



Buy
Improve
Sell

Melrose Industries PLC
Annual Report

2021



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.

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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



Justin Dowley
Non-executive Chairman

“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.”

Tripled adjusted⁽¹⁾ operating profit

At constant currency, despite global supply challenges, sales were up 2% year-on-year and, notably, Group adjusted⁽¹⁾ operating profit tripled to £375 million, showing the substantial benefit of restructuring actions increasingly coming through.

Significant restructuring

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

1.3x leverage⁽¹⁾

Melrose generated free cash flow⁽¹⁾ of £125 million in the year, prior to disposal proceeds, with net debt⁽¹⁾ reduced to £0.95 billion and leverage⁽¹⁾ to 1.3x adjusted⁽¹⁾ EBITDA. All businesses continued to be cash positive, therefore fully funding all their improvement and restructuring costs, with their cash generation qualities transformed since acquisition.

Reduction in working capital to 3% of sales

Working capital in the GKN businesses has reduced to 3% of sales from 5% at the GKN acquisition, with further opportunities existing to improve Aerospace inventory levels.



For more information visit
www.melroseplc.net

£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 pension schemes, thereby freeing up more free cash flow⁽¹⁾ in the future.

Return to growth

All businesses returned to growth with further benefits coming from restructuring actions. The Melrose businesses are actively working to mitigate the current inflationary pressures through all necessary means and remain fully committed to achieving their previously stated operating margin targets.

£3.4bn repaid

Ahead of plan, the opening net debt⁽¹⁾ of £3.4 billion at the GKN acquisition has been fully repaid, in less than four years, save cash returned to shareholders over the period, helping to protect shareholder value and de-risking the GKN transformation during some of the most challenging trading conditions.

Sustainable technology

Melrose has improved its ESG positioning and reporting in the year, including highlighting the substantial benefits delivered by its proprietary sustainable technology. A new standalone Melrose Sustainability Report will be published, for the first time, alongside the 2021 Annual Report.

1 pence per share

A final dividend of 1 pence per share is proposed, up by one third on last year, giving a full year dividend of 1.75 pence per share.

(1) Described in the 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 purpose: 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.

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

<p>Industry expertise</p> <p>Core management group has operated in the UK and the international manufacturing arena for over two decades.</p> <p>Long-term value creation Pages 6 and 7</p>	<p>Highly experienced management team</p> <p>The current team founded Melrose in 2003 with a view to buying and improving underperforming businesses. Since then it has overseen transactions with a total market value of over £10 billion.</p> <p>Long-term value creation Page 6 and 7</p>	<p>Strong track record</p> <p>Melrose has generated significant financial returns for its shareholders, achieving an average return on equity of 2.5x across the businesses sold to date and returned over £5.5 billion of cash to shareholders.</p> <p>Our strong track record Pages 4 and 5</p>	<p>Operational efficiency</p> <p>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.</p> <p>Long-term value creation Page 6 and 7</p>	<p>Effective governance</p> <p>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.</p> <p>Governance report Page 78</p>
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Value creation

Value creation model

Businesses under improvement

- Aerospace** [Read more Page 12](#)
- Automotive** [Read more Page 18](#)
- Powder Metallurgy** [Read more Page 24](#)
- Other Industrial** [Read more Page 28](#)

How has Melrose created value?⁽¹⁾

1. Margin growth	Good but underperforming manufacturing businesses whose potential is unrealised.
48%	
2. Sales	Strong track record suggesting growth at least in line with their market.
4%	
3. Cash generation	A key focus is to make significant improvement to cash flows in the businesses we acquire.
16%	
4. Multiple expansion	Multiple expansion is never assumed, but has been achieved on all previous deals (on average +30%) as the businesses have been improved.
32%	

(1) In respect of the McKechnie, Dynacast, FKI and Elster acquisitions

Follow-on investment during Melrose ownership for businesses sold

100%	Equity raised to acquire businesses
33%	Further investment in the businesses to improve operations ⁽¹⁾

Reinvestment

(1) In respect of the McKechnie, Dynacast, FKI, Elster and Nortek acquisitions

Outputs

<p>Shareholder investment and gain (figures up to 31 December 2021):</p> <p>Average return on equity across all businesses sold.</p> <p>2.5x</p>	<p>Cash return to shareholders since establishment.</p> <p>£5.5bn</p>	<p>Reinvestment</p> <p>Spent on research and development for Nortek, Elster and GKN acquisitions.</p> <p>c.£1.2bn</p>	<p>Spent on climate-related research and development in the last two years.</p> <p>£300m</p>
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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:

- Respect and protect the environment.
- Continue to invest in and support our businesses as they develop products and services aligned with a net zero future.
- Promote diversity, prioritise and nurture the wellbeing and skills development of employees, and support the communities that we are part of.
- 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

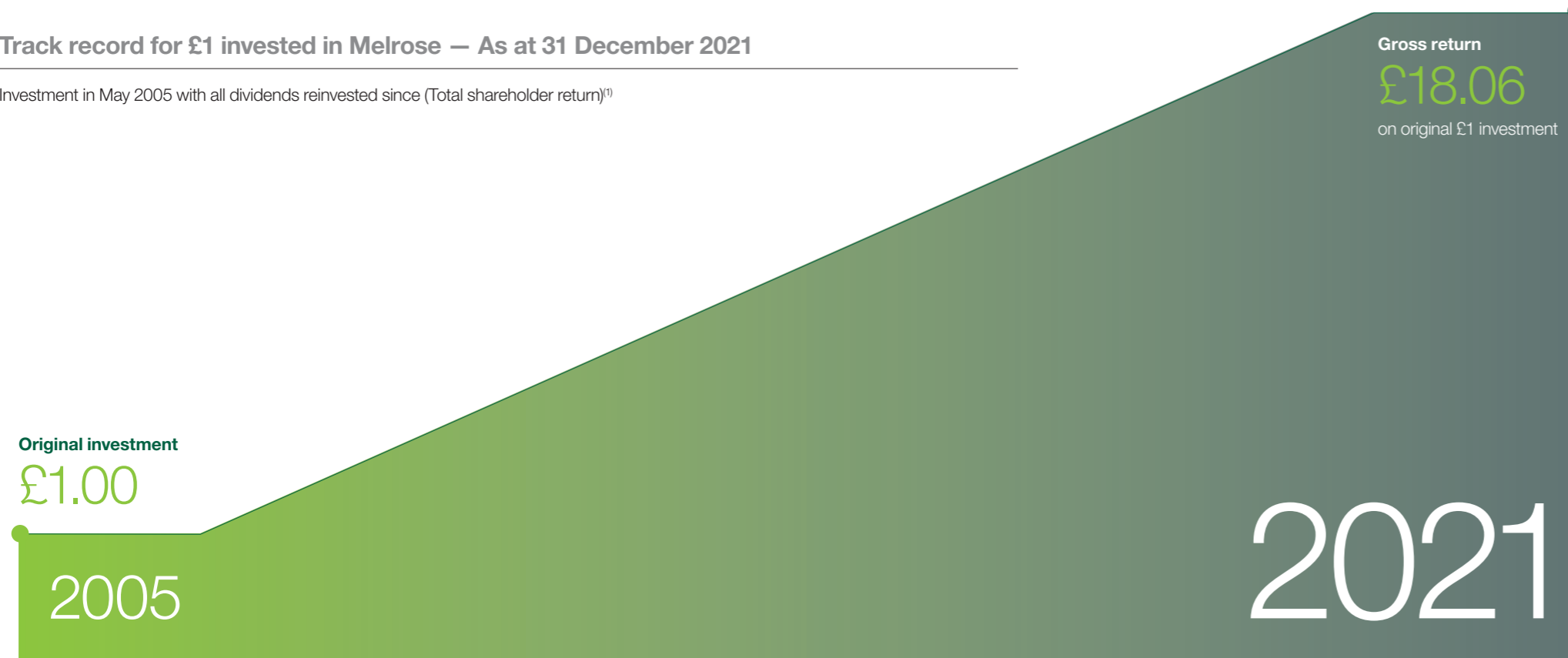
Melrose has delivered significant returns to shareholders since floating on AIM in 2003. Since making its first acquisition in 2005, Melrose has achieved an average annualised return on equity investment of 19%, with an increase in operating margins of between five and nine percentage points across businesses sold to date. We have also addressed chronic underfunding in pension schemes we have inherited, securing the future for scheme members.

