
Retirement benefit surplus (note 24)(1)	**184**
	707

(1) Includes a surplus relating to the GKN Group Pension Plans Numbers 1-4 of £179 million (31 December 2020: deficit of £199 million) and the Japan Employee plan of December 2020: £nil).

As described in note 25, certain businesses participate in receivables working capital programmes and have the ab whether to receive payment earlier than the normal due date, for specific customers on a non-recourse basis. As at 31 D eligible receivables under these programmes have been factored and derecognised in line with the derecognition criteria

nd other receivables continued

has been made for expected lifetime credit losses with reference to past default experience and management's credit worthiness over trade receivables, an analysis of which is as follows:

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Restated[1] Other Industrial £m	Restated[1] Discontinued Operations £m	Total £m
020	12	12	5	2	16	47
ent charge/(credit)	3	–	–	–	(2)	1
	(3)	(1)	–	–	(3)	(7)
r 2020	12	11	5	2	11	41
ent (credit)/charge	–	(1)	–	–	4	3
	(1)	(1)	–	–	(6)	(8)
sinesses[2]	(3)	–	–	–	(7)	(10)
d for sale[3]	–	–	–	–	(2)	(2)
stments	(1)	–	–	–	–	(1)
er 2021	**7**	**9**	**5**	**2**	**–**	**23**

ontinued operations (note 1).
esses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).
or sale in 2021 relates to the Nortek Control business, which was subsequently disposed of during the second half of 2021 (note 1).

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

impaired trade receivables past due is as follows:

	31 December 2021 £m	31 December 2020 £m
	12	15
	–	1
	11	25
	23	41

Group's trade receivables balance are overdue trade receivables with a gross carrying amount of £63 million (31 20: £97 million) against which a provision of £23 million (31 December 2020: £41 million) is held. There are no amounts ist balances that are not overdue as these are deemed recoverable, following an assessment for impairment in th policies described in note 2.

the balance deemed recoverable of £40 million (31 December 2020: £56 million) is as follows:

	31 December 2021 £m	31 December 2020 £m
	27	41
	11	10
	2	5
	40	56

consider that the carrying amount of trade and other receivables approximates to their fair value.

Notes to the Financial Statements
Continued

17. Trade and other receivables continued
The Group's contract assets comprise the following:

	Participation fees £m	Unbilled receivables £m	Variable consideration £m	Other £m
At 1 January 2020	202	105	242	48
Additions	9	1,096	26	5
Utilised	(11)	(1,149)	(13)	(3)
Exchange adjustments	(5)	–	(8)	–
At 31 December 2020	195	52	247	50
Additions	5	949	68	9
Utilised	(9)	(941)	(13)	(6)
Exchange adjustments	2	1	3	(1)
At 31 December 2021	**193**	**61**	**305**	**52**

An assessment for impairment of contract assets has been performed in accordance with policies described in note 2. N impairment has been recorded.

Participation fees
Participation fees are described in the accounting policies (note 2) and are considered to be a reduction in revenue for th customer contract. Amounts are capitalised and "amortised" to match to the related performance obligation.

Unbilled receivables for over time recognition
Unbilled receivables for over time recognition represent work completed with associated margins where contracts contai to compensation for work completed, including a margin, and there is no alternative use for the customer's asset.

Variable consideration
Variable consideration only has a material impact on one entity in the Group, exclusively relating to certain RRSP arrang Aerospace business. RRSP contracting is a feature of the aircraft engine market and typically reflects the engine manufa economic model where discounts are given on the sale of original equipment ("OE") and generally a higher value is assc the subsequent maintenance, repair and overhaul services. The nature of RRSP arrangements is covered further in the policies (note 2) and the impact on the Group is that OE products sold to engine manufacturers are at a lower margin wi favourable pricing in the aftermarket phase. As a partner in the arrangements, the Aerospace business' cash compensa often reflects that of the OE engine manufacturer.

Where the Group has a contractual right to aftermarket revenue, IFRS 15 requires that the total contract revenue is alloc performance obligations. The principal contractual term that determines the existence of variable consideration is the ab termination clause that the customer can unilaterally exercise and which results in future purchases being considered op there is such a termination clause and the Group commercially relies on economic compulsion of the contracting parties phases of activity are treated as distinct and no variable consideration is recognised. In the absence of such a term, ther contractual link between the sale of OE components and aftermarket, which results in variable consideration, and the tot revenue is allocated to the distinct performance obligations.

Variable consideration is measured using a weighted average unit method, taking account of an estimate of stand-alone for individual performance obligations and is recognised when control of the OE component passes to the customer (the manufacturer). Due to the long-term nature of agreements, calculation of the total programme revenues is inherently imp set out in note 3d requires significant estimates, including an assessment of the aftermarket revenue per engine which re pattern of future maintenance activity and associated costs to be incurred. In order to address the future uncertainties, ri adjustments as well as constraints have been applied to the expected level of revenue as appropriate. This approach be the value of goods and services supplied taking account of the performance obligations, risk and overall contract revenu

As a consequence of allocating additional revenue to the sale of OE components, a variable consideration contract asse recognised which will be satisfied through cash receipt during the aftermarket phase. The constraints applied to variable are reassessed at each period end, and will unwind as risks reduce and when uncertainties are resolved. This is expecte additional revenue recognition in future periods in relation to items sold in the current and preceding periods. Further infc shown in note 4.

nd cash equivalents

	31 December 2021 £m	31 December 2020 £m
equivalents	**473**	311

n equivalents comprises cash at bank and in hand which earns interest at floating rates based on daily bank deposit t-term deposits which are made for varying periods of between one day and one month. The carrying amount of these idered to be equal to their fair value.

nd other payables

	31 December 2021 £m	31 December 2020 £m
s	**1,016**	1,153
s	**338**	417
ances and contract liabilities	**347**	397
d social security	**59**	91
efundable advances	**5**	7
	264	371
rnment grants	**22**	20
	2,051	2,456

mber 2021, and as described in note 25, included within trade payables were drawings on supplier finance facilities of 31 December 2020: £62 million).

es are non-interest-bearing. Normal settlement terms vary by country and the average credit period taken for trade and s is 86 days (31 December 2020: 69 days).

	31 December 2021 £m	31 December 2020 £m
s	**12**	13
ances and contract liabilities	**273**	304
d social security	**6**	3
efundable advances	**50**	51
	27	36
rnment grants	**22**	14
	390	421

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

mounts; other payables, other taxes and social security and accruals fall due for payment within one to two years; efundable advances are forecast to fall due for repayment between 2022 and 2055 and the deferred government grants over the next five years.

ances and contract liabilities include cash receipts from customers in advance of the Group completing its performance d are generally utilised as product is delivered. Non-current amounts in respect of customer advances and contract e utilised as follows: one to two years £33 million, two to five years £91 million and over five years £149 million (31 20: one to two years £90 million, two to five years £124 million and over five years £90 million).

Notes to the Financial Statements
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20. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. Details Group's exposure to credit, liquidity, interest rate and foreign currency risk are included in note 25.

	Current		Non-current		To
	31 December 2021 £m	31 December 2020 £m	**31 December 2021 £m**	31 December 2020 £m	**31 December 2021 £m**
Floating rate obligations					
Bank borrowings – US Dollar loan	**–**	–	**582**	1,850	**582**
Bank borrowings – Sterling loan	**–**	–	**30**	254	**30**
Other loans and bank overdrafts	**5**	151	**–**	80	**5**
Fixed rate obligations					
2022 £450 million bond	**450**	–	**–**	450	**450**
2032 £300 million bond	**–**	–	**300**	300	**300**
Other loans	**–**	3	**–**	–	**–**
	455	154	**912**	2,934	**1,367**
Unamortised finance costs[1]	**–**	–	**(13)**	(19)	**(13)**
Non-cash acquisition fair value adjustment	**7**	11	**4**	11	**11**
Total interest-bearing loans and borrowings	**462**	165	**903**	2,926	**1,365**

(1) Includes an increase of £4 million relating to debt issue costs paid during the year (2020: £1 million).

In December 2021, the Group extended the maturity date of both the term loan and the revolving credit facility to 30 June Subsequent to this extension, in December 2021 the term loan was partly prepaid by £70 million and US$172 million. Co the Group's committed bank funding includes a multi-currency denominated term loan of £30 million (31 December 2020 million) and US$788 million (31 December 2020: US$960 million) and a multi-currency denominated revolving credit facil billion, US$2.0 billion and €0.5 billion. Loans drawn under this facility are guaranteed by Melrose Industries PLC and cer subsidiaries, and there is no security over any of the Group's assets in respect of this facility.

At 31 December 2021, the term loan was fully drawn and there were no amounts drawn on the multi-currency revolving c Applying the exchange rates at 31 December 2021, the headroom equated to £3.0 billion. There are also a number of un overdraft, guarantee and borrowing facilities made available to the Group.

Throughout the year, the Group remained compliant with all covenants under the facilities disclosed above. A number of companies continue to be guarantors under the bank facilities. Further details on covenant compliance for the year ende December 2021 are contained in note 25.

The bank margin on the bank facility depends on the Group leverage, which reduced following the disposals completed i part of the extension of the bank facility in December 2021, the bank margin on the revolving credit facility was reduced t term loan and ranges from 0.75% to 2.0%. As at 31 December 2021 the margin was 0.75% (31 December 2020: 2.0%) c loan and 0.75% (31 December 2020: 2.25%) on the revolving credit facility.

The £450 million bond maturing in 2022 has associated cross-currency swaps. Details of the bonds are in the table belov

Maturity date	Notional amount £m	Coupon % p.a.	Cross-currency swaps million
September 2022	450	5.375%	US$373 €284
May 2032	300	4.625%	n/a

t-bearing loans and borrowings continued

nancial liabilities (excluding currency contracts and lease obligations)

ow shows the maturity profile of anticipated future cash flows, including interest, on an undiscounted basis in relation to nancial liabilities (other than those associated with currency risk, which are shown in note 25, and lease obligations wn in note 28). The amounts shown therefore differ from the carrying value and fair value of the Group's financial

	Interest-bearing loans and borrowings £m	Interest rate derivative financial liabilities £m	Other financial liabilities £m	Total financial liabilities £m
ar	501	4	1,623	2,128
/ears	27	3	45	75
/ears	661	–	15	676
s	383	–	29	412
cing rates	(207)	–	–	(207)
2021	**1,365**	**7**	**1,712**	**3,084**
ar	242	33	1,948	2,223
/ears	539	34	53	626
/ears	2,252	22	17	2,291
s	397	–	30	427
cing rates	(339)	(2)	–	(341)
2020	3,091	87	2,048	5,226

ions

	Loss-making contracts £m	Property related costs £m	Environmental and litigation £m	Warranty related costs £m	Restructuring £m	Other £m	Total £m
2021	241	43	191	330	147	69	1,021
	(48)	(1)	(34)	(73)	(167)	(3)	(326)
erating profit[1]	6	–	50	69	138	21	284
erating profit[2]	(22)	(7)	(38)	(56)	(14)	(1)	(138)
usinesses[3]	(4)	(6)	(30)	(35)	(18)	(19)	(112)
ld for sale[4]	–	–	(2)	(4)	–	–	(6)
count[5]	(1)	–	–	–	–	–	(1)
ustments	(5)	–	(2)	(9)	(5)	–	(21)
2021	**167**	**29**	**135**	**222**	**81**	**67**	**701**
	43	5	70	100	72	3	293
	124	24	65	122	9	64	408
	167	**29**	**135**	**222**	**81**	**67**	**701**

nillion of adjusting items and £142 million recognised in adjusted operating profit.
illion of adjusting items and £70 million recognised in adjusted operating profit.
inesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).
for sale in 2021 relates to the Nortek Control business, which was subsequently disposed of during the second half of 2021 (note 1).
ion within finance costs relating to the time value of money and a £3 million credit relating to changes in discount rates on loss-making contract provisions recognised as on the acquisition of GKN, which has been included as an adjusting item within operating profit (note 6).

l contracts

loss-making contracts are considered to exist where the Group has a contract under which the unavoidable costs of bligations exceed the economic benefits expected to be received under it. This obligation has been discounted and will er the period of the respective contracts, which is up to 15 years.

loss-making contract provisions is based on contract documentation and delivery expectations, along with an estimate ibutable costs and represents management's best estimate of the unavoidable costs of fulfilling the contract.

ing the year of £48 million (2020: £59 million) has benefited adjusted operating profit with £23 million recognised in 21 million recognised in Automotive, £4 million recognised in Powder Metallurgy and £nil recognised in Other addition, £22 million has been released on a net basis and is shown as an adjusting item, as described in note 6, as part of fair value items split; £4 million in Aerospace, £8 million in Automotive and £10 million in Powder Metallurgy.

Notes to the Financial Statements
Continued

21. Provisions continued

Property related costs

The provision for property related costs represents dilapidation costs for ongoing leases and is expected to result in cash over the next eight years. Calculation of dilapidation obligations are based on lease agreements with landlords and exter in the absence of specific documentation, management's best estimate of the costs required to fulfil obligations.

Environmental and litigation

Environmental and litigation provisions relate to the estimated remediation costs of pollution, soil and groundwater contaminat sites and estimated future costs and settlements in relation to legal claims and associated insurance obligations. Liabilities for environmental costs are recognised when environmental assessments are probable and the associated costs can be reasona

Provisions are recorded for product and general liability claims which are probable and for which the cost can be reliably These liabilities include an estimate of claims incurred but not yet reported and are based on actuarial valuations using cl Due to their nature, it is not possible to predict precisely when these provisions will be utilised.

The Group has on occasion been required to take legal or other actions to defend itself against proceedings brought by o Provisions are made for the expected costs associated with such matters, based on past experience of similar items and factors, considering professional advice received. This represents management's best estimate of the likely outcome. Th utilisation of these provisions is frequently uncertain, reflecting the complexity of issues and the outcome of various court and negotiations. Contractual and other provisions represent management's best estimate of the cost of settling future ob reflect management's assessment of the likely settlement method, which may change over time. However, no provision is proceedings which have been, or might be, brought by other parties against Group companies unless management, cons professional advice received, assesses that it is more likely than not that such proceedings may be successful.

Warranty related costs

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date o relevant products and subsequently updated for changes in estimates as necessary. The provision for warranty related c represents the best estimate of the expenditure required to settle the Group's obligations, based on past experience, rece and current estimates of costs relating to specific claims. Warranty terms are, on average, between one and five years.

Restructuring

Restructuring provisions relate to committed costs in respect of restructuring programmes, as described in note 6, usuall cash spend within one year. A restructuring provision is recognised when the Group has developed a detailed formal plar restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by either starting to the plan or by announcing its main features to those affected by it. The measurement of a restructuring provision includes direct expenditures arising from the restructuring, which are those amounts that are necessarily entailed by the restructur programmes.

Other

Other provisions include long-term incentive plans for divisional senior management and the employer tax on equity-settl schemes which are expected to result in cash expenditure during the next five years.