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

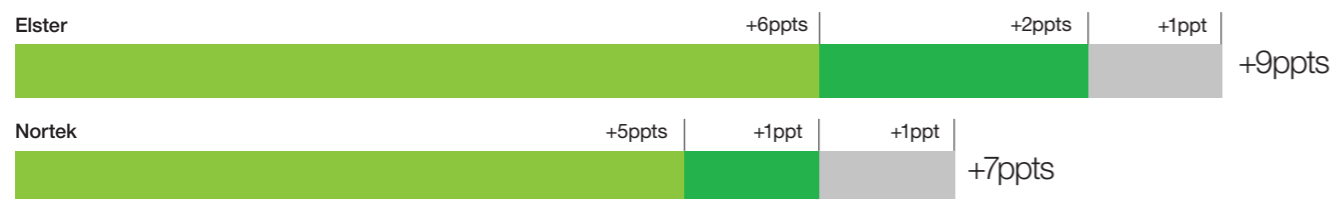


Track record for £1 invested in Melrose – As at 31 December 2021

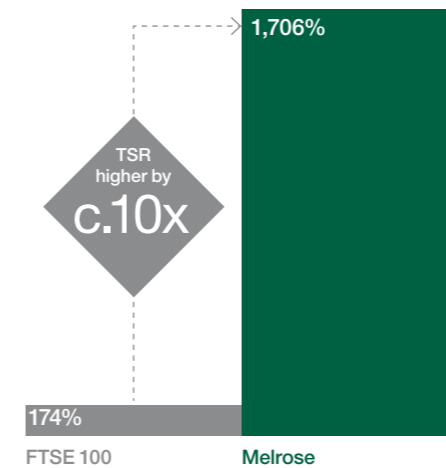
Investment in May 2005 with all dividends reinvested since (Total shareholder return)⁽¹⁾



How Elster and Nortek operating margin improved⁽³⁾



Total shareholder return (TSR)⁽¹⁾⁽²⁾



(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.

- Returns on capex and restructuring and other commercial actions.
- Central cost savings.
- Exit of low margin 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 £366 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.



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:

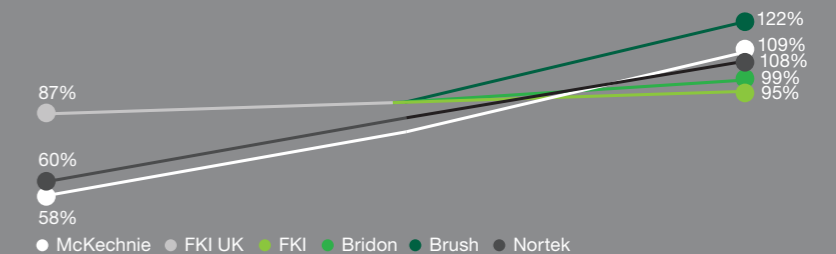
- Eliminated the GKN UK defined benefit pension scheme accounting deficit.
- Applied more secure funding targets of Gilts +25 basis points (GKN 2016) and Gilts +75 basis points (GKN 2012 schemes 1-4) to achieve more prudent funding targets.
- Rebalanced the GKN schemes across the GKN divisions, to avoid 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.

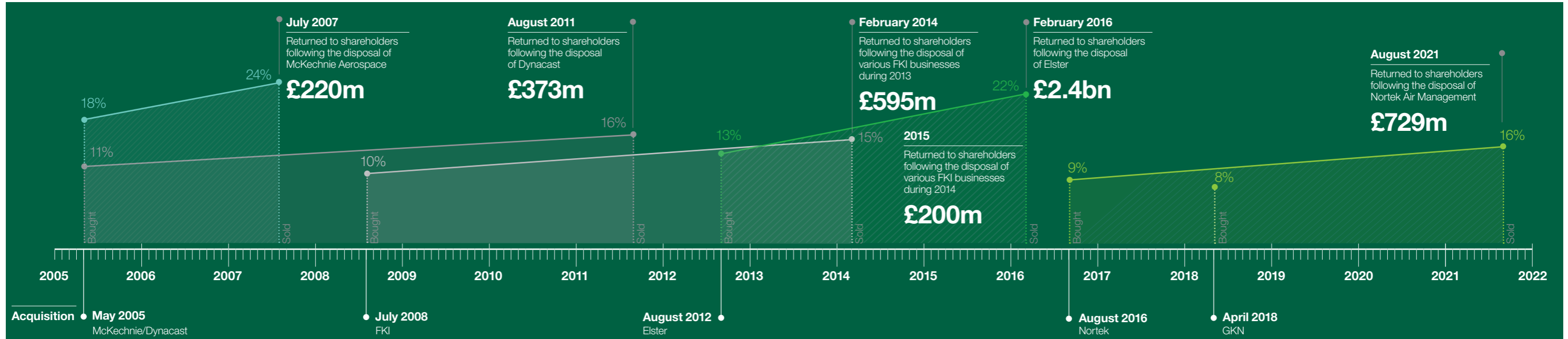
(1) Described in the glossary to the financial statements on pages 203 to 210.
 (2) Includes a surplus of £179 million relating to the GKN UK Group Pension Schemes (numbers 1-4) and a deficit of £7 million relating to the GKN UK Post Employment Medical Scheme.

“Buy, Improve, Sell” – A history of success

Melrose continues to build on its 18-year track record of increasing and realising the value in its businesses and returning the proceeds 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



Company details	McKechnie/Dynacast
Bought for	£0.4bn
Equity raised on acquisition	£243m
Follow-on investment	£124m
Sold for	£0.8bn
Investment in business	51%
Equity rate of return	30%
Cash generated during ownership	£934m

Company details	FKI
Bought for	£1.0bn
Equity raised on acquisition	£499m
Follow-on investment	£391m
Sold for	£1.4bn
Investment in business	78%
Equity rate of return	29%
Cash generated during ownership	£1.8bn

Company details	Elster
Bought for	£1.8bn
Equity raised on acquisition	£1.2bn
Follow-on investment	£287m
Sold for	£3.3bn
Investment in business	25%
Equity rate of return	33%
Cash generated during ownership	£3.3bn

Company details	Nortek
Bought for	£2.2bn
Equity raised on acquisition	£1.6bn
Follow-on investment ⁽²⁾	£0.35bn
Sold for ⁽³⁾	£3.1bn
Investment in businesses	22%
Equity rate of return	19%
Cash generated during ownership	£0.8bn

Company details	GKN
Bought for	£8.3bn
Equity raised on acquisition	£6.8bn
Follow-on investment ⁽⁴⁾	£2.2bn
Investment ⁽⁴⁾ as % of initial equity	32%
Cash generated during ownership	£0.8bn

Shareholder return on original equity 3.0x

2.6x

2.3x

2.1x

Commentary McKechnie was a global supplier of specialist engineered components to the global aerospace industry. During our ownership we improved operating margins from 18% 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 £700 million in 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 conglomerate 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% under our ownership and have since sold all of the businesses.

Overall we generated over £1.3 billion in 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 German-manufacturer of meters operating through three separate divisions with different markets and drivers (Gas, Electricity, Water).

Under our ownership we oversaw operating profit margins increase from 13% to 22%, representing a 70% improvement in just three years. This was achieved by focusing each business on performance, end-markets, customers and operations. We significantly expanded on an optimisation programme announced by Elster before our acquisition and significantly exceeded expectations.

Overall we generated over £2.5 billion in net cash proceeds from Elster versus an equity investment of approximately £1.2 billion, resulting in a return of 2.3x on shareholders' investment. This includes direct returns to shareholders after a disposal of all three businesses to Honeywell for £3.3 billion in 2015.

Upon our acquisition, Nortek was a global diversified group, manufacturing innovative air management, security, home automation and ergonomic and productivity solutions. Suffering from fragmented operations and operational underperformance, we identified a range of world-class product ranges and strong brands that were underperforming their potential, but which through further investment would become well placed to address emerging market needs.

Under Melrose ownership, we almost doubled operating profit margins from 9% to 16%. This was achieved by each business undergoing a significant transformation, freed from the restrictions of the formerly centralised group structure, and propelled by material, targeted investment in research and development, and productivity 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.

(1) Described in the glossary to the financial statements on pages 203 to 210.
 (2) Up to 31 December 2021.
 (3) Includes book value for businesses not yet sold.

(4) 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 transaction perspective as well. We sold approximately a fifth of the Group, including Brush, the last piece of the FKI acquisition which has been a great contributor to the Melrose track record, achieving 2.6 times shareholders' investment. We also sold three of the four businesses from the Nortek acquisition in 2016, putting us firmly on the path to double shareholders' investment again. In each case, the businesses were sold to good homes which are already building on the improvement achieved under our ownership.

Pensions

Melrose is also rightly proud of its track record in addressing pensions challenges in the businesses we buy and GKN has been no different. We have delivered on our commitments to trustees early, overcoming a large pension deficit we inherited of almost £1 billion to bring the UK schemes to being fully funded this year. This has been achieved despite the challenges of COVID-19 and without detracting from our investment in the businesses and repayment of debt.

Mindful of our commitment and as a testament to our responsible stewardship, the underlying performance of the businesses has enabled us to invest a third of the free cash flow produced by the Group into the pension schemes under our ownership, helping to secure the future for pension scheme members and improving the position of our shareholders. Given the secure nature of these schemes this naturally frees up more cash flow in the future.

Dividend

The Board is pleased to be able to return to its progressive policy by proposing a final dividend for 2021 of 1 pence per share (2020: 0.75 pence). Combined with the 2021 interim dividend of 0.75 pence per share, this represents a total dividend for the year of 1.75 pence per share (2020: 0.75 pence).

“

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

We have transformed the GKN businesses to increase their full potential including investing in sustainable technology and properly funding their pension schemes. With the benefits of significant restructuring increasingly coming through, combined with the strong cash generation, Melrose is positioned to create, and realise, significant value for shareholders.”

The final dividend will be paid on 20 May 2022 to those shareholders on the register at 8 April 2022, subject to approval at the Annual General Meeting (“AGM”) on 5 May 2022.

Return of capital

Following the Brush and Nortek sales, we completed a £729 million return of capital to shareholders in September last year. We were clear at the time that, due to lingering uncertainty in the market, we had been conservative in determining the amount of the return in order to ensure a strong balance sheet in the event of further volatility.

We did indicate at that time that should these conditions improve sufficiently, we would move to make a second return of capital this year to rebalance our capital structure more in line with a traditional Melrose approach. While the wider markets still remain below their pre-pandemic levels, there is a visible path to recovery. We have enjoyed a strong performance during the year, with a conservative balance sheet, reset cost bases for each of the businesses and another strong cash flow performance that further reduced leverage, even with fully funding the significant restructuring and improvement plans and taking the UK pension scheme funding to surplus.

In line with the Melrose model, to return proceeds from disposals to shareholders, your Board would have made a second capital return to rebase our capital structure alongside these results. However, the very recent and tragic events unfolding in Ukraine, with the knock on effects for the world markets that at this stage are uncertain and unquantifiable, have led the Board to keep the timing of this return under review at present. Your Board recognises that this is a very conservative position and hopes that the situation will be resolved as quickly as possible, in which case the intention would be to make the 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

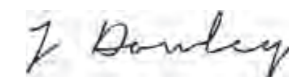
Melrose was founded in 2003 to empower businesses to unlock their full potential for the collective benefit of stakeholders, whilst providing shareholders with a superior return on their investment. This has been delivered through Melrose's “Buy, Improve, Sell” strategy, which means we buy good quality 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 Sustainability 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.



Justin Dowley
Non-executive Chairman
3 March 2022

(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.



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 Powder Metallurgy, a healthy initial market recovery from the pandemic in the first quarter of 2021 was soon overtaken by the impact of the shortage of semiconductors on the entire automotive sector. Although demand indicators remained strong throughout, supply constraints hampered production until beginning to ease very late in the year. As supply constraints continue to ease, we expect sales growth in coming years to simultaneously meet pent-up demand and support dealers as they rebuild their inventory levels.

Despite these market challenges, GKN Automotive business wins and GKN Powder Metallurgy sales volumes for the year increased ahead of the market growth of 3.4%. In GKN Powder Metallurgy's case this was by more than double as they increased their market share. Alongside this growth, both businesses more than doubled margins as volumes began to return on a substantially reduced cost base, which included some initial benefits from major rationalisations. There is still plenty of margin improvement to come for both businesses as market recovery continues and the full benefit of restructuring projects flow through to results over the course of the coming year. The impact of rising global inflation is also being actively managed through pricing, procurement and productivity, and we remain confident in achieving our margin targets as supply constraints ease.

GKN Automotive is also seeing major benefits from the accelerating transition to electric vehicles, and is converting its decades' long experience in the sector into significant wins on e-Drive platforms for both its 3-in-1 solutions and core sideshaft products for electric vehicles. It was a busy year for production launches and included the award of the first fully outsourced 3-in-1 system for a major German manufacturer.

“

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.”

Excluding China, GKN Automotive is now a supplier on seven of the top ten global electric vehicle platforms⁽¹⁾ and has an order book that is matching the market in the shift to electric vehicles. This was part of approximately £5 billion in life of programme sales wins secured, of which over a third are for pure battery electric vehicles, representing a record for the business. This demonstrates that GKN Automotive is both gaining market share and keeping pace with the faster than expected electric vehicle transition.

As highlighted in its Capital Markets Day in May, GKN Powder Metallurgy has largely completed its restructuring projects and has spun out its hydrogen storage business, to increase the focus on its core powder, sinter and additive businesses. This has enabled better clarity on its electric vehicle transition strategy, which is well on the way to execution. It has exited some low margin ICE business and is developing a number of exciting opportunities for e-motors and magnet technology for electric vehicles. In addition, its additive manufacturing business continues to grow and explore opportunities in serial component production.

For GKN Aerospace, the continued pandemic related travel restrictions held back the pace of the market recovery. This started to ease toward the back half of the year, having a positive impact on sales which grew 18% year-on-year in the second half. Alongside reorganising the business into Civil, Engines and Defence segments, GKN Aerospace has seen a rebalancing of its market exposure towards the single aisle aircraft segment, which now accounts for 39% of Civil sales and is the segment of the aerospace sector that is leading the recovery. Engines continues to see the benefit of exceptionally strong future cash flows from its key platforms.

We have not let the extended market volatility distract GKN Aerospace from making further progress on its improvement plans and it has had another strong year of cash generation, with a cash 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



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 expanding

- All required restructuring projects now underway.
- Adjusted⁽²⁾ operating margin: 2020: 0.5% → 2021: 4.4% Target 12%⁽⁴⁾.

Sustainable technology

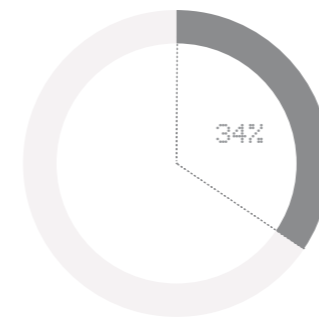
- Improving existing fleet efficiency.
- Developing next generation of greener aircraft.



GKN Aerospace is a world-leading multi-technology manufacturer of airframe and engine structures and electrical interconnection systems for the global aerospace industry, across both civil and defence platforms.

gknaerospace.com

Proportion of Melrose⁽¹⁾



Adjusted⁽²⁾ revenue

£2.5bn

Statutory revenue

£2.5bn

Adjusted⁽²⁾ operating profit

£112m

Statutory operating loss

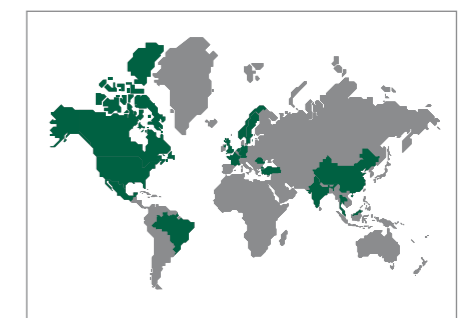
£196m

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



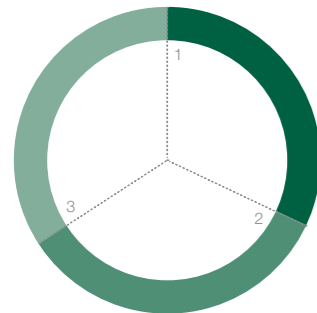
Global technology centres



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

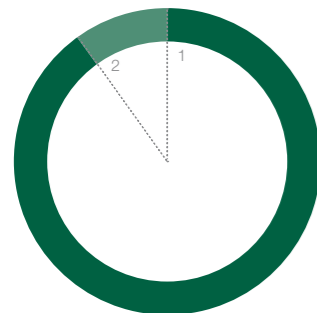
(1) All growth metrics are collated at constant currency.
 (2) Described in the glossary to the financial statements on pages 203 to 210.
 (3) Based on existing businesses at 31 December 2021.
 (4) 10% margin target on a partial market recovery and 12% margin target on a recovery to pre-COVID-19 revenue.

Revenue by business⁽²⁾



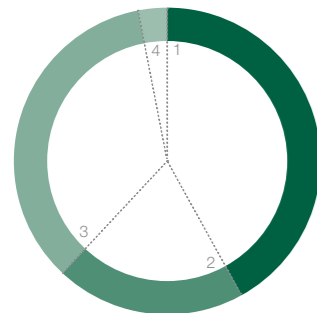
1 Civil ⁽³⁾	32%
2 Engines	34%
3 Defence ⁽³⁾	34%

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.

Technology case study



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.

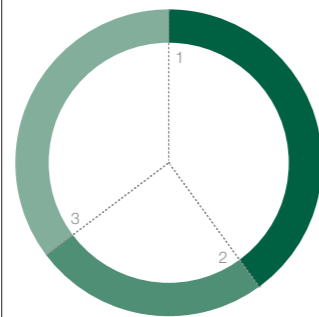
Clean Sky 2 is the largest European aeronautics research programme, developing innovative, cutting-edge technology aimed at reducing CO₂ emissions and noise levels produced by aircraft. Funded by the EU's Horizon 2020 programme and Europe's aviation industry, Clean Sky 2 contributes to strengthening European aero-industry collaboration, global leadership and competitiveness.



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.

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 Ukraine, GKN Aerospace expects the recovery of the civil aviation sector to continue in 2022, which will benefit both the Civil and Engines businesses. While uncertainty remains, and there is still some way to go to reach pre-pandemic levels, GKN Aerospace is well placed to support the significant ramp-up of single-aisle aircraft production which is already underway in 2022. The defence market outlook remains solid, which will support the Defence segment while it implements its improvement programme.

Underpinned by the restructuring work already undertaken and with its position on major growth platforms and further optimisation to come, GKN Aerospace is well placed to benefit as the market recovery continues and remains well on track to unlock its potential. The business has already demonstrated positive earnings momentum and it has a clear path to achieving its targeted 12% operating margins when sales return to pre-pandemic levels. Looking further ahead, GKN Aerospace’s technology investment and expertise will enable it to be a leader in the sustainable transformation of civil aviation, creating market opportunities and profitable growth for years to come.