Where appropriate, provisions have been discounted using discount rates between 0% and 11% (31 December 2020: 0% depending on the territory in which the provision resides and the length of its expected utilisation.

nent benefit obligations continued

sumptions

sumptions used by the actuaries in calculating the Group's pension liabilities are as set out below:

	Rate of increase of pensions in payment % per annum	Discount rate %	Price inflation (RPI/CPI) %
2021			
ension Schemes (Numbers 1 – 4)	**2.7**	**2.0**	**3.2/2.7**
s	**n/a**	**2.7**	**n/a**
lans	**2.1**	**1.1**	**2.1/2.1**
2020			
ension Schemes (Numbers 1 – 4)	2.4	1.4	2.7/2.2
Pension Plan	1.9	1.4	2.7/2.2
s	n/a	2.4	n/a
lans	1.4	0.6	1.4/1.4
sion Plan	3.1	1.4	2.7/2.2

Pension Schemes (Numbers 1 – 4)

up Pension Schemes (Numbers 1 – 4) use the SAPS "S3PA" base tables with scheme-specific adjustments. The base assumption for each of the UK plans reflects best estimate results from the most recent mortality experience analyses me. Weighting factors vary by scheme.

vements for all UK plans are in line with the 2020 Continuous Mortality Investigation ("CMI") core projection model (SK = with a long-term rate of improvement of 1.25% p.a. for both males and females.

solidated Pension Plan

sion and Medical Plans use base mortality tables that are adjusted for recent plan experience (equivalent to RP2006 018 using scale MP2018 with a 6.1001% load). Future improvements for all US plans are in line with MP2021.

y Pension Plans

lans use the Richttafein 2018 G tables, with no adjustment.

table shows the future life expectancy of individuals aged 65 at the year end and the future life expectancy of individuals years' time.

	GKN Group Pension Schemes (Numbers 1 – 4) years	GKN US Consolidated Pension Plan years	GKN Germany Pension Plans years
	21.3	19.1	20.5
	24.3	21.1	23.9
ars' time	22.2	20.6	23.2
years' time	25.7	22.5	26.1

et disclosures

recognised in the Consolidated Balance Sheet in respect of defined benefit plans were as follows:

	Notes	31 December 2021 £m	31 December 2020 £m
of funded defined benefit obligations		**(2,848)**	(3,930)
lan assets		**3,010**	3,775
		162	(155)
of unfunded defined benefit obligations		**(623)**	(683)
		(461)	(838)
nefit surplus (non-current other receivables)[1]	17	**184**	–
nefit obligations (non-current liabilities)		**(645)**	(838)
		(461)	(838)

us relating to the GKN Group Pension Plans Numbers 1-4 of £179 million (31 December 2020: deficit of £199 million) and the Japan Employee plan of £5 million (31): £nil).

Notes to the Financial Statements
Continued

24. Retirement benefit obligations continued

The net retirement benefit obligation in continuing businesses is attributable to Aerospace: asset of £67 million (31 Decer liability of £171 million), Automotive: liability of £484 million (31 December 2020: £693 million), Powder Metallurgy: liabilit million (31 December 2020: £47 million), Other Industrial: £nil (31 December 2020: £nil) and Corporate: liability of £7 mill December 2020: asset of £64 million). The net retirement benefit obligation in respect of discontinued businesses was ar million at 31 December 2020.

The plan assets and liabilities at 31 December 2021 were as follows:

	UK Plans[1] £m	US Plans £m	European Plans £m	Other Plans £m
Plan assets	2,754	203	23	30
Plan liabilities	(2,582)	(289)	(566)	(34)
Net assets/(liabilities)	172	(86)	(543)	(4)

(1) Includes a liability in respect of the GKN post-employment medical plans of £7 million and a surplus in respect of the GKN Pension Scheme Numbers 1 – 4 of £179 milli

The major categories and fair values of plan assets at the end of the year for each category were as follows:

	31 December 2021 £m
Equities	**141**
Government bonds	**1,420**
Corporate bonds	**459**
Property	**71**
Insurance contracts	**38**
Multi-strategy/Diversified growth funds	**424**
Private equity	**209**
Other[1]	**248**
Total	**3,010**

(1) Primarily consists of cash collateral and liability driven investments.

The assets were well diversified and the majority of plan assets had quoted prices in active markets. All government bonc issued by reputable governments and were generally AA rated or higher. Interest rate and inflation rate swaps were also complement the role of fixed and index-linked bond holdings for liability risk management.

The Trustees continually review whether the chosen investment strategy is appropriate with a view to providing the pensi and to ensure appropriate matching of risk and return profiles. The main strategic policies included maintaining an approp mix, managing interest rate sensitivity and maintaining an appropriate equity buffer. Investment results are regularly revie

Movements in the present value of defined benefit obligations during the year:

	Year ended 31 December 2021 £m
At 1 January	**4,613**
Current service cost	**8**
Past service cost[1]	**–**
Interest cost on obligations	**59**
Remeasurement (gains)/losses – demographic	**(14)**
Remeasurement (gains)/losses – financial	**(162)**
Remeasurement gains – experience	**(49)**
Benefits paid out of plan assets	**(186)**
Benefits paid out of Group assets for unfunded plans	**(16)**
Settlements[2]	**(366)**
Disposal of businesses[3]	**(379)**
Exchange adjustments	**(37)**
At 31 December	**3,471**

(1) An expense of £2 million was recorded in the year ended 31 December 2020 as a past service cost in respect of the equalisation of guaranteed minimum pension ("GMF in the UK. This was treated as an adjusting item (note 6).
(2) A settlement loss of £6 million (2020: £nil) was recognised relating to the buy-out of the GKN UK 2016 Pension Plan. This was treated as an adjusting item (note 6).
(3) Disposal of businesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).

...nent benefit obligations continued

...enefit plan liabilities were 23% (31 December 2020: 20%) in respect of active plan participants, 27% (31 December ... respect of deferred plan participants and 50% (31 December 2020: 53%) in respect of pensioners.

...average duration of the defined benefit plan liabilities at 31 December 2021 was 17.7 years (31 December 2020:

... the fair value of plan assets during the year:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
	3,775	3,412
...e on plan assets	**51**	69
... assets, excluding interest income	**72**	438
	112	75
...out of plan assets	**(186)**	(192)
...ative costs	**(7)**	(14)
	(372)	(7)
...sinesses[2]	**(432)**	–
...istments	**(3)**	(6)
...er	**3,010**	3,775

...s of £6 million (2020: £nil) was recognised relating to the buy-out of the GKN UK 2016 Pension Plan. This was treated as an adjusting item (note 6).
...nesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).

...urn on plan assets was a gain of £123 million (2020: £507 million).

...ment disclosures

...gnised in the Consolidated Income Statement in respect of these defined benefit plans were as follows:

...rations	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
...operating loss:		
...ce cost	**8**	10
...cost[2]	**–**	2
...)	**6**	–
...trative costs[4]	**7**	12
...net finance costs:		
...on defined benefit obligations	**56**	80
...me on plan assets	**(48)**	(61)

...perations	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
...operating profit:		
...trative costs	**–**	2
...net finance costs:		
...on defined benefit obligations	**3**	8
...me on plan assets	**(3)**	(8)

...ontinued operations (note 1).
...2 million was recorded in the year ended 31 December 2020 as a past service cost in respect of the equalisation of guaranteed minimum pension ("GMP") benefits ... was treated as an adjusting item (note 6).
...s of £6 million (2020: £nil) was recognised in the year relating to the buy-out of the GKN UK 2016 Pension Plan. This was treated as an adjusting item (note 6).
...on (2020: £nil) of costs relating to the buy-out of the GKN UK 2016 Pension Plan. This was treated as an adjusting item (note 6).

Notes to the Financial Statements
Continued

24. Retirement benefit obligations continued

Statement of Comprehensive Income disclosures

Amounts recognised in the Consolidated Statement of Comprehensive Income in respect of these defined benefit plans follows:

	Year ended 31 December 2021 £m
Return on plan assets, excluding interest income	72
Remeasurement gains/(losses) arising from changes in demographic assumptions	14
Remeasurement gains/(losses) arising from changes in financial assumptions	162
Remeasurement gains arising from experience adjustments	49
Net remeasurement gain on retirement benefit obligations	**297**

Risks and sensitivities

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, inflation risk, interest rate risk and r (investment) risk. The Group is not exposed to any unusual, entity specific or plan specific risks.

A sensitivity analysis on the principal assumptions used to measure the plan liabilities at the year end was as follows:

	Change in assumption	Decrease/(increase) to plan liabilities £m	Incr to
Discount rate	Increase by 0.1 ppts	58	
	Decrease by 0.1 ppts	(61)	
Inflation assumption[1]	Increase by 0.1 ppts	(41)	
	Decrease by 0.1 ppts	38	
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(175)	
	Decrease by 1 year	171	

(1) The inflation sensitivity encompasses the impact on pension increases, where applicable.

The sensitivity analysis above was determined based on reasonably possible changes to the respective assumptions, wh other assumptions constant. There has been no change in the methods or assumptions used in preparing the sensitivity prior years. Sensitivities are based on the relevant assumptions and membership profile as at 31 December 2021 and ar obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flow it does provide an approximation to the sensitivity of assumptions shown. Extrapolation of these results beyond the sensi shown may not be appropriate and the sensitivity analysis presented may not be representative of the actual change in th benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the a may be correlated.

al instruments and risk management

w sets out the Group's accounting classification of each category of financial assets and liabilities and their carrying ecember 2021 and 31 December 2020:

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate £m	Discontinued Operations £m	Total £m
2021							
ets							
amortised cost:							
equivalents	–	–	–	–	473	–	473
vables	393	274	123	34	–	–	824
fair value:							
	77	–	–	10	–	–	87
ncial assets							
ency forward contracts	–	–	–	1	58	–	59
lerivatives[1]	11	–	–	–	–	–	11
lities							
amortised cost:							
g loans and borrowings	–	–	–	–	(1,365)	–	(1,365)
fundable advances	(55)	–	–	–	–	–	(55)
ons	(203)	(105)	(58)	(1)	(9)	–	(376)
liabilities	(585)	(798)	(165)	(52)	(57)	–	(1,657)
fair value:							
ncial liabilities							
ency forward contracts	–	(2)	(1)	–	(113)	–	(116)
swaps	–	–	–	–	(7)	–	(7)
ncy swaps	–	–	–	–	(69)	–	(69)
lerivatives[1]	(6)	–	–	–	–	–	(6)
2020 (restated)[2]							
ts							
amortised cost:							
equivalents	–	–	–	–	311	–	311
vables	453	372	143	24	–	236	1,228
fair value:							
	34	–	–	–	–	–	34
ncial assets							
ency forward contracts	–	1	–	1	126	7	135
lerivatives[1]	13	–	–	–	–	–	13
lities							
amortised cost:							
g loans and borrowings	–	–	–	–	(3,091)	–	(3,091)
fundable advances	(58)	–	–	–	–	–	(58)
ons	(266)	(113)	(59)	(2)	(3)	(112)	(555)
liabilities	(564)	(899)	(179)	(39)	(53)	(256)	(1,990)
fair value:							
ncial liabilities							
ency forward contracts	–	(4)	–	–	(69)	(13)	(86)
swaps	–	–	–	–	(87)	–	(87)
ncy swaps	–	–	–	–	(89)	–	(89)
lerivatives[1]	(6)	–	–	–	–	–	(6)

erivative is classified as a level 3 fair value under the IFRS 13 fair value hierarchy.
ontinued operations (note 1).

n of liabilities arising from financing activities

ng from financing activities, as defined by IAS 7, totalled £3,584 million at 31 December 2020 comprising; external debt on (excluding £151 million of bank overdrafts), cross-currency swaps of £89 million and lease obligations of £555 the year a cash outflow in those liabilities totalled £1,616 million as follows: repayment of external debt and cross- is associated with debt of £1,555 million (note 27) and repayment of principal on lease obligations of £61 million (note re is a payment of £4 million included within the financing activities section of the Consolidated Statement of Cash ect of costs of raising debt finance, this does not affect liabilities arising from financing activities. There is also a abilities arising from financing activities relating to non-cash items totalling £163 million comprising; a reduction in and cross-currency swaps associated with debt of £45 million due to changes in foreign exchange rates and other non- nts and a net decrease in respect of lease obligations of £118 million. As at 31 December 2021, liabilities arising from ities, as defined by IAS 7, totalled £1,805 million comprising; external debt of £1,360 million (excluding £5 million of s), cross-currency swaps of £69 million and lease obligations of £376 million.

25. Financial instruments and risk management continued

Liabilities arising from financing activities, as defined by IAS 7, totalled £4,215 million at 31 December 2019 comprising; of £3,553 million (excluding £195 million of bank overdrafts), cross-currency swaps of £80 million and lease obligations (million. During the year a cash outflow in those liabilities totalled £674 million as follows: repayment of external debt and currency swaps associated with debt of £598 million (note 27) and repayment of principal on lease obligations of £76 mi Whilst there is a payment of £1 million included within the financing activities section of the Consolidated Statement of C respect of costs of raising debt finance, this does not affect liabilities arising from financing activities. There is also an in liabilities arising from financing activities relating to non-cash items totalling £43 million comprising; a reduction in extern cross-currency swaps associated with debt of £6 million due to changes in foreign exchange rates and an increase in re obligations of £49 million. As at 31 December 2020, liabilities arising from financing activities, as defined by IAS 7, totalle million comprising; external debt of £2,940 million (excluding £151 million of bank overdrafts), cross-currency swaps of £ lease obligations of £555 million.

Fair values

As at 31 December 2021, the £450 million bond maturing in 2022 had a carrying value of £457 million (31 December 20 million) and a fair value of £462 million (31 December 2020: £478 million), and the £300 million bond maturing in 2032 h value of £304 million (31 December 2020: £305 million) and a fair value of £321 million (31 December 2020: £322 millio

The Directors consider that the other financial assets and liabilities have fair values not materially different to the carryin

Credit risk

The Group's principal financial assets were cash and cash equivalents, trade receivables and derivative financial assets represented 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 assets was limited because the counterpa banks with strong credit ratings assigned by international credit rating agencies. Exposure is managed on the basis of ris *counterparty limits. The value of credit risk in derivative assets has been modelled using publicly available inputs as part* value.

The Group's credit risk was therefore primarily attributable to its trade receivables. The amounts presented in the Conso Balance Sheet were net of allowance for expected credit loss, estimated by the Group's management based on prior exp their assessment of the current economic environment. Note 17 provides further details regarding the recovery of trade r

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and simil agreements:

31 December 2021	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial assets/(liabilities) set off in the Balance Sheet £m	Net amounts of financial assets/(liabilities) presented in the Balance Sheet £m	Related amounts of financial instruments not set off in the Balance Sheet £m
Cash and cash equivalents	473	–	473	(5)
Derivative financial assets	70	–	70	(58)
Financial assets subject to master netting arrangements	**543**	**–**	**543**	**(63)**
Interest-bearing loans and borrowings	(1,365)	–	(1,365)	(127)
Derivative financial liabilities	(198)	–	(198)	190
Financial liabilities subject to master netting arrangements	**(1,563)**	**–**	**(1,563)**	**63**

al instruments and risk management continued

0	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial assets/(liabilities) set off in the Balance Sheet £m	Net amounts of financial assets/(liabilities) presented in the Balance Sheet £m	Related amounts of financial instruments not set off in the Balance Sheet £m	Net amount £m
equivalents	338	(27)	311	(146)	165
cial assets	148	–	148	(131)	17
s subject to master netting	486	(27)	459	(277)	182
loans and borrowings	(3,118)	27	(3,091)	19	(3,072)
cial liabilities	(268)	–	(268)	258	(10)
ies subject to master ements	(3,386)	27	(3,359)	277	(3,082)

nages its capital to ensure that entities in the Group will be able to continue as a going concern.