Market trends

GKN Aerospace

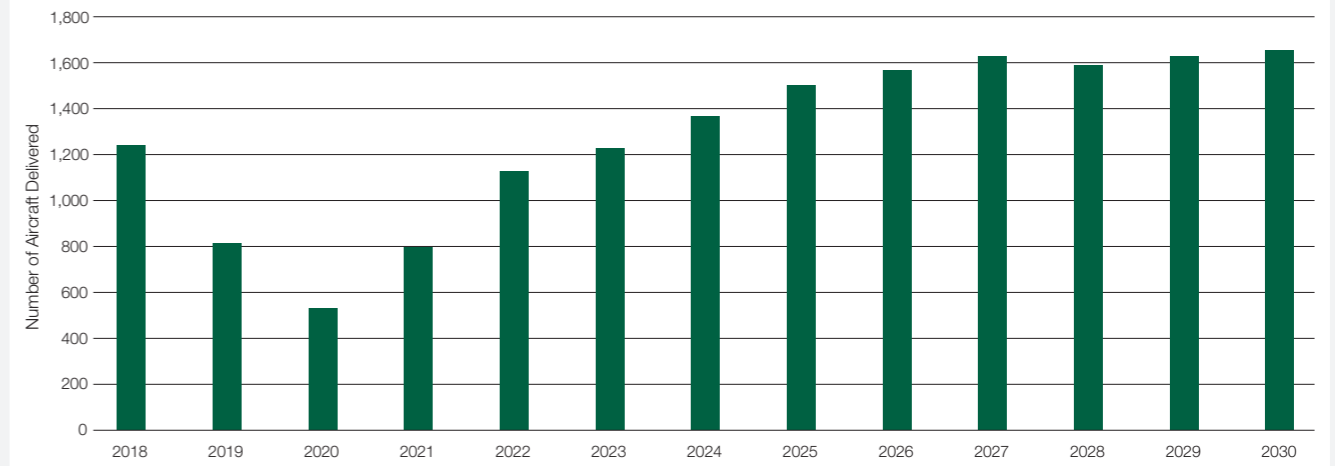
- Despite continued disruption from the COVID-19 pandemic, flight hours steadily improved throughout the year, rising 26% compared to 2020. During 2021 the market saw the first significant new orders for single-aisle aircraft since the onset of the pandemic, with plans for single-aisle ramp-up also announced.
- Defence-related spending remained relatively stable in 2021, and this is expected to continue within the US, UK and EU over the coming years, with new programmes expected to offer significant opportunities. A close watch is being kept on the developing situation in Ukraine.
- Tackling climate change continued to grow as a priority for policy makers, investors and the aerospace industry, with renewed focus on how to reach net zero by 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.

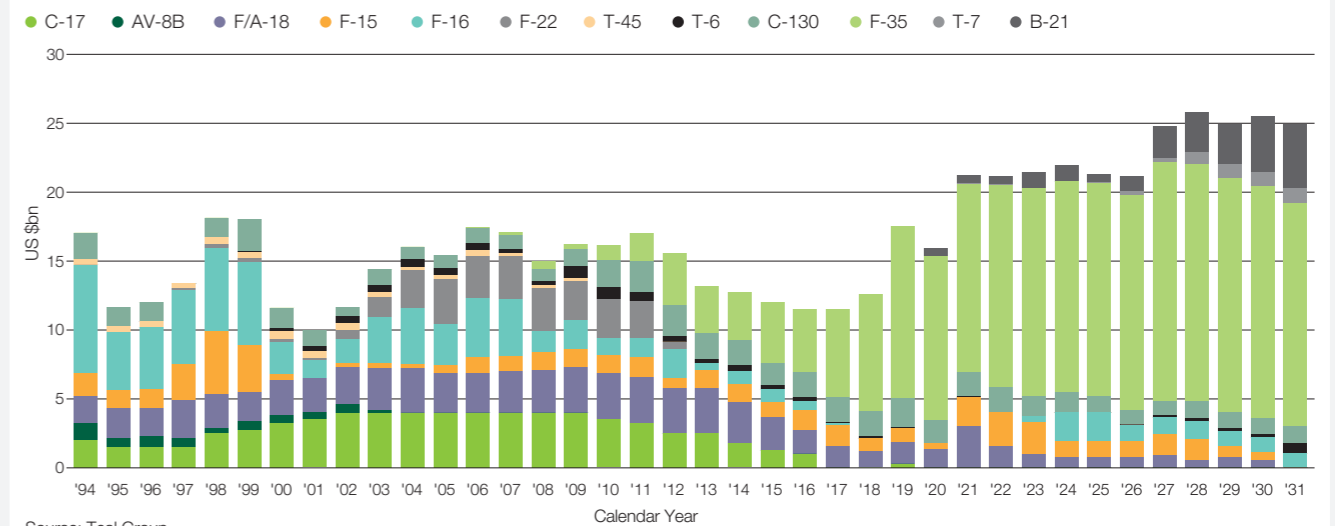
- Continuing its focus on building a truly sustainable business. In 2021 GKN Aerospace set ambitious targets for cutting Greenhouse gas emissions, adopting renewable electricity and cutting waste to landfill, in alignment with the Melrose Group’s sustainability targets. In addition, the business has 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.

Narrowbody Forecast – Deliveries



Source: Teal Group

US Military Fixed Wing Aircraft Deliveries



Source: Teal Group

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

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 expanding

- Restructuring accelerated and nearing completion.
- Adjusted⁽²⁾ operating margin: 2020: 2.2% → 2021: 4.6% Target >10%.

Sustainable technology

- Leading electric vehicle drive system technology.
- Significant investment into a range of e-Drive capabilities of greener aircraft.

Automotive

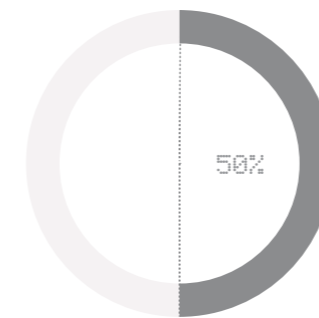
(1) All growth metrics are collated at constant currency.
 (2) Described in the glossary to the financial statements on pages 203 to 210.



GKN Automotive is a leading supplier of driveline technologies to the global automotive industry and a trusted partner to over 90% of the world's car manufacturers for electrification, all-wheel drive programmes and new vehicle concepts.

gknautomotive.com

Proportion of Melrose⁽¹⁾



Adjusted⁽²⁾ revenue

£3.7bn

Statutory revenue

£3.2bn

Adjusted⁽²⁾ operating profit

£172m

Statutory operating loss

£131m

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

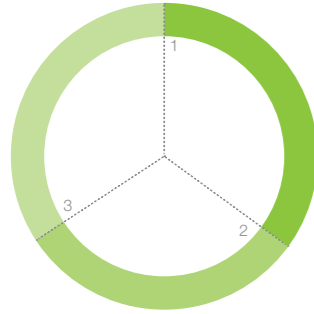


Global technology centres

Countries – Global production footprint

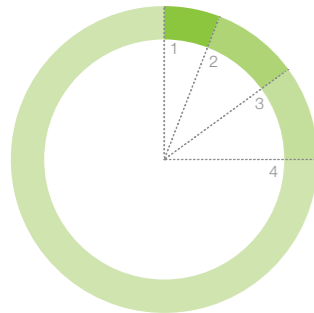
(1) Based on adjusted⁽²⁾ 2021 revenue for continuing businesses.
 (2) Described in the glossary to the financial statements on pages 203 to 210.

Revenue by destination



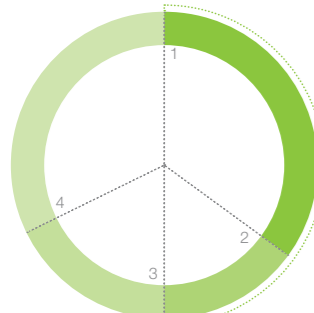
1 Europe	35%
2 North America	31%
3 Asia and rest of world	34%

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 Cooled and Controlled high-speed e-Drive system, in collaboration with Drive System Design and Nottingham University

Since the revolutionary GKN Automotive constant velocity joint enabled a new generation of front-wheel drive cars over 50 years ago, GKN Automotive has continued as a pioneer of future mobility. Over the last 20 years, GKN Automotive's technological advancements have evolved to drive systems to enable electric vehicle technology, where it continues to lead the field. In pursuit of developing the most efficient electric drive unit possible, GKN Automotive's engineers based at its UK Innovation Centre in Abingdon are developing a cutting-edge Advanced Cooled and Controlled high-speed e-Drive ("ACeDrive") system collaboration with Drive System Design and Nottingham University. The programme is partly funded by the Melrose Skills Fund and GKN Automotive's UK Advanced Propulsion Centre. The goal is to increase the e-Drive system's power output and improve system efficiency, whilst reducing weight and material content.

Improving the efficiency of electric drive units brings huge benefits for a battery electric vehicle, enabling increased performance and reduced system cost. Higher efficiency brings increased vehicle range for a given battery charge – range being a key obstacle for consumers wanting to make the switch to a battery electric vehicle. Equally, higher efficiencies bring opportunities for car makers to opt to use smaller batteries whilst still achieving a desired vehicle range, hence reducing vehicle cost, complexity and weight.

ACeDrive focuses on improvements to four core elements of an electric drive system:

- **Down-sized, high-speed motor with cutting-edge efficiency**
For a smaller, highly efficient unit requiring less raw materials (reduced use of copper and rare earth magnets) and as a result offering cost as well as packaging benefits
- **800V silicon carbide inverter with variable switching frequency**
Enables high system efficiency as well as facilitating faster battery charging.

- **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 with 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.

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.

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

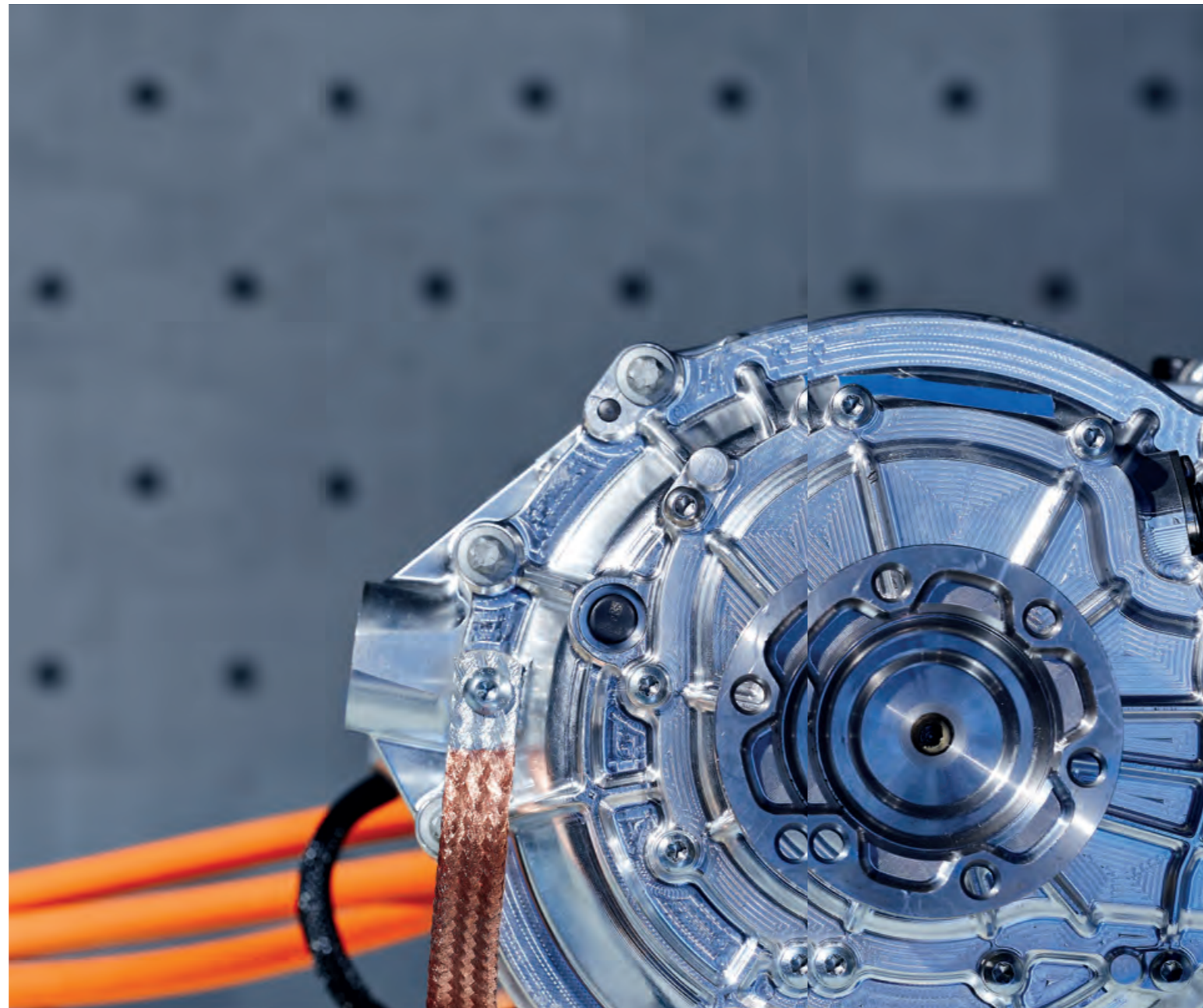
Supplier on 7 of top 10 BEV and PHEV global programmes

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



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:

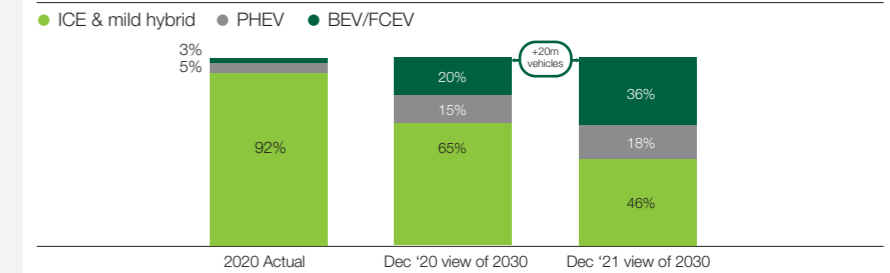
- **Pent up demand:** GKN Automotive has a strong belief that there is a very healthy latent demand for new vehicles amongst consumers. Although supply constraints hampered production through most of the year, it is expected that supply constraints will continue to ease in 2022 and that a subsequent 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.

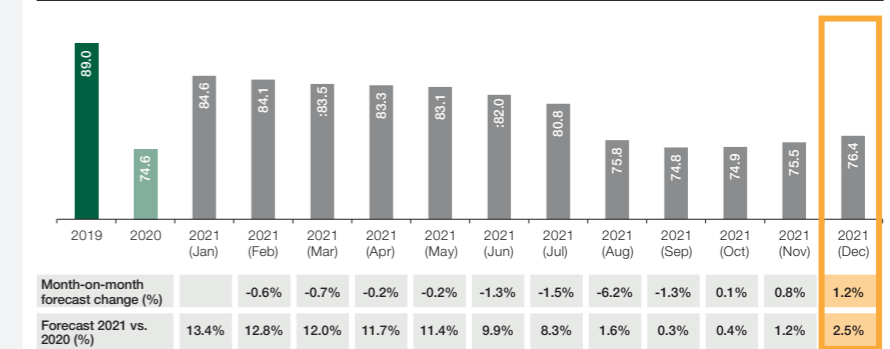
Acceleration of light vehicle electrification

Global share of 2030 light vehicle propulsion types (IHS forecasts, % share of total LV production)



COVID-19 and semiconductor shortage impacting the industry during 2021

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



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

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 complete and improving business mix.
- Adjusted⁽²⁾ operating margin: 2020: 4.3% → 2021: 9.3% Target 14%.

Sustainable technology

- Supporting electric vehicle expansion.
- Commercialising additive manufacturing.

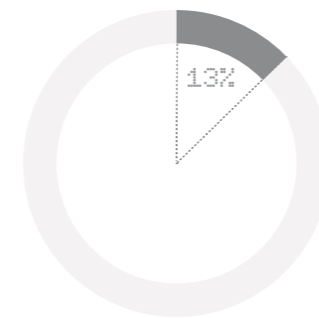
(1) All growth metrics are collated at constant currency.
(2) Described in the glossary to the financial statements on pages 203 to 210.



GKN Powder Metallurgy is a global leader in both precision powder metal parts for the automotive and industrial sectors, and the production of metal powder, through its prized vertically integrated business platform.

gknpm.com

Proportion of Melrose⁽¹⁾



Adjusted⁽²⁾ revenue

£975m

Statutory revenue

£946m

Adjusted⁽²⁾ operating profit

£91m

Statutory operating loss

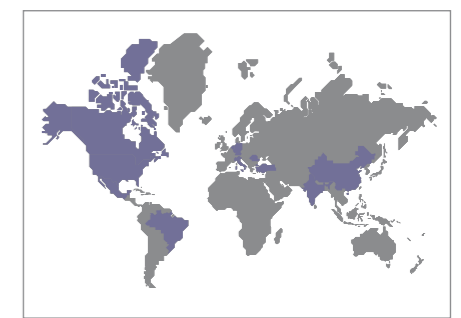
£40m

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

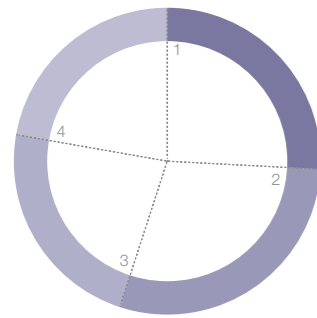


Countries – Global production footprint

(1) Based on adjusted⁽²⁾ 2021 revenue for continuing businesses.
(2) Described in the glossary to the financial statements on pages 203 to 210.