ıcture of the Group as at 31 December 2021 consists of net debt, as disclosed in note 27, and equity attributable to the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of uity.

management

anking facilities

021, the Group extended the maturity date of both the term loan and the revolving credit facility to 30 June 2024. this extension, in December 2021 the term loan was partly prepaid by £70 million and US$172 million. Consequently, mmitted bank funding includes a multi-currency denominated term loan of £30 million (31 December 2020: £100 ı$788 million (31 December 2020: US$960 million) and a multi-currency denominated revolving credit facility of £1.1 billion and €0.5 billion. Loans drawn under this facility are guaranteed by Melrose Industries PLC and certain of its ıd there is no security over any of the Group's assets in respect of this facility.

nber 2021 the term loan was fully drawn and there were no drawings on the multi-currency revolving credit facility. a significant amount of headroom on the multi-currency committed revolving credit facility at 31 December 2021. ‹change rates at 31 December 2021, the headroom equated to £2,998 million (31 December 2020: £1,632 million).

and marketable securities amounted to £473 million at 31 December 2021 (31 December 2020: £311 million) and are at the Group net debt position of £950 million (31 December 2020: £2,847 million). The combination of this cash and on the revolving credit facility allows the Directors to consider that the Group has sufficient access to liquidity for its The Board takes careful consideration of counterparty risk with banks when deciding where to place cash on deposit.

bank funding has two financial covenants, being a net debt to adjusted EBITDA covenant and an interest cover of which are normally tested half-yearly in June and December.

ale of Nortek Air Management in the year, the net debt to adjusted EBITDA covenant test level is 4.25x at 31 1, 4.0x at 30 June 2022, 3.75x at 31 December 2022 and 3.5x at 30 June 2023 onwards. At 31 December 2021, the : leverage was 1.3x.

ver bank covenant test as at 31 December 2021 is set at 3.0x at 31 December 2021, 3.25x at 30 June 2022 and 4.0x ıber 2022 onwards. At 31 December 2021, the Group interest cover was 5.9x, affording comfortable headroom.

borrowings as at 31 December 2021, inherited as part of the GKN acquisition, consist of a £450 million bond maturing 22 and a £300 million bond maturing May 2032. Details of the bonds outstanding at 31 December 2021 are shown in

ın bond was fully swapped into US$373 million and €284 million by GKN in September 2014 by using a number of swaps. At 31 December 2021, the fair value liability of these cross-currency swaps was £68 million (31 December ɔn).

e cross-currency swaps on the £450 million bond, during the year there was a charge of £2 million (2020: £1 million) ıin the cost of hedge reserve related to the cost of hedging. At 31 December 2021, the cumulative value of the cost of ıised within the cost of hedge reserve is £10 million (2020: £8 million).

al

a small number of uncommitted working capital programmes, which predominantly relate to the programmes inherited ;KN acquisition. These programmes provide favourable financing terms on eligible customer receipts and competitive ; to suppliers on eligible supplier payments.

Notes to the Financial Statements
Continued

25. Financial instruments and risk management continued

GKN businesses which participate in these customer related finance programmes have the ability to choose whether to payment earlier than the normal due date, for specific customers on a non-recourse basis. As at 31 December 2021, the these facilities were £310 million (31 December 2020: £314 million), as a result there was a net cash reduction in the ye (2020: benefit of £60 million).

In addition, some suppliers have access to utilise the Group's supplier finance programmes, which are provided by a sm the Group's banks. There is no cost to the Group for providing these programmes to its suppliers. These arrangements the date suppliers are due to be paid by the Group, and therefore there is no additional impact on the Group's liquidity. I exited these arrangements there could be a potential impact of up to £60 million (31 December 2020: £32 million) on the flow. These programmes allow suppliers to choose whether they want to accelerate the payment of their invoices, by the banks, for an interest cost which is competitive, based on the credit rating of the Group as determined by the financing b amounts owed to the banks are presented in trade payables on the Balance Sheet and the cash flows are presented in from operating activities. As at 31 December 2021, total facilities were £321 million (31 December 2020: £250 million) w £102 million (31 December 2020: £62 million). The arrangements do not change the timing of the Group's cash outflows

Hedge of net investments in foreign entities using loans and derivatives

Interest-bearing loans and borrowings together with cross-currency swaps are designated as hedges of net investments Group's subsidiaries in the USA and Europe to reduce the exposure to the related foreign exchange risks.

The value of these were as follows:

	31 December 2021 £m
Local borrowing:	
US Dollar	457
Euro	126
GKN cross-currency swaps:	
US Dollar	276
Euro	239

The foreign exchange movement on the local borrowings, which is recorded in currency translation on net investments v Comprehensive Income, was a gain of £13 million (2020: £61 million).

The Euro borrowings include US$170 million debt that was swapped into €150 million using cross-currency swaps. The these cross-currency swaps was a liability of £1 million (31 December 2020: £9 million). The foreign exchange moveme cross-currency swaps, which is recorded in derivative gains/(losses) on hedge relationships within Other Comprehensiv a gain of £15 million (2020: loss of £49 million). Net cash receipts in the year totalled £7 million (2020: settlement of £46

The foreign exchange movement on the GKN cross-currency swaps, which is recorded in derivative gains/(losses) on h relationships, was a gain of £12 million (2020: loss of £6 million).

Finance cost risk management

The bank margin on the bank facility depends on the Group leverage, which reduced following the disposals completed year. Following the extension of the bank facility in December 2021, the bank margin on the revolving credit facility was align to the term loan and ranges from 0.75% to 2.0%. As at 31 December 2021 the margin was 0.75% (31 December 2 the term loan and 0.75% (31 December 2020: 2.25%) on the revolving credit facility.

The policy of the Board is to fix approximately 70% of the interest rate exposure of the Group. Following the sale of Nort Management, Nortek Control and Brush, the Group's net debt reduced significantly and, to maintain the policy of fixing a 70% of the Group's interest rate exposure, several of the interest rate swaps were cancelled at a cash cost of £47 millio million booked through adjusting items (note 6) and £2 million retained in the cash flow hedge reserve.

The interest rate swaps are designated as cash flow hedges and were highly effective throughout 2021. The fair value o as at 31 December 2021 was a net liability of £7 million (31 December 2020: £87 million). The movement of £80 million ended 31 December 2021 (2020: charge of £28 million) comprised of a credit of £19 million (2020: charge of £28 million derivatives gains/(losses) on hedge relationships in the year within Other Comprehensive Income, a £47 million cash ou cancelling the interest rate swaps described above and a £14 million reduction in the interest accrual.

During the year ended 31 December 2021, some of the critical terms of the interest rate swaps and the hedged items w perfectly matched; however, this did not give rise to any ineffectiveness through the Income Statement in the year (2020 forward, the critical terms of the interest rate swaps and the hedged items are perfectly matched and no ineffectiveness future periods.

al instruments and risk management continued

ensitivity analysis

net debt, inclusive of interest rate swaps, held as at the balance sheet date was outstanding for the whole year, a one int rise in market interest rates for all currencies would decrease profit before tax by the following amounts:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
	–	(1)
	(2)	(2)
	(1)	–

f the floating-to-fixed interest rate swaps in place at the balance sheet date, a one percentage point fall in market or all currencies would decrease Group equity by £2 million (31 December 2020: £35 million).

e risk management

des in various countries around the world and is exposed to movements in a number of foreign currencies. The Group es exchange rate risk that can be categorised into three types, transaction, translation and disposal related risk as ıe paragraphs below. The Group's policy is designed to protect against the majority of the cash risks but not the non-

mon exchange rate risk is the transaction risk the Group takes when it invoices a customer or purchases from suppliers urrency to the underlying functional currency of the relevant business. The Group's policy is to review transactional ıge exposures, and place necessary hedging contracts, quarterly on a rolling basis. To the extent the cash flows h a transactional foreign exchange risk are committed, the Group will hedge 100% at the time the cash flow becomes r forecast and variable cash flows, the Group hedges a proportion of the expected cash flows, with the percentage lowering as the time horizon lengthens. The average time horizons for GKN Aerospace, GKN Automotive and GKN urgy reflect the long-term nature of the contracts within these divisions. Typically, in total the Group hedges around 90% ıange exposures expected over the next year, and approximately 60% to 80% of exposures between one and two licy does not eliminate the cash risk but does bring some certainty to it.

ı rate risk is the effect on the Group results in the period due to the movement of exchange rates used to translate into Sterling from one period to the next. No specific exchange instruments are used to protect against the translation is a non-cash risk to the Group, until foreign currency is converted to Sterling. However, the Group utilises its multi-ving credit facility and cross-currency swaps, where relevant, to maintain an appropriate mix of debt in each currency. having debt drawn in these currencies funding the trading units with US Dollars or Euro functional currencies protects of the Balance Sheet and banking covenant translation risk.

ge rate risk arises when a business that is predominantly based in a foreign currency is sold. The proceeds for those ay be received in a foreign currency and therefore an exchange rate risk may arise on conversion of foreign currency Sterling, for instance to pay a Sterling dividend or Capital Return to shareholders. Protection against this risk is a case-by-case basis and, if appropriate, hedged at the time.

mber 2021, the Group held foreign exchange forward contracts to mitigate expected exchange rate fluctuations on ws from sales to customers and purchases from suppliers. The fair value of all foreign exchange forward contracts ›up was a net liability at 31 December 2021 of £57 million (31 December 2020: net asset of £49 million). A small ıese contracts have been designated as cash flow hedges within the Other Industrial reporting segment. Contracts ıccounting was applied had a fair value asset as at 31 December 2021 of £1 million (31 December 2020: liability of £5 Other Industrial and Discontinued Operations. These contracts all mature between January 2022 and September 2022.

fair value of foreign exchange forward contracts recognised in derivative gains/(losses) on hedging relationships within hensive Income was a credit of £8 million (2020: charge of £16 million) and a credit of £2 million (2020: charge of £6 classified to the Income Statement.

y swaps are designated as net investment hedges. The critical terms of the hedges are not perfectly matched against m in terms of the cost of hedging; this gives rise to ineffectiveness through the Income Statement for the year ended 31 ?1 and could also do so in future reporting periods.

ıe cross-currency swaps designated as net investment hedges, for the year ended 31 December 2021, a credit of £4 £5 million) was booked through the Income Statement in finance costs, of which a credit of £3 million (2020: charge of ; reclassified to the Income Statement from Other Comprehensive Income and has been treated as an adjusting item ross-currency swaps are designated in a net investment hedge accounting relationship against US Dollar and Euro net in subsidiaries. The hedged risk is the spot rate, which represents the significant component of the movement and been recorded in the foreign currency translation reserve (note 26).

Notes to the Financial Statements
Continued

25. Financial instruments and risk management continued

The following table shows the maturity profile of undiscounted contracted gross cash outflows of derivative financial liabi
manage currency risk, being both the cross-currency swaps above and foreign exchange forward contracts used to man
transaction exchange rate risk:

	0-1 years £m	1-2 years £m	2-5 years £m	5+ years £m
Year ended 31 December 2021				
Foreign exchange forward contracts	**1,051**	**479**	**715**	**28**
Cross-currency swaps	**666**	**–**	**–**	**–**
Year ended 31 December 2020				
Foreign exchange forward contracts	712	393	374	–
Cross-currency swaps	407	553	–	–

Foreign currency sensitivity analysis

Currency risks are defined by IFRS 7: Financial instruments: Disclosures as the risk that the fair value or future cash flow
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
at the balance sheet date, illustrating the increase/(decrease) in Group operating profit caused by a 10% strengthening o
Dollar and Euro against Sterling compared to the year-end spot rate. The analysis assumes that all other variables, in pa
foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with
impact are shown below:

	Year ended 31 December 2021 £m
US Dollar	**2**
Euro	**7**

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities
balance sheet date, illustrating the increase/(decrease) in Group equity caused by a 10% strengthening of the US Dollar
against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, rema

	31 December 2021 £m
US Dollar	**(5)**
Euro	**(10)**

In addition, the change in equity due to a 10% strengthening of the US Dollar against Sterling for the translation of net in
hedging instruments would be a decrease of £74 million (2020: £178 million) and for the Euro, a decrease of £37 million
million). However, there would be no overall effect on equity because there would be an offset in the currency translation
operation.

Fair value measurements recognised in the Balance Sheet

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from qu
rates matching the maturities of the contracts.

Interest rate swap and cross-currency swap contracts are measured using yield curves derived from quoted interest and
exchange rates.

al instruments and risk management continued

nted derivatives

:able sets out details of the Group's material hedging instruments where hedge accounting is applied at the balance

nents	Average fixed rate		Notional principal		Fair value of assets/ (liabilities)	
	31 December 2021 %	31 December 2020 %	**31 December 2021 £m**	31 December 2020 £m	**31 December 2021 £m**	31 December 2020 £m
eive floating interest rate swaps						
r	**2.24%**	1.95%	**246**	1,752	**–**	(2)
ears	**2.24%**	1.98%	**246**	1,876	**(7)**	–
ears	**–**	1.94%	**–**	2,079	**–**	(85)
					(7)	(87)
eive fixed cross-currency swaps						
ır	**4.85%**	4.82%	**515**	528	**(68)**	–
ears	**–**	4.82%	**–**	528	**–**	(80)
ears	**–**	–	**–**	–	**–**	–
					(68)	(80)

o has cross-currency swaps designated in net investment hedge accounting relationships which convert US Dollar Euros as discussed in the Hedge of net investments in foreign entities using loans and derivatives section of this note.

exposed to the following interest rate benchmarks within its hedge accounting relationships, which are subject to interest rk reform: USD LIBOR, EURIBOR ("IBORs"). The hedged items are US Dollar and Euro floating rate debt.

s closely monitored the market and the output from various industry working groups managing the transition to new erest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority ("FCA") ommodity Trading Futures Commission) regarding the transition away from LIBOR to the Sterling Overnight Indexed ("SONIA"), Secured Overnight Financing Rate ("SOFR") and Euro Short-Term Rate ("ESTR") respectively. The FCA ear that, at the end of 2021, it will no longer seek to persuade, or compel banks to submit to LIBOR.

the announcements, the Group amended the banking facility in December 2021 with its banking group in respect of with Sterling borrowings under SONIA from that date. The Group has no Sterling interest rate swaps as at 31 December ar borrowings continue under USD LIBOR with the option to switch to SOFR on or prior to discontinuation in June 2023. pects to continue using EURIBOR for Euro borrowings going forward.

details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate form by hedge type. The terms of hedged items listed match those of the corresponding hedging instruments.