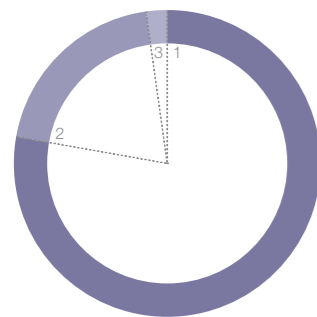
Continued

Revenue by market type⁽²⁾



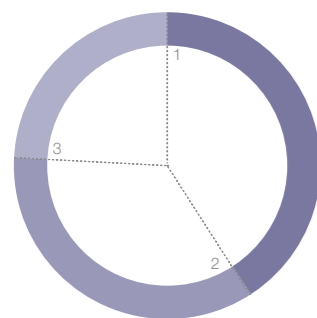
1 Automotive components	26%
2 Transmission	29%
3 Engine	23%
4 Industrial	22%

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.



162% increase

Adjusted⁽⁴⁾ operating profit increased by 162% and adjusted⁽⁴⁾ operating margins doubled

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.

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 CO₂ 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.

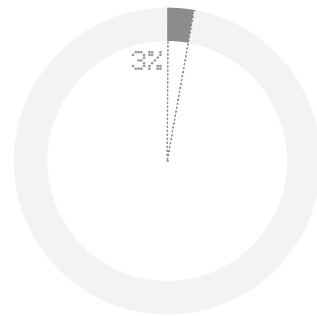
(1) All growth metrics are collated at constant currency.
 (2) Based on existing businesses at 31 December 2021.
 (3) Before capital expenditure and restructuring costs.
 (4) Described in the glossary to the financial statements on pages 203 to 210.

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

£233m

Statutory revenue

£233m

Adjusted⁽³⁾ operating profit

£51m

Statutory operating loss

£35m

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 growth in 2022 led by continued growth in its Healthcare segment due to market expansion and the focus on new global geographic territories. Additionally, Ergotron is well positioned to capture growth in the Workspace segment due to the expansion 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.



Technology case study

Ergotron: TRACE™ – Constant Force™

The COVID-19 pandemic has accelerated the trend towards multiple workspaces as the new workplace reality. With the blurring of the separation between office, home and third space, technology has become paramount to the overall employee experience. With this variability in working environments, seamless workflow to accommodate individual needs and enhanced collaboration has become ever more critical. This has come at a time when society is placing greater focus on individual employee health and a responsibility on employers to support all aspects of employee wellbeing.

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

Market trends

Ergotron

Customer buying behaviour in Ergotron's key end markets has seen a number of shifts since the onset of the COVID-19 pandemic, the most notable and impactful for Ergotron being the acceleration towards hybrid office working models, and increased focus on mind, body and ergonomics to improve health and productivity. This has propelled Ergotron's solutions and offerings relating to adaptable and flexible working environments, such as innovative monitor arm technologies and solutions that create seamless workflows and support larger multiple monitor systems, to accommodate variability in working environments and encourage ease of movement, whilst enhancing employees' ability to collaborate regardless of their physical location.

In the Healthcare segment, key trends relate to enhanced patient-caregiver technology interactions that enable the delivery of both increased caregiver comfort and high quality patient care, by offering health and wellness benefits that increase productivity and service efficiency, and improve physical risk mitigation within a variety of care settings. Ergotron continues to respond to these trends predominantly through continually innovating its medical carts solutions, which remain agile in their design to support a variety of care settings including nurse stations, mobile clinical delivery, home environments and virtual delivery.

Ergotron is running efficiently, making 25% adjusted⁽³⁾ operating margins.

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.

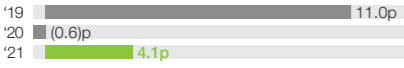

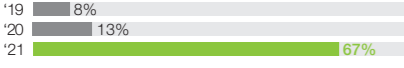
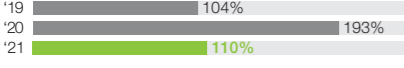
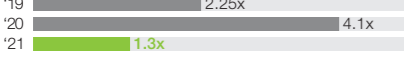
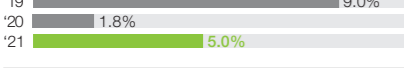
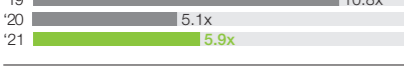
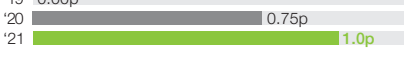
Key performance indicators

Measuring our performance

In order to support the Group's strategy and to monitor performance, the Board uses a number of financial and non-financial key performance indicators ("KPIs").

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

Financial KPIs

	Method of calculation	Strategic objective
<p>Adjusted⁽¹⁾ diluted earnings per share⁽³⁾ 4.1p</p>  <p>'19 11.0p '20 0.6p '21 4.1p</p>	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 value for shareholders.
<p>Adjusted free cash generation⁽¹⁾ £323m</p>  <p>'19 £591m '20 £628m '21 £323m</p>	Total cash generated from trading after all costs, excluding restructuring and one-off payments to defined benefit pension schemes.	To ensure subsidiary businesses are suitably cash-generative in order to have adequate cash reserves for the effective running of the Group and for significant capital investment where required.
<p>Net debt⁽¹⁾ reduction 67%</p>  <p>'19 8% '20 13% '21 67%</p>	Reduction in net debt in the year as a percentage of opening net debt.	To ensure that the Group has suitable amounts of net debt and remains within its banking covenants.
<p>Adjusted⁽¹⁾ profit conversion (pre-capex) to cash percentage⁽³⁾ 110%</p>  <p>'19 104% '20 193% '21 110%</p>	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 are suitably cash-generative in order to have adequate cash reserves for the effective running of the Group and for significant capital investment where required.
<p>Adjusted⁽¹⁾ operating profit⁽³⁾ £375m</p>  <p>'19 £896m '20 £141m '21 £375m</p>	Adjusted ⁽¹⁾ operating profit for the continuing businesses in existence during the year ended 31 December 2021.	To improve profitability of Group operations.
<p>Net debt to adjusted⁽¹⁾ EBITDA⁽²⁾ 1.3x</p>  <p>'19 2.25x '20 4.1x '21 1.3x</p>	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 amounts of debt and remains within its banking covenants.
<p>Adjusted⁽¹⁾ operating profit margin⁽³⁾ 5.0%</p>  <p>'19 9.0% '20 1.8% '21 5.0%</p>	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 operations.
<p>Interest cover 5.9x</p>  <p>'19 10.8x '20 5.1x '21 5.9x</p>	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 cost of debt and remains within its banking covenants.
<p>Final dividend per share 1.0p</p>  <p>'19 0.00p '20 0.75p '21 1.0p</p>	Amount declared as payable by way of dividends in terms of pence per share.	To operate a progressive dividend policy whenever the financial position of the Company, in the opinion of the Board, justifies the payment. For discussions on the dividend, please refer to the Chairman's statement on pages 8 to 9.

(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.

Non-financial KPIs

Health and safety

In line with the Melrose decentralised model, our businesses are each responsible for implementing and maintaining health and safety excellence across their respective operations. To provide visibility and oversight for the Board, information is collated quarterly on three key performance indicators – Major Accident Frequency, Lost Time Accident Frequency, and Accident Severity (each as defined below) – for each business and covering all of their sites. A variety of additional health and safety KPIs are used by the businesses owned by the Group from time to time, which are specific to the exact nature of the business and its associated risks. Although responsibility for health and safety rests with the business units, in the unfortunate circumstance of a very serious incident, the Melrose senior management team will engage directly with the relevant business unit executive team and report any actions taken directly to the Board.

Method of calculation

All Melrose Group businesses report the same three KPI metrics for health and safety. Given the expansion and diversified nature of the Group, weightings have been applied to each division's reported health and safety performance according to the size of its workforce relative to that of the other divisions within the Group. Therefore, the larger the workforce, the more heavily such division's health and safety performance drives the Group-wide performance figures.

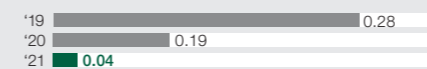
Strategic objective

The Company has an objective to stop all preventable accidents.

Performance⁽¹⁾

The Group's current businesses measure three key health and safety KPIs:

Major Accident Frequency Rate **0.04**



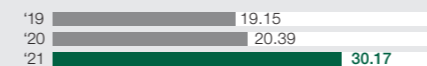
Records the average number of lost time accidents that have resulted in more than three days off work (defined as 'major' accidents), per 200,000 hours worked.

Lost Time Accident Frequency Rate **0.06**



Records the number of lost time accidents, both major and minor, per 200,000 hours worked.

Accident Severity Rate **30.17**



Records the average number of days an employee takes off work following an accident at work.

(1) Data has 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, CO₂ 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.



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 operations

Statutory results:

The statutory IFRS results are shown on the face of the Income Statement and show revenue of £6,883 million (2020: £7,132 million), an operating loss of £451 million (2020: £487 million) and a loss before tax of £618 million (2020: £679 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the year of 4,695 million (2020: 4,858 million), were a loss of 9.6 pence (2020: loss of 11.7 pence).

Adjusted results:

The adjusted results are also shown on the face of the Income Statement. They are adjusted to include the Group's share of revenue and operating profit from certain investments in which the Group does not hold full control, equity accounted investments ("EAls"), and to exclude certain items which are significant in size or volatility or by nature are non-trading or non-recurring, or are items released to the Income Statement that were previously a fair value item booked on an acquisition. It is the Group's accounting policy to exclude these items from the adjusted results, which are used as an Alternative Performance Measure ("APM") as described by the European Securities and Markets Authority ("ESMA"). APMs used by the Group are defined in the glossary to the Consolidated Financial Statements.

The Melrose Board considers the adjusted results to be an important measure used to monitor how the businesses are performing as they achieve consistency and comparability between reporting periods when all businesses are held for the complete reporting period.

The adjusted results for the year ended 31 December 2021 show revenue of £7,496 million (2020: £7,723 million), an operating profit of £375 million (2020: £141 million) and a profit before tax of £252 million (2020: loss of £41 million). Adjusted diluted EPS, calculated using the weighted average number of shares in issue in the year of 4,695 million (2020: 4,858 million), were 4.1 pence (2020: a loss of 0.6 pence).

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

Reconciliation of statutory results to adjusted results

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

	2021 £m	2020 £m
Continuing operations:		
Statutory revenue	6,883	7,132
<i>Adjusting item:</i>		
Revenue from equity accounted investments ("EAls")	613	591
Adjusted revenue	7,496	7,723

Adjusting item:

Adjusted revenue includes revenue from EAls, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"), within the Automotive segment. During the year ended 31 December 2021, EAls in the Group generated £613 million of revenue (2020: £591 million), which is not included in the statutory results but is shown within adjusted revenue so as not to distort the operating margins reported in the businesses when the adjusted operating profit from these EAls is included.

	2021 £m	2020 £m
Continuing operations:		
Statutory operating loss	(451)	(487)
<i>Adjusting items:</i>		
Amortisation of intangible assets acquired in business combinations	452	472
Restructuring costs	269	221
Currency movements in derivatives and movements in associated financial assets and liabilities	114	(182)
Net release of fair value items	(49)	(115)
Other	40	48
Write down of assets	–	184
Adjustments to statutory operating loss	826	628
Adjusted operating profit	375	141

Adjusting items to statutory operating loss in the year are consistent with prior years and include:

The amortisation charge on intangible assets acquired in business combinations of £452 million (2020: £472 million), which is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.

Costs associated with restructuring projects in the year totalling £269 million (2020: £221 million), including a write down of assets in affected sites of £112 million (2020: £20 million). These are shown as adjusting items due to their size and non-trading nature and during the year ended 31 December 2021 these included:

- A charge of £92 million (2020: £110 million) within the Aerospace division, primarily relating to the commencement of significant multi-year restructuring projects, necessary for the business to achieve its full potential target operating margins. These included the initial stages of European footprint consolidations in both the Civil and Engines businesses, which commenced in the first half of the year, and significant restructuring programmes in North America, across all three Aerospace sub-segments, which commenced 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 Rothery, 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 EAls 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.

Statutory and adjusted results by reporting segment

The following table shows continuing revenue split by reporting segment, including EAls for adjusted revenue.

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Statutory revenue	2,538	3,164	948	233	6,883
<i>Reconciling item:</i>					
Revenue from EAls	5	581	27	–	613
Adjusted revenue	2,543	3,745	975	233	7,496

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	Total £m
Statutory operating (loss)/profit	(196)	(131)	40	35	(199)	(451)
<i>Reconciling item:</i>						
Adjusting items	308	303	51	16	148	826
Adjusted operating profit/(loss)	112	172	91	51	(51)	375

The performances of each of the reporting segments are discussed in the Chief Executive's Review. The adjusted operating loss in the corporate 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 EAls 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 shareholders' investment on the Nortek acquisition.

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

Discontinued businesses contributed £884 million to revenue and achieved statutory operating profit of £5 million for the period of the year under ownership (2020: revenue of £1,782 million and statutory operating profit of £149 million), before contributing a net £1.3 billion profit on disposal in the year.

Return of capital and number of shares in issue

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

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

Tax – continuing operations

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

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

The statutory tax rate is higher than the adjusted tax rate because the statutory tax credit includes exceptional tax credits of £108 million (2020: £nil) relating to the recognition of Dutch losses that will give future tax savings as a result of a change in law, partially offset by exceptional tax charges of £70 million (2020: £nil) in respect of the extraction of the US Powder Metallurgy companies from the Automotive tax group.

The Group has £792 million (31 December 2020: £810 million) of deferred tax assets on tax losses, retirement benefit obligations and other timing differences. These are offset by deferred tax liabilities on intangible assets of £993 million (31 December 2020: £1,161 million) and £163 million (31 December 2020: £201 million) of other deferred tax liabilities. Most of the tax losses and other deferred tax assets will generate future cash tax savings, whereas the deferred tax liabilities on intangible assets are not expected to give rise to cash tax payments.

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

Cash generation and management

Robust cash management initiatives continue to be run by all businesses in the Group and resulted in a free cash inflow in the year of £125 million (2020: £456 million) of which £53 million (2020: £252 million) was in discontinued operations, with each of the continuing businesses more than self-funding all costs, including substantial restructuring spend. Adjusted free cash flow, shown before restructuring cash spend, was £323 million (2020: £628 million).

An analysis of the adjusted free cash flow is shown in the table below:

	2021 £m	2020 £m
Continuing operations (unless stated otherwise)		
Adjusted operating profit	375	141
Adjusted operating profit from EAls	(66)	(62)
Depreciation and amortisation	425	442
Lease obligation payments	(54)	(63)
Positive non-cash impact from loss-making contracts	(48)	(58)
Working capital movements	62	371
Adjusted operating cash flow (pre-capex)	694	771
Net capital expenditure	(225)	(265)
Net interest and net tax paid	(205)	(171)
Defined benefit pension contributions – ongoing	(54)	(107)
Restructuring	(193)	(161)
Dividend income from equity accounted investments	52	54
Net other	3	83
Cash flows from operations discontinued in the year, after all costs ⁽¹⁾	53	252
Free cash flow	125	456
Adjusted free cash flow	323	628

(1) includes £5 million (2020: £11 million) of restructuring spend.

Net working capital in the continuing businesses was reduced by £62 million in the year (2020: £371 million), despite Group revenue growing by 2% in the year, at constant currency. Working capital as a percentage of sales, within the remaining GKN businesses, has reduced from 5% at the GKN acquisition date to 3% at 31 December 2021, illustrating the strong cash generation achieved during Melrose ownership.

Net capital expenditure in the year was £225 million (2020: £265 million), representing 0.6x (2020: 0.7x) depreciation of owned assets.

Net interest paid in the year was £140 million (2020: £157 million), net tax payments were £65 million (2020: £14 million) and ongoing contributions to defined benefit pension schemes were £54 million (2020: £107 million). These included £30 million (2020: £60 million) paid into the GKN UK pension plans, reduced because the funding commitment made by the Group, when GKN was acquired in 2018, has been delivered ahead of schedule. The GKN UK pension schemes are now in surplus helped by £1 in every £3 of free cash flow since acquisition 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)
<i>Non-trading items and discontinued operations:</i>		
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

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 the year:

	Total £m
At 1 January 2021	1,021
Spend against provisions	(278)
Net charge to adjusted operating profit	72
Net charge shown as adjusting items	96
Release of loss-making contract provision to adjusting items	(22)
Utilisation of loss-making contract provision	(48)
Disposals	(118)
Other (including foreign exchange)	(22)
At 31 December 2021	701

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

The net charge to adjusted operating profit in the year of £72 million is primarily in respect of ongoing warranty and workers' compensation charges which are closely matched by similar cash payments in the year.

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

The utilisation of the loss-making contract provision was £48 million in the year (31 December 2020: £59 million). Furthermore, £22 million, approximately 13%, of the remaining loss-making contract provision was released as an adjusting item in the year, either because contracts have been favourably resolved following positive negotiations with customers or because operational efficiencies have been demonstrated for a sustained period of time. At 31 December 2021 the loss-making contract provision was £167 million, approximately 70% lower than when GKN was acquired in 2018.

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

Pensions and post-employment obligations

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

The values of the Group plans were updated at 31 December 2021 by independent actuaries to reflect the latest key assumptions and are summarised as follows:

	Assets £m	Liabilities £m	Accounting surplus/ deficit £m
GKN UK Group pension schemes (Numbers 1 – 4)	2,754	(2,575)	179
Other Group pension schemes	256	(896)	(640)
Total Group pension schemes	3,010	(3,471)	(461)

The most significant pension plans remaining in the Group are the GKN UK Group Pension Schemes (Numbers 1 – 4), two of which are allocated to the Aerospace division and two to the Automotive division. At 31 December 2021 in total these four pension plans had aggregate gross assets of £2,754 million (31 December 2020: £2,556 million), gross liabilities of £2,575 million (31 December 2020: £2,755 million) and a net surplus of £179 million (31 December 2020: net deficit of £199 million), split 60% of the surplus held within Aerospace and 40% within Automotive. These GKN schemes are closed to new members and to the accrual of future benefits for current members.

The largest deficits within the other pension schemes in the Group relate to German GKN pension plans which provide benefits dependent on final salary and service, and which are generally unfunded and closed to new members. At 31 December 2021 these plans had a net deficit of £530 million (31 December 2020: £559 million).