Instrument type	Maturing	Notional	Hedged item
Interest rate swaps, pay US Dollar fixed annually, receive 1 month US Dollar LIBOR	January 2023	Variable (US$315 million – US$350 million)	US Dollar floating rate debt linked to US LIBOR
Interest rate 0% caps, pay Euro fixed annually, receive 1 month EURIBOR	January 2023	€220 million	Euro floating rate debt linked to EURIBOR

l continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms with timing and the amount of the underlying cash flows that the Group is exposed to ends. The Group has assumed that y will not end until the Group's contracts that reference IBORs are amended to specify the date on which the interest rk will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in ıdent on the introduction of fallback clauses which have yet to be added to the Group's contracts and the negotiation

l financial assets and liabilities are presented within the Balance Sheet as:

	31 December 2021 £m	31 December 2020 £m
ısets	**47**	101
	23	47
es	**(119)**	(58)
bilities	**(79)**	(210)

25. Financial instruments and risk management continued

The change in fair value of interest rate swaps is discussed in the Finance Risk Management section of the Finance Dire Review.

All hedging instruments are booked in the Balance Sheet as derivative financial assets or derivative financial liabilities.

The fair value of derivative financial instruments is derived from inputs other than quoted prices that are observable for th liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and they are therefore categorised within Leve value hierarchy set out in IFRS 13: Fair value measurement. The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the date the event or change in circumstances that caused the transfer to occur. There have transfers between levels in the year.

The following table sets out details of the Group's material hedged items at the balance sheet date where hedge accoun applied:

	Change in fair value for calculating ineffectiveness		Balance in translation and hedging reserve for continuing hedges		Balance in t and hedging for discontinu
	31 December 2021 £m	31 December 2020 £m	**31 December 2021 £m**	31 December 2020 £m	**31 December 2021 £m**
Hedged items					
Floating rate borrowings – interest risk	**(66)**	28	**4**	70	**2**
Net assets of designated investments	**6**	3	**53**	63	**–**

There is no balance held in cash flow hedge reserve from hedging relationships for which hedge accounting is no longer During 2020, at the request of one of its financial counterparties, the Group novated one of its interest rate swaps to anot financial counterparties, which had the initial effect of leaving a £9 million debit in the translation and hedging reserve for discontinued hedge, reducing to £2 million by 31 December 2021 (31 December 2020: £7 million). The remaining value i will be charged to the Income Statement over the remaining life of the cash flows to January 2023, reflecting the cash flo which the hedge had been originally designated.

26. Issued share capital and reserves

Share Capital	**31 December 2021 £m**
Allotted, called-up and fully paid	
4,372,429,473 (31 December 2020: 4,858,254,963) Ordinary Shares of 160/21p each (31 December 2020: 48/7p each)(1)	**333**
Nil (31 December 2020: 12,831) 2017 Incentive Plan Shares of £1 each(2)	**–**
	333

(1) A return of capital was paid in cash to shareholders on 14 September 2021, via a redeemable preference share scheme alongside a 9 for 10 share consolidation which number of ordinary shares by 10%, from 4,858 million to 4,372 million (note 1).
(2) Following the crystallisation of the 2017 Incentive Plan on 31 May 2020 for £nil, the 2017 Incentive Plan shares were re-designated as deferred shares and cancelled b the year ended 31 December 2021.

The rights associated with each class of share are described in the Directors' Report.

Merger reserve and Other reserves

The Merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acqu subsidiaries. Other reserves comprise accumulated adjustments in respect of Group reconstructions.

Translation and hedging reserve

In order to provide useful information about the Group's hedging arrangements, the translation reserve and hedging rese combined. Including the different components of hedging in one place enables a clearer explanation of the three compon hedging. These components are disaggregated below with movements within Other Comprehensive Income during the y below and further explanation provided in note 25.

share capital and reserves continued

	Cost of hedge reserve £m	Cash flow hedge reserve £m	Foreign currency translation reserve £m	Translation and hedging reserve £m
020	(7)	(34)	119	78
ithin other comprehensive income/(expense):				
of net assets	–	–	(87)	(87)
nge differences on borrowings hedging net assets	–	–	61	61
ferred tax	–	–	–	–
value of derivatives designated in net investment hedges	–	–	(55)	(55)
ferred tax	–	–	–	–
value of derivatives designated in cash flow hedges	–	(44)	–	(44)
ferred tax	–	9	–	9
ssified to the Income Statement	(1)	6	3	8
er 2020	(8)	(63)	41	(30)
ithin other comprehensive income/(expense):				
of net assets	–	–	(101)	(101)
nge differences on borrowings hedging net assets	–	–	13	13
ferred tax	–	–	–	–
value of derivatives designated in net investment hedges	–	–	27	27
ferred tax	–	–	–	–
value of derivatives designated in cash flow hedges	–	27	–	27
ferred tax	–	(19)	–	(19)
ssified to the Income Statement	(2)	46	115	159
ber 2021	**(10)**	**(9)**	**95**	**76**

hedge reserve represents the cumulative fair value gains and losses on derivatives for which cash flow hedge s been applied. Movements and balances on derivatives designated in net investment hedges are shown as part of the cy translation reserve.

urrency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency erling, together with gains and losses on the translation of liabilities and cumulative fair value gains and losses on at hedge the Company's net investment in foreign subsidiaries.

assified to the Income Statement during the year includes £113 million (2020: £nil) following the disposal of businesses.

Notes to the Financial Statements
Continued

27. Cash flow statement

	Notes	Year ended 31 December 2021 £m
Reconciliation of operating loss to net cash from operating activities generated by continuing operations		
Operating loss		(451)
Adjusting items	6	826
Adjusted operating profit	6	375
Adjustments for:		
Depreciation of property, plant and equipment		374
Amortisation of computer software and development costs		51
Share of adjusted operating profit of equity accounted investments	15	(66)
Restructuring costs paid and movements in provisions		(233)
Defined benefit pension contributions paid[2]		(88)
Change in inventories		(31)
Change in receivables		79
Change in payables		14
Tax paid		(65)
Interest paid on loans and borrowings		(128)
Interest paid on lease obligations		(14)
Acquisition and disposal costs		(5)
Net cash from operating activities		263

(1) Restated for discontinued operations (note 1).
(2) Comprises £54 million (2020: £107 million) of ongoing contributions to Group pension plans and £34 million paid to the GKN UK Pension Schemes following the disposa Management, satisfying the funding commitment made on the acquisition of GKN.

Reconciliation of cash and cash equivalents, net of bank overdrafts	31 December 2021 £m
Cash and cash equivalents per Balance Sheet	473
Bank overdrafts included within current interest-bearing loans and borrowings (note 20)	(5)
Cash and cash equivalents, net of bank overdrafts per Statement of Cash Flows	468

Cash flow information relating to discontinued operations is as follows:

Cash flow from discontinued operations	Year ended 31 December 2021 £m
Net cash from discontinued operations	84
Defined benefit pension contributions paid	(40)
Interest paid on lease obligations	(2)
Tax (paid)/received	(42)
Net cash from operating activities from discontinued operations[2]	–
Purchase of property, plant and equipment	(12)
Proceeds from disposal of property, plant and equipment	2
Purchase of computer software and capitalised development costs	(1)
Net cash used in investing activities from discontinued operations	(11)
Repayment of principal under lease obligations	(7)
Net cash used in financing activities from discontinued operations	(7)

(1) Restated for discontinued operations (note 1).
(2) Includes tax paid in the year of £32 million following the extraction of Ergotron and Nortek Control from the Nortek tax group prior to the disposal of Nortek Air Managem defined benefit pension contributions of £39 million paid on disposal of Nortek Air Management and Brush.

Net debt reconciliation

Net debt consists of interest-bearing loans and borrowings (excluding any acquisition related fair value adjustments), cro swaps and cash and cash equivalents. Currency denominated balances within net debt are translated to Sterling at swap where hedged by cross-currency swaps.

ow statement continued

nsidered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS e aggregate of interest-bearing loans and borrowings (current and non-current) and cash and cash equivalents. A from the most directly comparable IFRS measure to net debt, used as a basis for banking covenant calculations, is

	31 December 2021 £m	31 December 2020 £m
ng loans and borrowings – due within one year	**(462)**	(165)
ng loans and borrowings – due after one year	**(903)**	(2,926)
	(1,365)	(3,091)
h equivalents	**473**	311
	(892)	(2,780)
s-currency swaps	**(69)**	(89)
uisition fair value adjustments	**11**	22
	(950)	(2,847)

w shows the key components of the movement in net debt:

	At 31 December 2020 £m	Cash flow £m	Acquisitions and disposals £m	Other non-cash movements £m	Effect of foreign exchange £m	At 31 December 2021 £m
(excluding bank overdrafts)	(2,940)	1,562	–	5	13	**(1,360)**
y swaps	(89)	(7)	–	–	27	**(69)**
uisition fair value adjustments	22	–	–	(11)	–	**11**
	(3,007)	1,555	–	(6)	40	**(1,418)**
h equivalents, net of bank	160	(2,380)	2,688	–	–	**468**
	(2,847)	(825)	2,688	(6)	40	**(950)**

itments

able under lease obligations:

e payments	31 December 2021 £m	31 December 2020 £m
able:		
ar	**64**	101
r but within five years	**166**	239
rs	**206**	325
nance charges	**(60)**	(110)
e of lease obligations	**376**	555
for settlement within one year	**57**	81
for settlement after one year	**319**	474
e of lease obligations	**376**	555

p's policy to lease certain of its property, plant and equipment. The average lease term is ten years. Interest rates are ontract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental

obligations under lease arrangements are secured by the lessors' rights over the leased assets.

s within the Group contain extension or termination options to allow for flexibility within these lease agreements. Where are not reasonably certain to be exercised, they are not included in the lease obligation. The value of these associated cash flows is £232 million.

Notes to the Financial Statements
Continued

28. Commitments continued
The table below shows the key components in the movement in lease obligations.

	Year ended 31 December 2021 £m
At 1 January	555
Additions	45
Interest charge	16
Reassessment of lease obligation	3
Payment of principal	(61)
Payment of interest	(16)
Disposals	(3)
Disposal of businesses[1]	(138)
Transfer to held for sale[2]	(13)
Exchange adjustments	(12)
At 31 December	**376**

(1) Disposal of businesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).
(2) Transfer to held for sale in 2021 relates to the Nortek Control business, which was subsequently disposed of during the second half of 2021 (note 1).

Capital commitments
At 31 December 2021, there were commitments of £115 million (31 December 2020: £106 million) relating to the acquisit plant and machinery.

29. Related parties
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidatio disclosed in this note. Sales to and purchases from Group companies are priced on an arm's length basis and generally a 30-day terms.

In the ordinary course of business, sales and purchases of goods take place between subsidiaries and equity accounted companies priced on an arm's length basis. Sales by subsidiaries to equity accounted investments in the year ended 31 D 2021 totalled £21 million (2020: £23 million). Purchases by subsidiaries from equity accounted investments in the year en December 2021 totalled £10 million (2020: £7 million). At 31 December 2021, amounts receivable from equity accounted totalled £2 million (31 December 2020: £9 million) and amounts payable to equity accounted investments totalled £2 milli December 2020: £1 million).

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 fo categories specified in IAS 24: Related party disclosures. Further information about the remuneration of individual Directo provided in the audited part of the Directors' Remuneration Report on pages 104 and 113.

	Year ended 31 December 2021 £m
Short-term employee benefits	5
Share-based payments	10
	15

30. Contingent liabilities
As a result of acquisitions made by the Group, certain contingent legal and warranty liabilities have been identified as par value review of these acquisition balance sheets. Whilst it is difficult to reasonably estimate the timing and ultimate outcor claims, the Directors' best estimate has been included in the Balance Sheet where they existed at the time of acquisition a were recognised in accordance with IFRS 3: Business combinations. Where a provision has been recognised, information the different categories of such liabilities and the amount and timing of outflows is included within note 21.

Given the nature of the Group's business many of the Group's products have a large installed base, and any recalls or re to such products could be particularly costly. The costs of product recalls or reworks are not always covered by insurance reworks may have a material adverse effect on the Group's financial condition, results of operations and cash flows.

The Group has contingent liabilities representing guarantees and contract bonds given in the ordinary course of business trading subsidiaries. No losses are anticipated to arise on these contingent liabilities. The Group does not have any other contingent liabilities.

ny Balance Sheet for Melrose Industries PLC

	Notes	31 December 2021 £m	31 December 2020 £m
subsidiaries	3	**10,585**	10,579
ling due within one year	4	**–**	425
ling due after one year	4	**477**	29
ling due within one year	5	**(2,842)**	(2,041)
abilities		**(2,365)**	(1,587)
ess current liabilities		**8,220**	8,992
	6	**(3)**	(1)
		8,217	8,991
eserves			
capital	7	**333**	333
m account		**3,271**	8,138
e		**109**	109
ption reserve		**729**	–
ings		**3,775**	411
' funds		**8,217**	8,991

/ reported a profit for the financial year ended 31 December 2021 of £8 million (2020: loss of £15 million).

statements were approved by the Board of Directors on 3 March 2022 and were signed on its behalf by:

tin
e Director
!

umber: 09800044

Simon Peckham
Chief Executive
3 March 2022

Company Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Retained earnings £m
At 1 January 2020	333	8,138	109	–	412
Loss for the year (note 2)	–	–	–	–	(15)
Total comprehensive expense	–	–	–	–	(15)
Equity-settled share-based payments	–	–	–	–	14
At 31 December 2020	333	8,138	109	–	411
Profit for the year (note 2)	–	–	–	–	8
Total comprehensive income	–	–	–	–	8
Capital reduction	–	(4,138)	–	–	4,138
Return of capital	–	(729)	–	729	(729)
Dividends paid	–	–	–	–	(69)
Equity-settled share-based payments	–	–	–	–	16
At 31 December 2021	**333**	**3,271**	**109**	**729**	**3,775**

Details of the Company's capital reduction and return of capital are set out in note 1.

Refer to the Section 172 statement in the Strategic Report on pages 50 to 53 for further details on the Company's Distribu

o the Company Balance Sheet

ant accounting policies

ounting

tries PLC ("the Company") is a public company limited by shares. The Company is incorporated in the United Kingdom mpanies Act 2006 and registered in England and Wales. The address of the registered office is given on the back cover. the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 77.

Statements have been prepared under the historical cost convention and in accordance with Financial Reporting (FRS 102) issued by the Financial Reporting Council.

currency of Melrose Industries PLC is considered to be pounds Sterling because that is the currency of the primary ironment in which the Company operates.

Group's strategy, following the disposals of Nortek Air Management and Brush by the Group, a return of capital of £729 lent to 15 pence per existing ordinary share, was approved by shareholders on 9 July 2021. On 10 August 2021, a court pital reduction of the Company's share premium account by £4,138 million, taking the Company's share premium £8,138 million to £4,000 million. Subsequently, the return of capital was paid in cash to shareholders on 14 September deemable preference share scheme alongside a 9 for 10 share consolidation which reduced the number of ordinary %, from 4,858 million to 4,372 million. Further details are contained in note 7.

tries PLC meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure vailable to it in respect of its separate Financial Statements. Melrose Industries PLC is consolidated in its Group ements. Exemptions have been taken in these separate Company Financial Statements in relation to share-based sentation of a cash flow statement, the remuneration of key management personnel and financial instruments.

accounting policies are consistent with the prior year and are summarised below.

rn

Statements have been prepared on a going concern basis as the Directors consider that adequate resources exist for to continue in operational existence for the foreseeable future.

quidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity headroom 31 December 2021 and sufficient headroom throughout the going concern forecast period. Forecast covenant considered further below.

banking facility was extended in the year, from its original maturity in January 2023 to June 2024. The facility has two nants being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half yearly ecember.

covenants during the period of assessment for going concern are as follows:

	31 December 2021	30 June 2022	31 December 2022
usted EBITDA	**4.25x**	4.0x	3.75x
	3.0x	3.25x	4.0x

s modelled two scenarios in its assessment of going concern; a base case and a reasonably possible sensitised case.

e takes into account the estimated impact of a continued recovery from the COVID-19 pandemic as well as other end perational factors, including supply chain challenges, throughout the going concern period and has been monitored tual results and cash generation in the year.

ly possible sensitised case models more conservative sales assumptions for 2022 and the first half of 2023. Given that ty headroom of £3 billion and the Group's leverage was 1.3x, comfortably below the covenant test at 31 December er sensitivity detail is provided.

sonably possible sensitised case, even with significant reductions, no covenant is breached at any of the forecast testing 0 June 2022 and 31 December 2022, with the testing at 30 June 2023 also favourable, and the Group will not require sources of finance, even following repayment of the £450 million bond in September 2022.

n subsidiaries are measured at cost less impairment.

nts in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured o the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

f assets

sessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an ss is recognised in profit or loss as described below.

Notes to the Company Balance Sheet
Continued

1. Significant accounting policies continued

Non-financial assets
An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial r estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An im is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised ca higher than the carrying value had no impairment been recognised.

Financial instruments
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provision instrument. Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Financial assets and liabilities
All financial assets and liabilities are initially measured at transaction price (including transaction costs).

Financial assets and liabilities are only offset in the Balance Sheet when, and only when, there exists a legally enforceal off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the simultaneously.

Financial assets are derecognised when, and only when, a) the contractual rights to the cash flows from the financial as are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the finan c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred co asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expire

Share-based payments
The Company issues equity-settled share-based payments to certain employees. The required disclosures are included Consolidated Financial Statements.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting cond date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a s basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for t 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 adjust the Directors' best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Where equity-settled share-based payments are made available to employees of the Company's subsidiaries, these are increases in equity over the vesting period of the award with a corresponding increase in the Company's investment in s

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) usir 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 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 Timing differences are differences between the Company's taxable profits and its results as stated in the Financial State arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recogni Financial Statements.

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

Critical accounting judgements and key sources of estimation uncertainty
There were no critical accounting judgements that would have a significant effect on the amounts recognised in the Pare Financial Statements or key sources of estimation uncertainty at the balance sheet date that would have a significant ris material adjustment to the carrying amounts of assets and liabilities within the next financial year.

r the year

y section 408 of the Companies Act 2006 the Company has elected not to present its own Profit and Loss Account for
se Industries PLC reported a profit for the financial year ended 31 December 2021 of £8 million (2020: loss of £15

emuneration for audit services to the Company is disclosed in note 7 to the Group Consolidated Financial Statements.

uneration is disclosed in the Directors' Remuneration Report on pages 102 to 116. There were no other employees of
n the year.

ent in subsidiaries

	£m
021	10,579
	6
er 2021	**10,585**

vestment from equity-settled share-based payments for subsidiaries is included as an addition to investments in
31 December 2021. Further details on the Group's share-based payment schemes are included in note 23 to the
dated Financial Statements.

evaluates its investments in subsidiary undertakings annually for any indicators of impairment. The Company considers
o between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for
npairment. As at 31 December 2021, the market capitalisation of the Company of £6,991 million was below the carrying
estment (£10,585 million) net of intercompany positions (£2,407 million) indicating a potential impairment.

le amount of the investment has been determined using the information set out in note 11 to the Group Consolidated
ements and is in excess of its carrying value, therefore no impairment has been recognised.

subsidiaries and significant holdings were owned by the Company as at 31 December 2021:

	Equity interest %	Class of Share held
bertador 602, 4' Piso, Buenos Aires		
Homocineticas Argentinas SA *(in liquidation)*	49	Ordinary B[1]
hton Road, Clayton Victoria, 3168		
l *(in liquidation)*	100	Ordinary
1, 66 Goulburn Street, Sydney, NSW 2000		
lia Pty Ltd	100	Ordinary
nácio Noqueira Penido, 335 – Sala 1103 – Edifício Madison Power, São José SP, 12246-000		
e Transparency Systems do Brasil Ltda	100	Quota capital
Silveira 557, Parque Sao Sebastiao, 91060-320 Porto Alegre, RS		
Ltda	100	Common
pacao no. 4.500, CEP 13.184-542, Bairro Santa Esmeralda, Hortolandia,		
tals Ltda	100	Common
de Allée Ouest, Quebec, G1S 1E5		
anada Inc.	100	Ordinary
ue 600-1741 Lower Water Street, Halifax, N.S. B3J 0J2		
la Corporation	100	Ordinary
ulevard, St. Thomas, Ontario		
tals – St. Thomas, Ltd.	100	Common stock
njiang International Building, No.88 Tonggang Road, Changshu Economic and Development Zone, Jiangsu Province, 21550		
Machines (Changshu) Co. Limited	100	Registered investment

Notes to the Company Balance Sheet
Continued

3. Investment in subsidiaries continued

The 3rd Industry Area, Juzhou Shijie, Dongguan, Guangdong, 523290 Dongguan Ergotron Precision Technology Co Limited	100	Register
Room 2913 and 2914, Taiwan Merchants Building, 11th Dongguan Avenue, Dongcheng, Dongguan, Guangdong Province Dongguan Ergotron Precision Technology Design Services Co., Limited	100	Register
No 71 Xiangyun Road, Langfang Economic & Technical Development Zone, Langfang Fokker Elmo (Langfang) Electrical Systems Co. Ltd	100	Register
Wuping East Road, Shengfang Town, Bazhou City, Hebei Province, 065701 GKN (Bazhou) Metal Powder Company Limited	40	Register
Unit A, 6/F, Building A1#, No. 2555 Xiupu Road, Pudong New Area, Shanghai, 201315 GKN China Holding Co Ltd	100	Register
18 North Shitan Road, North Industrial Park, Development Zone, Danyang, Jiangsu, 212310 GKN Danyang Industries Company Limited	100	Register
No. 1 Cuigu, Northern New Zone, Chongqing, 401122 GKN HUAYU Driveline Systems (Chongqing) Co. Ltd	34.5	
Factory No.1, No. 2188 Zhongxi Road, Pinghu, Jiaxing, Zhejiang Province GKN HUAYU Driveline Systems (Pinghu) Co. Ltd	50	Register
1 Xinwang Road, Jingjiang Economic and Technic Development Zone, Jingjiang, Jiangsu GKN Aerospace (Jingjiang) Co., Ltd	100	Register
No.8 Kangmin Road, Industrial Automotive Park, Yizheng City, Jiangsu Province GKN Sinter Metals Yizheng Co Ltd	100	Register
Xiguo Industrial Zone, Mengzhou City, Henan Province, 454750 GKN Zhongyuan Cylinder Liner Company Limited	59	Register
Zijin Kechuang Center 4 Level, 416 Room, Economy Development Zone, Lishui, Nanjing Nanjing FAYN Piston Ring Company Limited	19.79	Register
898 Kangshen Road, Pudong, Shanghai Shanghai GKN Driveline Sales Co Ltd	49	
950 KangQiao Road, Pudong New Area, Shanghai Shanghai GKN HUAYU Driveline Systems Company Limited	50	Register
Room 805, 8th floor, Building 2, No. 1859, Shibo Avenue, Shanghai GKN Aerospace (Shanghai) Co., Ltd	100	
Colombia **Calle 32 No. 15–23 Barrio Rincon de Girón, Girón Santander** Transejes Transmisiones Homocineticas de Colombia SA	49	
France **Boulevard De L Europe, BP 177 91006 Evry-Courcouronnes CEDEX** Arianespace Participation S.A.	1.6320	
12 Quai du Commerce 69009 Lyon Ergotron France SARL	100	
7 rue de la Briqueterie, 02240 Ribemont GKN Driveline Ribemont SARL	100	
100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy GKN Automotive SAS GKN Freight Services EURL	100 100	
5-7 Rue Charles-Edouard Jeanneret 78300 Poissy GKN Driveline SA	100	
765 rue Albert Einstein, CS 70402, 13591 Aix-en-Provence Cedex 3 NH Industries SAS	5.5	
20 rue Lavoisier, 95300 Pontoise GKN Aerospace France SARL	100	

ent in subsidiaries *continued*

llegen GmbH, Teichhorn 4-6, 24119, Kronshagen		
chland GmbH	100	Ordinary
1, 81249, Munich		
e Deutschland GmbH	100	Ordinary
rasse 10, 63073 Offenbach am Main		
e Management GmbH	100	Ordinary
Deutschland GmbH	100	Ordinary
130, 53797 Lohmar		
International GmbH	100	Ordinary
41, 54293 Trier		
Trier GmbH	100	Ordinary
g 19-21, 51503, Rosrath		
Service GmbH	100	Ordinary
42477 Radevormwald		
tals Engineering GmbH	100	Ordinary
g 11-15, 53177, Bonn		
letallurgy Holding GmbH	100	Ordinary
tals Components GmbH	100	Ordinary
e 43, 42477 Radevormwald		
tals Filters GmbH Radevormwald	100	Ordinary
, 97769 Bad Brückenau		
tals & Forge Operations GmbH	100	Ordinary
st 9, 99947 Bad Langensalza		
tals GmbH, Bad Langensalza	100	Ordinary
t, Kálvin tér 12-13. 4. Em.		
021 Korlátolt Felelősségű Társaság	100	Ordinary
311, NPR Complex. Survey No 197, Hoody Village, K R Puram Hobli, Whitefield ore – 560048, Karnataka		
ASMOS Interconnection Systems Limited	49	Ordinary
, Faridabad 121 005, Haryana		
(India) Limited	97.03	Ordinary
une Road, Pimpri, Pune 411 018		
tals Private Limited	100	Ordinary
Lumkad Sky Vista, S. No. 230/AViman Naga/3/2, Viman Nagar, Pune, 411014		
mo India Private Limited	100	*Ordinary*
, RMZ Titanium, Old Airport Road, Bengaluru, 560 017		
e Engine Systems India Private Limited	100	Ordinary
ndustrial Complex, 1st Stage, Peenya Industrial Area, Bengaluru		
e Bengaluru Private Limited	100	Ordinary
della Rienza 8, 39031 Brunico, BZ		
Brunico SpA	100	Ordinary
riche 5, 39031 Brunico, BZ		
tals SpA	100	Ordinary
ilding 11F, 3-2-6 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013		
KK	100	Ordinary

Notes to the Company Balance Sheet
Continued

3. Investment in subsidiaries continued

2388 Ohmiya-cho, Tochigi City, 328-8502 Tochigi		
GKN Driveline Japan Ltd	100	
GKN Driveline Tochigi Holdings KK	100	
Senri Life Science Centre Building. 12F, 1-4-2 Shin Senri Higashi-machi, Toyonaka-shi, Osaka		
GKN Powder Metallurgy Japan K.K.	100	
Jersey		
JTC House, 28 The Esplanade, St. Helier, JE2 3QA		
GKN Finance Limited	100	
Malaysia		
10th Floor, Menara Hap Seng, No.1 & 3, Jalan P. Ramless, 50250 Kuala Lumpur		
GKN Engine Systems Component Repair Sdn Bhd	100	
Suite A, Level 9, Wawasan Open University, 54, Jalan Sultan Ahmad Shah, Georgetown, Pulau, 10050, Penang		
GKN Driveline Malaysia Sdn Bhd	68.42	
Mexico		
Calle Washinton 3701, interior 18, Complejo Industrial Las Americas, Chihuahua, Chihuahua, C.P. 31114		
FAE Aerostructures SA de CV	100	
Av. CFE No. 709, Parque Industrial Millennium, San Luis Potosi S.L.P 78395		
GKN Aerospace San Luis Potosi S. de R.L. de C.V. *(in liquidation)*	100	
Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110		
GKN Driveline Celaya SA de CV	100	
GKN Driveline Mexico Trading SA de CV	100	
104, San Jose Agua Azul, Apaseo El Grande, Guanajuato		
GKN Sinter Metals Mexico S. De. R.L. De. C.V.	100	Memb
GKN Sinter Metals Mexico (Services) S. De. R.L. De. C.V.	100	Memb
The Netherlands		
Beeldschermweg 3, 3821 AH Amersfoort		
Ergotron Nederland BV	100	
Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam		
Ridderkerk Property 1 BV	100	
Aviolandalaan 37, 4631 RP, Hoogerheide		
Business Park Aviolanda B.V.	20	
Markt 22, 3351 PB, Papendrecht		
Fabriek Slobbengors Beheer B.V.	49	
Fabriek Slobbengors C.V.	49	
Hoofdkantoor Slobbengors Beheer B.V.	49	
Kantoor Industrieweg C.V.	49	
Aviolandalaan 33, Hoogerheide, 4631 RP		
Fokker Elmo B.V.	100	
Fokker Elmo Holding BV	100	
Grasbeemd 28, 5705 DG, Helmond		
Fokker Landing Gear B.V.	100	
Industrieweg 4, 3351 LB, Papendrecht		
Cooperative Delivery of Retrokits (CDR) V.O.F.	50	
Fokker Procurement Combination B.V.	100	
Structural Laminates Industries B.V.	100	
Fokker Technologies Group B.V.	100	
Fokker Technologies Holding B.V.	100	
Fokker Technology B.V.	100	
GKN Aerospace Netherlands B.V.	100	
Fokker Engineers & Contractors B.V.	100	
Fokker Aerospace B.V.	100	
Fokker Aerostructures B.V.	100	
Fokker (CDR) B.V.	100	

ent in subsidiaries continued

e Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT		
igs BV	100	Ordinary
en 45, 3616 Kongsberg		
e Norway AS	100	Ordinary
hnology Training Centre AS	33.33	Ordinary
otech AS	50	Ordinary
istego 31 G, 56-400 Oleśnica,		
Polska Sp z o o	100	Ordinary
skie 41, 00-540 Warsaw		
	100	Ordinary
chal Gomes da Costa, 1131, 4150-360, Porto		
e Portugal, Limitada	100	Quota
r 9, 600302, Bacau		
	49	Ordinary
ess Campus, Dimitrie Pompeiu Blvd 5-7, Building 2, 3rd floor Bucharest ucures,ti 077190		
ering Romania S.R.L.	100	Ordinary
reet, Buzau 120226		
rporation Europe SA	100	Ordinary
a 20, Zrece 3214		
Slovenija d o o	100	Ordinary
Salvatella, Avenida Arrahona 54-56, 08210 Barbera del Valles, Barcelona		
iclo, SA	100	Ordinary
troen s/n, 36210 Vigo		
Vigo, SA	100	Ordinary
20750 Zumaia		
Zumaia, SA	100	Ordinary
strial s/n, Maçanet de la Selva, 17412 Girona		
ria SA	100	Ordinary
rollhättan		
e Sweden AB	100	Ordinary
Holdings AB	100	Ordinary
öping		
Köping AB	100	Ordinary
GGLAS GATA, SE – 58254 Linköping		
JAS AB	20	Ordinary
Road, Hsin-Chu Industrial Park, Hukou, Hsin Chu 30351		
	36.25	Common stock
aholyothin Road Klong 1, Klong Luang, Patumthanee, 12120		
e Transparency Systems (Thailand) Limited	100	Ordinary
ard Industrial Estate, 64/9 Moo 4, Tambon Pluakdaeng, Amphur Pluakdaeng,		
(Thailand) Limited	100	Ordinary
Manufacturing Ltd *(in liquidation)*	100	Ordinary

Notes to the Company Balance Sheet
Continued

3. Investment in subsidiaries continued

Turkey		
Ege Serbest Bölgesi, SADI Sok. No:10, 35410 Gaziemir, Izmir		
Fokker Elmo Havacilik Sanayi Ve Ticaret Limited Sirketi	100	
Organize Sanayi Bolgesi 20, Cadde No: 17, 26110, Eskisehir		
GKN Eskisehir Automotive Products Manufacture and Sales A.S.	100	
Yakuplu Mah. Haramidere Sanayi Sitesi, J Blok, No. 106-107-108, Beylikdüzü, Istanbul		
GKN Sinter Istanbul Metal Sanayi Ve Ticaret Anonim Şirketi	100	
United Kingdom		
11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT		
Alcester Capricorn	100	
Alcester EP1 Limited	100	
Alcester Number 1 Limited	100	
Alder Miles Druce Limited	100	
Ball Components Limited	100	
Birfield Limited	100	
British Hovercraft Corporation Limited	100	
Brush Holdings Limited	100	
Colmore Lifting Limited	100	
Colmore Overseas Holdings Limited	100	
Eachairn Aerospace Holdings Limited	100	
Ergotron (UK) Limited	100	
FAD (UK) Limited	100	
Falcon Works Property Limited	100	
Firth Cleveland Limited	100	
F.P.T Industries Limited	100	
GKN Aerospace Holdings Limited	100	
GKN Aerospace Transparency Systems (Kings Norton) Limited	100	
GKN Aerospace Transparency Systems (Luton) Limited	100	
GKN Automotive Holdings Limited	100	
GKN Birfield Extrusions Limited	100	
GKN Bound Brook Limited	100	
GKN Building Services Europe Limited	100	
GKN CEDU Limited	100	
GKN Composites Limited	100	
GKN Computer Services Limited	100	
GKN Countertrade Limited	100	
GKN Defence Holdings Limited	100	
GKN Defence Limited	100	
GKN Enterprise Limited	100	
GKN Euro Investments Limited	100	
GKN Export Services Limited	100	
GKN Fasteners Limited	100	
GKN Finance (UK) Limited	100	
GKN Firth Cleveland Limited	100	
GKN Group Pension Trustee (No.2) Limited	100	
GKN Group Pension Trustee Limited	100	
GKN Group Services Limited	100	
		redeema
GKN Hardy Spicer Limited	100	
GKN Holdings Limited	100	Ordinar
GKN Hydrogen Limited	100	
G.K.N. Industries Limited	100	
G.K.N. International Trading (Holdings) Limited	100	
GKN Limited	100	
GKN Marks Limited	100	
GKN Overseas Holdings Limited	100	
GKN Pistons Limited	100	
G.K.N. Powder Met. Limited	100	
GKN Quest Trustee Limited	100	
GKN Sankey Finance Limited	100	Ordinar
GKN SEK Investments Limited	100	
GKN Service UK Limited	100	
GKN Sheepbridge Limited	100	
GKN Sheepbridge Stokes Limited	100	
GKN Sinter Metals Limited	100	
GKN Technology Limited	100	

ent in subsidiaries continued

imited	100	Ordinary
ments Limited	100	Ordinary
stments Limited	100	Ordinary
stments Limited	100	Ordinary
Limited	100	Ordinary
Aerospace (Avonmouth) Limited	100	Ordinary
Aerospace Advanced Materials Limited	100	Ordinary
Aerospace Aviation Support Limited	100	Ordinary and convertible preference
Aerospace Holdings Limited	100	Ordinary
Design Services Limited	100	Ordinary
Limited	100	Ordinary
Overseas Holdings Limited	100	Ordinary
Services Limited	100	Ordinary
2018 Limited	100	Ordinary
2018 Limited	100	Ordinary
2018 Limited	100	Ordinary
2018 Limited	100	Ordinary
id Nettlefolds, Limited	100	Ordinary
ering Limited	100	Ordinary
5 Pension Scheme Trustee Limited	100	Ordinary
gs Limited	100	Ordinary
ediate Limited	100	Ordinary
	100	Ordinary
Limited	100	Ordinary
lding Limited	100	Ordinary
	100	Ordinary
d	100	Ordinary and redeemable preference
l	100	Ordinary
mponents Limited	100	Ordinary
mited	100	Ordinary
okes Limited	100	Ordinary
PLC	100	Ordinary
Services Limited	100	Ordinary
m Assessment Limited	100	Ordinary
cent, Edinburgh, Scotland, EH3 8HA		
Company Limited	100	Ordinary
ts II GP Limited	100	Ordinary
ts II LP	100	Membership interest
ts III GP Limited	100	Ordinary
ts III LP	100	Membership interest
Erdington, Birmingham, B24 0RB		
Birmingham Limited	100	Ordinary
ury Business Park, Kingsbury Road, Minworth, Sutton Coldfield, B76 9DL		
Service Limited	100	Ordinary
ndon, SW1P 4WY		
ng Limited	37.5	Ordinary
Central Boulevard Blythe Valley Park, Shirley, Solihull, B90 8BG		
e Civil Services Holdings Limited	100	Ordinary
e Civil Services Limited	100	Ordinary
e Services Limited	100	Ordinary
cent, Birmingham Business Park, Birmingham, West Midlands, B37 7YE		
e Limited	100	Ordinary and preference
JK Limited	100	Ordinary
Mexico (UK) Limited	100	Ordinary
ve Systems Limited	100	Ordinary
rvices Limited	100	Ordinary and cumulative preference
wer Limited	100	Ordinary
t Court, Jill Lane, Sambourne, Redditch, B96 6EW		
letallurgy Holdings Limited	100	Ordinary

Notes to the Company Balance Sheet
Continued

3. Investment in subsidiaries continued

Unit 1, Cobnar Wood Close, Chesterfield Trading Estate, Chesterfield, Derbyshire, S41 9RQ		
GKN Cylinder Liners UK Limited	100	
Number 22 Mount Ephraim, Tunbridge Wells, England, TN4 8AS		
HiiROC Limited	10.21	
USA		
2 Sun Court, Suite 400, Peachtree Corners, GA, 30092		
Fokker Elmo Inc.	100	
2345 Rice Street, Suite 230, Roseville MN, 55113		
Ergotron, Inc.	100	
1209 Orange Street, Wilmington, Delaware, 19801		
Melrose North America, Inc	100	
PW1100G-JM Engine Leasing, LLC	4	
2710 Gateway Oaks Drive, Suite 150 N, Sacramento, CA, 95833		
GENIL, Inc.	100	
GKN Aerospace Camarillo, Inc.	100	
GKN Aerospace Chem-tronics Inc.	100	
GKN Aerospace Transparency Systems, Inc	100	
Product Slingshot, Inc.	100	
251 Little Falls Drive, Wilmington Delaware, 19808		
GKN Driveline Newton LLC	100	Memt
GKN Sinter Metals, LLC	100	Memt
GKN Aerospace Aerostructures, Inc	100	
GKN Aerospace Florida LLC	100	Memt
GKN Aerospace, Inc.	100	(
GKN Aerospace New England, Inc.	100	
GKN Aerospace Newington LLC	100	Memt
GKN Aerospace St. Louis LLC	100	Memt
GKN Aerospace Precision Machining, Inc.	100	
GKN Aerospace Services Structures LLC	100	Memt
GKN Aerospace South Carolina, Inc.	100	(
GKN Aerospace US Holdings LLC	100	Memt
GKN America Corp.	100	(
GKN Cylinder Liners, LLC	100	Memt
GKN Driveline North America, Inc.	100	(
GKN Freight Services, Inc.	100	(
GKN Hydrogen Corp.	100	(
GKN North America Investments, Inc.	100	
GKN North America Services, Inc.	100	
GKN Powder Metallurgy Holdings, Inc.	100	(
GKN Specialty Products Americas Corp.	100	(
GKN Westland Aerospace, Inc.	100	(
Hoeganaes Corporation	100	(
Hoeganaes Specialty Metal Powders LLC	70	Memt
XIK, LLC	100	Memt
50 West Broad Street, Suite 1330, Columbus, Ohio, 43215		
GKN Driveline Bowling Green, Inc.	100	(
80 State Street, Albany New York, 12207		
GKN Aerospace Monitor, Inc.	100	
135 North Pennsylvania Street, Suite 1610, Indianapolis, Indiana, 46204		
GKN Aerospace Muncie, Inc.	100	

Each of the subsidiaries and significant holdings listed are included in the Consolidated Financial Statements of the Co
held in each case by a subsidiary undertaking, except for Melrose Holdings Limited and GKN Limited which are held di
Melrose Industries PLC.

Notes
(1) The Group owns 100% of the Ordinary Class B shares with a total effective ownership of 49% in the company.
(2) The Group owns 9% directly with a total effective ownership of 34.5% in the company.
(3) The Group indirectly has a total effective ownership of 50% in the company.
(4) The Group owns 49% directly with a total effective ownership of 49.98% in the company.

	31 December 2021 £m	31 December 2020 £m
ng due within one year:		
by Group undertakings	–	425
ng due after one year:		
by Group undertakings	**434**	–
	43	29
	477	454

d by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the tionship. At 31 December 2021, the amount receivable of £434 million has been classified as a non-current asset in th the expectations of management that it will not be settled within the next year. The comparative amount of £425 ecember 2020, was classified as a current asset based on the expectations of management that during 2021 there rial disposals of businesses within the Group with significant cash proceeds, as well as a refinancing of the Group's t facility. These anticipated events during 2021 were expected to lead to settlement of intercompany loan positions pany.

consider that amounts owed by Group undertakings approximate to their fair value.

ax included in the Balance Sheet is as follows:

	31 December 2021 £m	31 December 2020 £m
ilable for carry forward	**36**	29
fferences	**7**	–
	43	29

s may be carried forward indefinitely.

s

	31 December 2021 £m	31 December 2020 £m
ng due within one year:		
l to Group undertakings	**2,841**	2,041
ther creditors	**1**	–
	2,842	2,041

d to Group undertakings are repayable on demand and are either interest-bearing or non interest-bearing depending on uration of the payable relationship.

consider that amounts owed to Group undertakings approximate to their fair value.

ns

	Incentive plan related £m
021	1
it and loss account	2
er 2021	**3**

for incentive plan related costs relates to employer national insurance costs which are expected to be incurred when the e Share Plan matures. Further details of this plan are set out in the Directors' Remuneration Report. The costs are incurred within two years.

Notes to the Company Balance Sheet
Continued

7. Issued share capital

Share Capital	31 December 2021 £m
Allotted, called-up and fully paid	
4,372,429,473 (31 December 2020: 4,858,254,963) Ordinary Shares of 160/21p each (31 December 2020: 48/7p each)[1]	333
Nil (31 December 2020: 12,831) 2017 Incentive Plan Shares of £1 each[2]	–
	333

(1) A return of capital was paid in cash to shareholders on 14 September 2021, via a redeemable preference share scheme alongside a 9 for 10 share consolidation which number of ordinary shares by 10%, from 4,858 million to 4,372 million (note 1).
(2) Following the crystallisation of the 2017 Incentive Plan on 31 May 2020 for £nil, the 2017 Incentive Plan shares were re-designated as deferred shares and cancelled b the year ended 31 December 2021.

The rights of each class of share are described in the Directors' Report.

8. Related party transactions

The Company has taken the exemption in FRS 102.33: "Related party information" not to disclose intercompany balance transactions in the year with fully owned subsidiary undertakings.

Performance Measures ("APMs")

with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA"), additional information the APMs used by the Group below.

of financial information, the Group uses certain measures that are not required under IFRS. These additional nmonly referred to as APMs) provide additional information on the performance of the business and trends to These measures are consistent with those used internally, and are considered important to understanding the financial nd financial health of the Group. APMs are considered to be an important measure to monitor how the businesses are ause this provides a meaningful comparison of how the business is managed and measured on a day-to-day basis and stency and comparability between reporting periods.

nay not be directly comparable with similarly titled measures reported by other companies and they are not intended to for, or superior to, IFRS measures. All Income Statement and cash flow measures are provided for continuing ess otherwise stated.

tement Measures

nue

nt statutory measure

s to statutory measure
ue of equity accounted investments (note 5)

rpose
nue includes the Group's share of revenue of equity accounted investments ("EAIs"). This enables comparability ting periods.

e	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
	6,883	7,132
ue of equity accounted investments (note 5)	**613**	591
nue	**7,496**	7,723

s

nt statutory measure

s to statutory measure
s (note 6)

rpose
hich the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's

items which are significant in size or volatility or by nature are non-trading or non-recurring, any item released to the ent that was previously a fair value item booked on an acquisition, and includes adjusted profit from EAIs.

a meaningful comparison of how the business is managed and measured on a day-to-day basis and provides d comparability between reporting periods.

Glossary
Continued

APM
Adjusted operating profit

Closest equivalent statutory measure
Operating loss[2]

Reconciling items to statutory measure
Adjusting items (note 6)

Definition and purpose
The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing performan Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are d and further detailed in note 6.

Adjusted operating profit	Year ended 31 December 2021 £m
Operating loss	(451)
Adjusting items to operating loss (note 6)	826
Adjusted operating profit	**375**

APM
Adjusted operating margin

Closest equivalent statutory measure
Operating margin[3]

Reconciling items to statutory measure
Share of revenue of equity accounted investments (note 5) and adjusting items (note 6)

Definition and purpose
Adjusted operating margin represents Adjusted operating profit as a percentage of Adjusted revenue. The Group uses measures to provide a useful and more comparable measure of the ongoing performance of the Group.

APM
Adjusted profit before tax

Closest equivalent statutory measure
Loss before tax

Reconciling items to statutory measure
Adjusting items (note 6)

Definition and purpose
Profit before the impact of adjusting items and tax. As discussed above, adjusted profit measures are used to provide a more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory me removing adjusting items, the nature of which are disclosed above and further detailed in note 6.

Adjusted profit/(loss) before tax	Year ended 31 December 2021 £m
Loss before tax	(618)
Adjusting items to loss before tax (note 6)	870
Adjusted profit/(loss) before tax	**252**

: after tax

nt statutory measure

s to statutory measure
s (note 6)

rpose
but before the impact of the adjusting items. As discussed above, adjusted profit measures are used to provide a useful parable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by sting items, the nature of which are disclosed above and further detailed in note 6.

loss) after tax	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
	(446)	(565)
to loss after tax (note 6)	**643**	538
t/(loss) after tax	**197**	(27)

ency

nt statutory measure
ient, which is reported using actual average foreign exchange rates

s to statutory measure
ncy foreign exchange rates

rpose
s GBP based constant currency models to measure performance. These are calculated by applying 2021 average s to local currency reported results for the current and prior year. This gives a GBP denominated Income Statement s any variances attributable to foreign exchange rate movements.

DA for leverage covenant purposes

nt statutory measure
2)

s to statutory measure
s (note 6), depreciation of property, plant and equipment and amortisation of computer software and development costs, charge, share of non-controlling interests and other adjustments required for covenant purposes[4]

rpose
ting profit for 12 months prior to the reporting date, before depreciation of property, plant and equipment and before the computer software and development costs.

DA for covenant purposes is a measure used by external stakeholders to measure performance.

A for leverage covenant purposes	Year ended 31 December 2021 £m	Year ended[5] 31 December 2020 £m
ting profit	**375**	340
property, plant and equipment and amortisation of computer software and development	**425**	492
charge	**(68)**	(97)
interests	**(4)**	(3)
nts required for covenant purposes[4]	**(14)**	(8)
DA for leverage covenant purposes	**714**	724

Glossary
Continued

APM
Adjusted tax rate

Closest equivalent statutory measure
Effective tax rate

Reconciling items to statutory measure
Adjusting items, adjusting tax items and the tax impact of adjusting items (note 6 and note 8)

Definition and purpose
The income tax charge for the Group excluding adjusting tax items, and the tax impact of adjusting items, divided by adj before tax.

This measure is a useful indicator of the ongoing tax rate for the Group.

Adjusted tax rate	Year ended 31 December 2021 £m
Tax credit per Income Statement	172
Adjusted for:	
Tax impact of adjusting items	(180)
Tax impact of significant legislative changes	(70)
Tax impact of significant restructuring	32
Tax impact of EAIs	(9)
Adjusted tax (charge)/credit	**(55)**
Adjusted profit/(loss) before tax	**252**
Adjusted tax rate	**21.8%**

APM
Adjusted basic earnings per share

Closest equivalent statutory measure
Basic earnings per share

Reconciling items to statutory measure
Adjusting items (note 6 and note 10)

Definition and purpose
Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted ave of ordinary shares in issue during the financial year.

APM
Adjusted diluted earnings per share

Closest equivalent statutory measure
Diluted earnings per share

Reconciling items to statutory measure
Adjusting items (note 6 and note 10)

Definition and purpose
Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted ave of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.

The Board considers this to be a key measure of performance when all businesses are held for the complete reporting p

[redacted]

nt statutory measure

s to statutory measure

rpose

DA calculated for covenant purposes (including EBITDA of businesses disposed) as a multiple of net interest payable and overdrafts.

s used for bank covenant testing.

	Year ended 31 December 2021 £m	Year ended[5] 31 December 2020 £m
DA for leverage covenant purposes	**714**	724
DA *from businesses disposed in the year*	**127**	2
DA for interest cover	**841**	726
k loans and overdrafts (note 7)	**(138)**	(136)
e (note 7)	**2**	3
or covenant purposes[6]	**(6)**	(9)
rges for covenant purposes	**(142)**	(142)
	5.9x	5.1x

eet Measures

[redacted]

nt statutory measure

de and other receivables less trade and other payables

s to statutory measure

rpose

l comprises inventories, current trade and other receivables, non-current other receivables (excluding retirement benefit rent trade and other payables and non-current other payables. This measure provides additional information in respect ital management.

[redacted]

nt statutory measure

equivalents less interest-bearing loans and borrowings and finance related derivative instruments

s to statutory measure

of net debt (note 27)

rpose

rises cash and cash equivalents, interest-bearing loans and borrowings and cross-currency swaps but excludes non- n fair value adjustments.

measure that could be used to indicate the strength of the Group's Balance Sheet position and is a useful measure of ss of the Group.

Glossary
Continued

APM
Bank covenant definition of net debt at average rates and leverage

Closest equivalent statutory measure
Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments

Reconciling items to statutory measure
Impact of foreign exchange and adjustments for bank covenant purposes

Definition and purpose
Net debt (as above) is presented in the Balance Sheet translated at year end exchange rates.

For bank covenant testing purposes net debt is converted using average exchange rates for the previous 12 months.

Leverage is calculated as the bank covenant definition of net debt divided by adjusted EBITDA for leverage covenant p
This measure is used for bank covenant testing.

Net debt	31 December 2021 £m
Net debt at closing rates (note 27)	**950**
Impact of foreign exchange	**(3)**
Bank covenant definition of net debt at average rates	**947**
Leverage	**1.3x**

Cash Flow Measures

APM
Adjusted operating cash flow (pre-capex) and Adjusted operating cash flow (pre-capex) conversion

Closest equivalent statutory measure
Net cash from operating activities

Reconciling items to statutory measure
Non-working capital items (note 27)

Definition and purpose
Adjusted operating cash flow (pre-capex) is calculated as adjusted operating profit before depreciation and amortisatior subsidiaries, repayment of principal under lease obligations, the positive non-cash utilisation from loss-making contract movements in working capital.

Adjusted operating cash flow (pre-capex) conversion is adjusted operating cash flow (pre-capex) divided by adjusted pı depreciation and amortisation attributable to subsidiaries, less repayment of principal under lease obligations and the p cash utilisation from loss-making contracts.

This measure provides additional useful information in respect of cash generation and is consistent with how business | measured internally.

Adjusted operating cash flow (pre-capex)	Year ended 31 December 2021 £m
Adjusted operating profit	**375**
Share of adjusted operating profit of equity accounted investments	**(66)**
Depreciation of owned property, plant and equipment and amortisation of computer software and development costs	**375**
Depreciation of leased property, plant and equipment and amortisation of leased computer software and development costs	**50**
Repayment of principal under lease obligations	**(54)**
Positive non-cash utilisation from loss-making contracts	**(48)**
	632
Change in inventories	**(31)**
Change in receivables	**79**
Change in payables	**14**
Adjusted operating cash flow (pre-capex)	**694**
Adjusted operating cash flow (pre-capex) conversion	**110%**

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Glossary
Continued

APM
Capital expenditure to depreciation ratio

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

Definition and purpose
Net capital expenditure divided by depreciation of owned property, plant and equipment and amortisation of computer s
development costs.

APM
Dividend per share

Closest equivalent statutory measure
Dividend per share

Reconciling items to statutory measure
Not applicable

Definition and purpose
Amounts payable by way of dividends in terms of pence per share.

(1) Restated for discontinued operations (note 1).
(2) Operating loss is not defined within IFRS but is a widely accepted profit measure being loss before finance costs, finance income and tax.
(3) Operating margin is not defined within IFRS but is a widely accepted profit measure being derived from operating loss[2] divided by revenue.
(4) Included within other adjustments required for covenant purposes are dividends received from equity accounted investments and the removal of adjusted operating pr
accounted investments.
(5) Year ended 31 December 2020 remains aligned to the original calculations supporting the Group's bank debt compliance certificate and have not been restated for dis
operations.
(6) Other interest for covenant purposes includes bank facility renegotiation fees and debt issue costs paid during the year and cash paid to settle interest rate swaps not
costs.
(7) Trading net other cash flows include non-cash movements included in adjusted operating profit, cash paid against provisions, costs relating to a return of capital and d
non-controlling interests.
(8) Includes restructuring costs of £5 million (2020: £11 million) relating to operations discontinued in the year.

ıf Annual General Meeting

eneral Meeting of Melrose Industries PLC (the vill be held at 11.00 am on Thursday 5 May 2022 Hall, 87 Bartholomew Close, London EC1A 7EB.

ıt is important and requires your immediate ou are in any doubt as to the action you should uld consult your stockbroker, bank, solicitor, ınd manager or other independent financial rised under the Financial Services and Markets u are resident in the United Kingdom or, if not, ɔpriately authorised independent financial adviser.

l or otherwise transferred or sell or otherwise transfer all n the Company, please send this document, together ıpanying form of proxy, as soon as possible to the ansferee or to the agent through whom the sale or fected for delivery to the purchaser or transferee.

that the Annual General Meeting of the Company will hers' Hall, 87 Bartholomew Close, London EC1A 7EB Thursday 5 May 2022 for the purposes set out below. o 16 (inclusive) will be proposed as ordinary resolutions ; 17 to 20 (inclusive) as special resolutions.

ɜolutions

the Company's audited financial statements for the ar ended 31 December 2021, together with the Report, the Strategic Report and the Auditor's Report ıancial statements.

the Directors' Remuneration Report for the year December 2021, as set out on pages 102 to 116 of the s 2021 Annual Report.

a final dividend of 1 pence per ordinary share for the l 31 December 2021.

Christopher Miller as a Director of the Company.

Simon Peckham as a Director of the Company.

Geoffrey Martin as a Director of the Company.

Peter Dilnot as a Director of the Company.

Justin Dowley as a Director of the Company.

David Lis as a Director of the Company.

Charlotte Twyning as a Director of the Company.

Funmi Adegoke as a Director of the Company.

ɜather Lawrence as a Director of the Company.

ɔtoria Jarman as a Director of the Company.

int Deloitte LLP as auditor of the Company to hold office nclusion of this meeting until the conclusion of the next ıeral Meeting of the Company at which accounts are laid.

e the Audit Committee to determine the remuneration or of the Company.

ɔordance with section 551 of the Companies Act 2006 the directors of the Company (the "Directors") be and lly and unconditionally authorised to allot shares in the or to grant rights to subscribe for or to convert any ɔ shares in the Company ("Rights"):

n aggregate nominal amount of £111,045,827; and

sing equity securities (as defined in section 560 of the to an aggregate nominal amount of £222,091,655 ımount to be reduced by the aggregate nominal amount allotments or grants made under paragraph (A) of this ion) in connection with an offer by way of a rights issue:

rdinary shareholders in proportion (as nearly as may be ɔticable) 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 expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2023, but, in each case, so that the Company may make offers or agreements before the authority expires which would or might require shares to be allotted or Rights to be granted after the authority expires, and so that the Directors may allot shares or grant Rights in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Special resolutions

17. That, subject to the passing of resolution 16, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authorities granted by resolution 16 and/or to sell ordinary shares held by the Company as treasury shares for cash, in each case as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

    (A) to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted under paragraph (B) of resolution 16, 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 circumstances set out in paragraph (A) of this resolution) of equity securities pursuant to the authority granted by paragraph (A) of resolution 16 or sale of treasury shares up to a nominal amount of £16,656,874,

    such powers to expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2023, but, in each case, so that the Company may make offers or agreements before the power expires which would or might require equity securities to be allotted (and/or treasury shares sold) after the power expires and so that the Directors may allot equity securities (and/or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this authority has expired.

18. That, subject to the passing of resolution 16 and in addition to any power granted under resolution 17, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authorities granted by resolution 16 and/or to sell ordinary shares held by the Company as treasury shares for cash, in each case as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be:

Notice of Annual General Meeting
Continued

(A) limited to the allotment of equity securities pursuant to the authority granted by paragraph (A) of resolution 16 or sale of treasury shares up to a nominal amount of £16,656,874; and

(B) used only for the purposes of financing (or refinancing, if the authority is to be used within six months of the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

such powers to expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2023, but, in each case, so that the Company may make offers or agreements before the power expires which would or might require equity securities to be allotted (and/or treasury shares sold) after the power expires and so that the Directors may allot equity securities (and/or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this authority has expired.

19. That the Company be and is 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 437,242,947;

(B) the minimum price which may be paid for an ordinary share is 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% of the average of the middle-market quotation for an ordinary share as derived from the Daily Official List of the London Stock Exchange 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 shall expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2023;

(E) the Company may make a contract of purchase of ordinary shares under this authority which would or might be executed wholly or partly after the expiry of this 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.

20. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

Recommendation

The Board believes that each of the resolutions to be pr Annual General Meeting is in the best interests of the C shareholders as a whole. Accordingly, the Directors una recommend that ordinary shareholders vote in favour o resolutions proposed, as the Directors intend to do in re own beneficial holdings.

By order of the Board

Jonathon Crawford
Company Secretary
31 March 2022

Registered Office:
11th Floor The Colmore Building
20 Colmore Circus Queensway
Birmingham
West Midlands
B4 6AT

y notes to the proposed resolutions

o 16 (inclusive) are proposed as ordinary resolutions, hat for each of those resolutions to be passed, more otes cast must be cast in favour of the resolution.

to 20 (inclusive) are proposed as special resolutions, hat for each of those resolutions to be passed, at least of the votes cast must be cast in favour of the resolution.

– Receipt of 2021 Annual Report and Financial

are required to lay the Company's financial statements, report and the Directors' and auditor's reports on those nents (collectively, the "2021 Annual Report") before each year at the Annual General Meeting ("AGM").

– Approval of Directors' remuneration report

remuneration report (the "Directors' Remuneration sented in two sections:

statement from the Chairman of the Remuneration and

eport on remuneration.

tement from the Chairman of the Remuneration t out on page 102 of the 2021 Annual Report, or the year ended 31 December 2021, the major decisions tors' remuneration, any substantial changes relating to uneration made during the year, and the context in which *occurred and decisions have been taken.*

port on remuneration, set out on page 103 to 116 of ual Report, provides details of the remuneration paid to spect of the year ended 31 December 2021, including xable benefits, short-term incentives, long-term ed in the year, pension-related benefits, any other items f remuneration and any sum(s) recovered or withheld r in respect of amounts paid in earlier years.

Remuneration Report is subject to an annual advisory ote by way of an ordinary resolution. Resolution 2 is to irectors' Remuneration Report.

– Declaration of final dividend

ecommending, and shareholders are being asked to leclaration of a final dividend of 1 pence per ordinary ear ended 31 December 2021. The final dividend will, reholder approval, be paid on 20 May 2022 to the nary shares whose names are recorded on the register f the Company at the close of business on 8 April 2022.

4 to 11 (inclusive) – Re-election of Directors

with the UK Corporate Governance Code (the "Code") any's Articles of Association (the "Articles"), every and for re-election at the AGM, with the exception of Liz ill retire at the conclusion of the Annual General Meeting, awrence and Victoria Jarman, who are standing for first time.

nsiders that the contribution of each Director who is -election is, and continues to be, important to the ccess of the Company for the following reasons:

ey, Non-executive Chairman, is standing for re-Director due to his extensive and long-standing within the banking, investment and asset nt sectors. Justin Dowley first joined the Board as a ive Director in September 2011 and served as Senior nt Director in the two years prior to his appointment as ive Chairman in 2019, meaning he has served on the ver nine years. Following positive engagement with olders in 2020, the Nomination Committee and the oved his extended tenure to 2023, subject to annual to (amongst other things), help oversee the planning arrangements for the Board and the nt of a diverse Board. Justin Dowley was considered nt upon his appointment as Non-executive Chairman.

- Simon Peckham, Chief Executive, co-founder of Melrose, is standing for re-election as Director due to his deep understanding of the Melrose business model, having joined the Company initially in 2003 as Chief Operating Officer, and having been appointed as Chief Executive in 2012. He has widespread expertise in corporate finance, mergers and acquisitions, strategy and operations and has overseen a period of substantial success for Melrose.
- Christopher Miller, Executive Vice-Chairman, co-founder of Melrose, is standing for re-election on the basis of his deep understanding of the Melrose business model. He has long-standing involvement in manufacturing industries and private investment.
- Geoffrey Martin, Group Finance Director, is standing for re-election due to his deep understanding of the Melrose business model, having been appointed as Group Finance Director in 2005, and central to the success of the Group since then. He also brings to the Board considerable public company experience and expertise in corporate finance, equity finance raising and financial strategy.
- Peter Dilnot, Chief Operating Officer, is standing for re-election due to his deep understanding of the Melrose business model, having been appointed as Chief Operating Officer in 2019, and having performed the role of interim chief executive officer for GKN Aerospace. He also brings to the Board strong sector experience in engineering and aviation, and has extensive experience in holding executive roles in listed companies.
- David Lis, Non-executive Director, is standing for re-election due to his extensive financial experience and deep insight into the expectations of Melrose's institutional investor base, having held several roles in investment management. Upon Liz Hewitt's retirement, he will succeed to the role of Senior Independent Director, being the longest-serving Non-executive Director after the Chairman.
- Charlotte Twyning, Non-executive Director, is standing for re-election due to her diverse range of experience and commercial acumen having held various senior positions in the telecommunications and transport sectors, and most recently in aviation.
- Funmi Adegoke, Non-executive Director, is standing for re-election due to her diverse industrial knowledge as well as significant transactional and commercial management expertise based on her extensive experience working in and leading teams across the globe at multi-national organisations.

Biographical details of each Director standing for re-election can be found on pages 82 to 83 of the 2021 Annual Report. All of the Non-executive Directors standing for re-election are currently considered independent under the Code.

Resolutions 12 to 13 – Election of Directors

In accordance with the Articles:

- Heather Lawrence, Non-executive Director, is standing for election as a Director of the Company following her appointment to the Board with effect from 1 June 2021. She brings to the Board a diverse range of experience across the industrials and transportation sectors, having extensive experience in corporate finance and investment banking. Upon Liz Hewitt's retirement, she will succeed to the role of Audit Committee Chair, having significant experience in this area.
- Victoria Jarman, Non-executive Director, is standing for election as a Director of the Company following her appointment to the Board with effect from 1 June 2021. She brings to the Board significant and extensive financial and investment experience and insight gained from a number of senior roles in corporate finance, as well as extensive non-executive director experience.

Biographical details for Heather Lawrence and Victoria Jarman can be found on page 83 of the 2021 Annual Report.

Notice of Annual General Meeting
Continued

Resolution 14 – Re-appointment of auditor
The Company is required to appoint auditors at each general meeting at which accounts are laid before shareholders, to hold office until the next such meeting.

The Audit Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external auditor, Deloitte LLP, on behalf of the Board, and concluded that the external auditor was in all respects effective.

This resolution proposes the re-appointment of Deloitte LLP until the conclusion of the next AGM.

Resolution 15 – Authority to agree auditor's remuneration
This resolution seeks authority for the Audit Committee to determine the level of the auditor's remuneration.

Resolution 16 – Authority to allot shares
This resolution seeks shareholder approval to grant the Directors the authority to allot shares in the Company, or to grant rights to subscribe for or convert any securities into shares in the Company ("Rights"), pursuant to section 551 of the Act (the "Section 551 authority"). The authority contained in paragraph (A) of the resolution will be limited to an aggregate nominal amount of £111,045,827, being approximately one-third of the Company's issued ordinary share capital as at 30 March 2022 (being the last business day prior to the publication of this notice).

In line with guidance issued by the Investment Association, paragraph (B) of this resolution would give the Directors authority to allot shares in the Company or grant Rights in connection with a rights issue up to an aggregate nominal amount of £222,091,655, representing approximately two-thirds of the Company's issued ordinary share capital as at 30 March 2022 (being the last business day prior to the publication of this notice). This resolution provides that such amount shall be reduced by the aggregate nominal amount of any allotments or grants under paragraph (A).

The Company does not hold any shares in treasury.

If approved, the Section 551 authority shall, unless renewed, revoked or varied by the Company, expire at the end of the Company's next AGM after the resolution is passed or, if earlier, at the close of business on 30 June 2023. The exception to this is that the Directors may allot shares or grant Rights after the authority has expired in connection with an offer or agreement made or entered into before the authority expired. The Directors have no present intention to exercise the Section 551 authority.

Resolutions 17 to 18 – Partial disapplication of pre-emption rights
These resolutions seek shareholder approval to grant the Directors the power to allot equity securities (as defined by section 560 of the Act) or sell treasury shares of the Company pursuant to sections 570 and 573 of the Act (the "Section 570 and 573 power") without first offering them to existing shareholders in proportion to their existing shareholdings.

The power is limited to allotments for cash in connection with pre-emptive offers, subject to any arrangements that the Directors consider appropriate to deal with fractions and overseas requirements, and otherwise pursuant to non pre-emptive offers for cash up to a maximum nominal value of £33,313,748, representing approximately 10% of the Company's issued ordinary share capital as at 30 March 2022 (being the last business day prior to the publication of this notice).

The Directors intend to adhere to the guidelines set out in the Pre-Emption Group's Statement of Principles (as updated in March 2015) and not to allot shares for cash on a non pre-emptive basis pursuant to a relevant authority in resolutions 17 or 18:

- in excess of an amount equal to 5% of the Company's issued ordinary share capital (excluding treasury shares) in any one-year period; or
- in excess of an amount equal to 7.5% of the Compa ordinary share capital in a rolling three-year period,

in each case other than in connection with an acquisitic capital investment which is announced contemporanec allotment or which has taken place in the preceding six- and is disclosed in the announcement of the allotment.

If approved, the Section 570 and 573 power shall apply of the Company's next AGM after the resolutions are pa earlier, until the close of business on 30 June 2023. The this is that the Directors may allot equity securities after expired in connection with an offer or agreement made before the power expired. The Directors have no preser exercise the Section 570 and 573 power.

Resolution 19 – Authority to purchase own shares
This resolution seeks shareholder approval to grant the authority to purchase its own shares pursuant to sectio 701 of the Act.

This authority is limited to an aggregate maximum numl 437,242,947 ordinary shares, representing 10% of the C issued ordinary share capital as at 30 March 2022 (beir business day prior to the publication of this notice).

The maximum price which may be paid for an ordinary an amount which is not more than the higher of: (i) 5% a average of the middle market quotation for an ordinary s derived from the Daily Official List of the London Stock I the five business days immediately preceding the day o ordinary share is purchased; and (ii) the higher of the pri independent trade and the highest current independent trading venue where the purchase is carried out (in eacl exclusive of expenses).

If approved, the authority shall, unless varied, revoked o expire at the end of the Company's next AGM after the passed or, if earlier, at the close of business on 30 June Directors will only exercise their authority if it is in the inte shareholders generally.

Resolution 20 – Notice period for general meeting AGMs
This resolution seeks shareholder approval to allow the continue to call general meetings (other than AGMs) on notice. In accordance with the Act, as amended by the (Shareholders' Rights) Regulations 2009, the notice per for general meetings of the Company is 21 clear days u shareholders approve a shorter notice period (subject tc period of 14 clear days). In accordance with the Act, the must make a means of electronic voting available to all s for that meeting in order to be able to call a general mee than 21 clear days' notice.

The Company intends to only use the shorter notice per flexibility is merited by the purpose of the meeting and is be in the interests of shareholders generally, and not as routine. AGMs will continue to be held on at least 21 clea

The approval will be effective until the Company's next A is intended that a similar resolution will be proposed.

notes as to the proxy, voting and attendance at the Annual General Meeting ("AGM")

s of ordinary shares in the Company are entitled to AGM and are entitled to vote. A member entitled to ɔak and vote at the AGM is also entitled to appoint a ercise all or any of his/her rights to attend, speak and AGM in his/her place. Such a member may appoint one proxy, provided that each proxy is appointed to e rights attached to different shares. A proxy need not ɔer of the Company.

roxy which may be used to appoint and give proxy s for use at the AGM is enclosed with this notice. To be form of proxy must be completed and returned, ith any power of attorney or authority under which it is or a certified copy of such power or authority, so that it by the Company's registrar at the address specified n of proxy not less than 48 hours (excluding any part of s not a working day) before the stated time for holding g (or, in the event of an adjournment, not less than 48 re the stated time of the adjourned meeting (excluding a day which is not a working day)). Returning a form of proxy will not preclude a member from he meeting and voting in person.

n to whom this notice is sent who is a person under section 146 of the Act to enjoy information rights ıted Person") may, under an agreement between him/ e shareholder by whom he/she was nominated, have a appointed (or to have someone else appointed) as a ıe AGM. If a Nominated Person has no such proxy nt right or does not wish to exercise it, he/she may, such agreement, have a right to give instructions to the er as to the exercise of voting rights. The statement of of shareholders in relation to the appointment of proxies and 2 above does not apply to Nominated Persons. described in notes 1 and 2 can only be exercised by s of ordinary shares in the Company.

led to attend and vote at the AGM (and for the purposes rmination by the Company of the number of votes they members must be entered on the Company's register 's by 6.30 pm (BST) on 3 May 2022 (or, in the event of ment, on the date which is two days, excluding any day ot a working day, before the time of the adjourned Changes to entries on the register of members after this be disregarded in determining the rights of any person r vote at the meeting.

larch 2022 (being the last business day prior to the n of this notice), the Company's issued ordinary share sists of 4,372,429,473 ordinary shares of 160/21 pence ving one vote each.

embers who wish to appoint a proxy or proxies through electronic proxy appointment service may do so by procedures described in the CREST Manual (available **uroclear.com**). CREST Personal Members or other onsored members, and those CREST members who inted a service provider(s), should refer to their CREST voting service provider(s), who will be able to take the e action on their behalf.

7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 11.00 am (BST) on 3 May 2022. 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/her 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. If you are an institutional investor you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Company's registrar. For further information regarding Proxymity, please go to **www.proxymity.io**. Your proxy must be lodged by 11:00 am (BST) on 3 May 2022 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

11. 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.

12. 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 AGM; 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.

Notice of Annual General Meeting

Continued

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 AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.

13. 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: (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer has already been given on a website in the form of an answer to a question; and/or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

14. Voting at the AGM will be by poll. The Chairman of the AGM will invite each shareholder, corporate representative and proxy present at the meeting to complete a poll card indicating how they wish to cast their votes in respect of each resolution. In addition, the Chairman of the AGM will cast the votes for which he has been appointed as proxy. Poll cards will be collected during the meeting. Once the results have been verified by the Company's registrar, Equiniti, they will be notified to the Financial Conduct Authority, announced through a Regulatory Information Service and will be available to view on the Company's website.

15. A copy of this notice, and other information required by section 311A of the Act, can be found at **www.melroseplc.net**.

16. You may not use an electronic address provided in either this notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

17. The following documents will be available for inspection upon request at the Company's registered office during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice up to and including the date of the AGM and at the place of the AGM 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.

18. 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 Voting ID, Task ID and Shareholder Reference Number which are set out on the enclosed form of proxy. The return of the form of proxy by post or registering your vote online will not prevent you from attending the AGM 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** using your usual user ID and password. Once logged in simply click "View" on the "My Investments" page, click on the link to vote then follow the on-screen instructions. 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 (BST) on 3 May 2022.

ıy and shareholder information

nber 2021, there were 18,132 holders of ordinary shares of 160/21 pence each in the Company. An analysis of these as at 31 December 2021 is set out in the table below.

analysis

s	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
	14,308	78.91%	17,467,058	0.40%
	2,900	15.99%	37,765,633	0.86%
0	514	2.84%	90,916,818	2.08%
	410	2.26%	4,226,279,964	96.66%
	18,132	**100.00%**	**4,372,429,473**	**100.00%**
	15,655	86.34%	48,373,035	1.11%
	2,477	13.66%	4,324,056,438	98.89%
	18,132	**100.00%**	**4,372,429,473**	**100.00%**

lendar 2022

e for final dividend	7 April 2022
final dividend	8 April 2022
Meeting	5 May 2022
f final dividend	20 May 2022
of interim results	September 2022
ent of interim dividend	October 2022
ouncement of 2022 results	March 2023

Legal Advisers
Simpson Thacher & Bartlett LLP
CityPoint
One Ropemaker Street
London EC2Y 9HU

Bankers
ABN AMRO Bank N.V.

Banca IMI S.p.A, London Branch

Banco Santander S.A., London Branch

Bank of America Merrill Lynch International Limited

Bank of China Limited, London Branch

Barclays Bank plc

BNP Paribas Fortis SA/NV

Caixabank SA, UK Branch

Citibank, N.A., London Branch

Citizens Bank, N.A.

Commerzbank Aktiengesellschaft, London Branch

Crédit Agricole Corporate and Investment Bank

Crédit Industriel et Commercial

Deutsche Bank Luxembourg S.A.

HSBC Bank plc

Industrial and Commercial Bank of China Limited, London Branch

ING Bank N.V., London Branch

J.P. Morgan Chase Bank N.A., London Branch

Mediobanca International (Luxembourg) S.A.

National Westminster Bank plc

Royal Bank of Canada

Skandinaviska Enskilda Banken AB (publ)

Standard Chartered Bank

UniCredit Bank AG

Wells Fargo Bank, N.A., London Branch

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eholder information is available at Equiniti's online portfolio service **www.shareview.co.uk**, where you can register for a folio to access information about your holding and undertake a number of activities, including appointing a proxy, changing a ate and updating your address. To register, you will need your 11-digit Shareholder Reference Number ("SRN"), which can be proxy form or dividend voucher.

hares
nall number of shares and the dealing costs or minimum fee make it uneconomical to sell them, you may like to donate them to s through ShareGift, a registered charity. Further information is available on the ShareGift website at **www.sharegift.org** or call 0 3737.

Warning
es have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning ters. Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn less or non-existent, or to buy shares at an inflated price in return for an upfront payment. For more detailed information on vity or to report a scam, please call the Financial Conduct Authority's Consumer Helpline on +44 (0) 800 111 6768 or visit **uk/consumers/scams**.