During the year, £53 million of net surplus on pension schemes were transferred with businesses on disposal. In addition, a successful buy-out of pensioner liabilities of the GKN UK 2016 Pension Plan was performed, resulting in c.8,000 pensioners benefits being secured with Aviva or Rothesay. Prior to the completion of the buy-out process, the remaining 2,659 deferred members, along with the resulting net surplus of £43 million, of the GKN UK 2016 Pension Plan were transferred to a ring-fenced section of the GKN Group Pension Scheme Number 2.

The Group's funding commitment of the GKN UK Group Pension Schemes, made when GKN was acquired in 2018, has been delivered ahead of schedule following an agreed contribution of £34 million after the disposal of Nortek Air Management. The ongoing contributions to these defined benefit pension schemes have now halved to £30 million per annum, with no further requirement to contribute amounts following disposals of businesses.

In total, ongoing contributions to the Group defined benefit pension plans and post-employment medical plans in the year ended 31 December 2021 were £54 million and are expected to be at a similar level in 2022.

A summary of the assumptions used are shown in the Financial Statements. It is noted that a 0.1 percentage point decrease in the discount rate would increase the retirement benefit accounting liabilities of the Group, on an IAS 19 basis, by £61 million, or 2%, and a 0.1 percentage point increase to inflation would increase the liabilities by £41 million, or 1%. Furthermore, an increase by one year in the expected life of a 65 year old member would increase the pension liabilities on these plans by £175 million, or 5%.

Financial risk management

The financial risks the Group faces continue to be considered and policies are implemented to appropriately deal with each risk. The most significant financial risks are considered to be liquidity risk, finance cost risk, exchange rate risk, contract and warranty risk and commodity cost risk.

These are discussed in turn below.

Liquidity risk management

The Group's net debt position at 31 December 2021 was £950 million (31 December 2020: £2,847 million).

In December 2021, the Group extended the maturity date of both its term loan and revolving credit facility to 30 June 2024. Subsequent to this extension, in December 2021 the term loan was partly prepaid by £70 million and US\$172 million. Consequently, the Group's committed bank funding includes a multi-currency denominated term loan of £30 million (31 December 2020: £100 million) and US\$788 million (31 December 2020: US\$960 million) and a multi-currency denominated revolving credit facility of £1.1 billion, US\$2.0 billion and €0.5 billion. Loans drawn under this facility are guaranteed by Melrose Industries PLC and certain of its subsidiaries, but 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 credit facility. Applying the exchange rates at 31 December 2021, the headroom equated to £3.0 billion. There are also a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Group.

In addition to the headroom on the multi-currency committed revolving credit facility, cash, deposits and marketable securities, net of overdrafts, in the Group amounted to £468 million at 31 December 2021 (31 December 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 €284	5.70% 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		31 Dec 2020	
	Margin	Range	Margin	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%

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 using 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 proceeds for those businesses may be received in a foreign currency and therefore an exchange rate risk may arise on conversion of foreign currency proceeds into Sterling, for example to pay a Sterling dividend or Capital Return to shareholders. Protection against this risk is considered on a case by case basis and, if appropriate, hedged at the time.

Exchange rates for currencies most relevant to the Group in the year were:

	Average rate	Closing rate
US Dollar		
2021	1.38	1.35
2020	1.28	1.37
Euro		
2021	1.16	1.19
2020	1.13	1.12

A 10 percent strengthening of the major currencies within the Group, if this were to happen in isolation against all other currencies, would have the following impact on the re-translation of adjusted operating profit into Sterling:

£m	USD	EUR	CNY	Other
Increase in adjusted operating profit	23	4	8	11
% impact on adjusted operating profit	6%	1%	2%	3%

The impact from transactional foreign exchange exposures is not material in the short term due to hedge coverage being approximately 90%.

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

	USD	EUR
Increase in debt – £ million	74	37
Increase in debt	5%	3%

Contract and warranty risk management

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

Commodity cost risk management

The cumulative expenditure on commodities is important to the Group and the risk of base commodity costs increasing is mitigated, wherever possible, by passing on the cost increases to customers or by having suitable purchase agreements with suppliers which fix the price over a certain period. These risks are also managed through sourcing policies, including the use of multiple suppliers, where possible, and procurement contracts where prices are agreed in advance to limit exposure to price volatility. Occasionally, businesses within the Group enter financial instruments on commodities when this is considered to be the most efficient way of protecting against price movements.

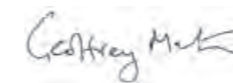
Going concern

As part of their consideration of going concern, the Directors have reviewed the Group's future cash forecasts and profit projections, which are based on market data, internal information and recent past experience.

The Group has modelled a reasonably possible downside scenario against future cash forecasts. The Group's Balance Sheet is transformed compared to the same time last year, and for any reasonably possible downside scenario, the Group has sufficient headroom to avoid breaching any financial covenant and would not require any additional sources of financing throughout the forecast period.

The macroeconomic environment remains uncertain and volatile. The impacts of the pandemic, political conflict and unrest on trading conditions and supply chain constraints could be more prolonged or severe than the Directors have considered in this reasonably possible scenario. It is recognised that the very recent events in Ukraine are still unfolding and any wider impacts are difficult to fully assess at this early time.

The Group's current committed bank facility headroom, its access to liquidity, and the sensible levels of bank covenants in place with lending banks, allow the Directors to consider it appropriate that the Group can manage its business risks successfully and adopt a going concern basis in preparing these Financial Statements.



Geoffrey Martin
Group Finance Director
3 March 2022

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.

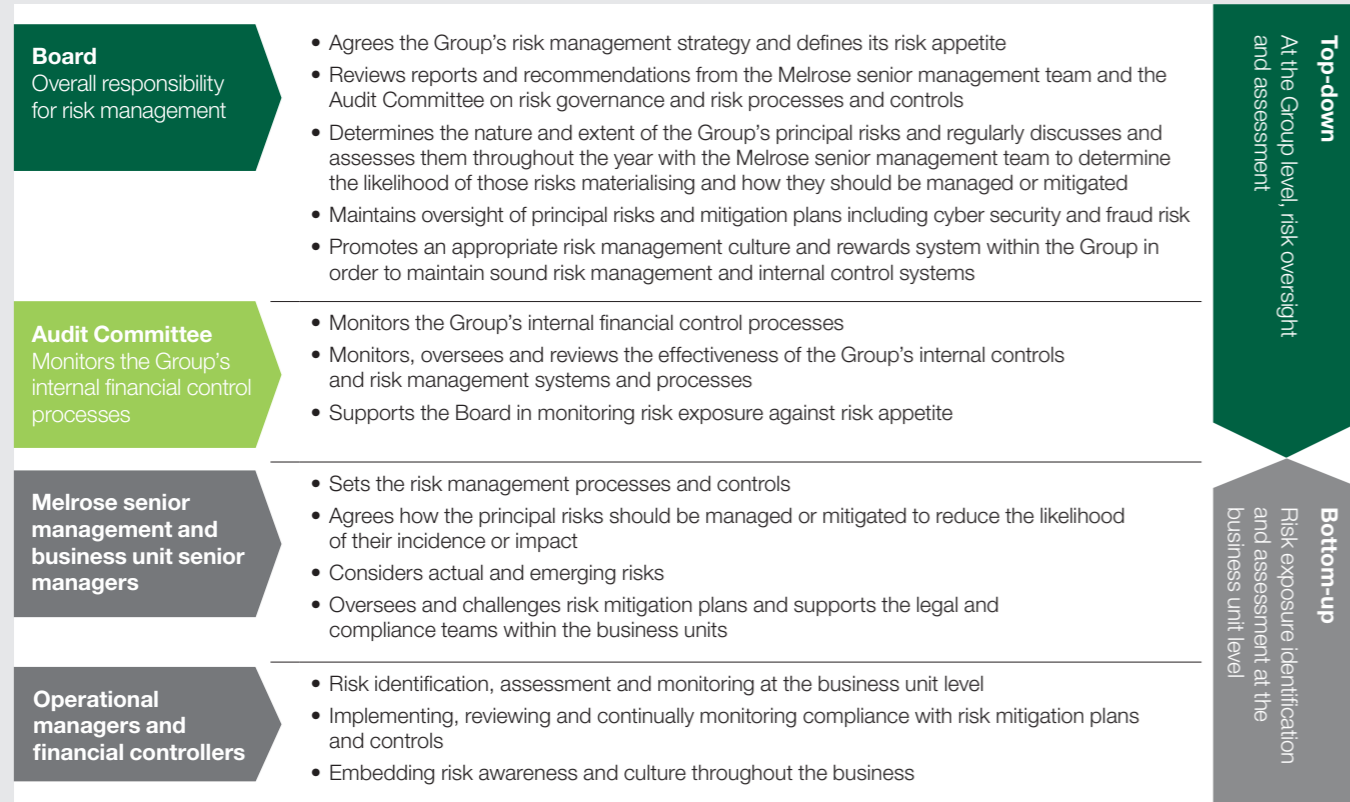
In preparing this statement, the following qualifications and assumptions are made:

- (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.

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.



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.

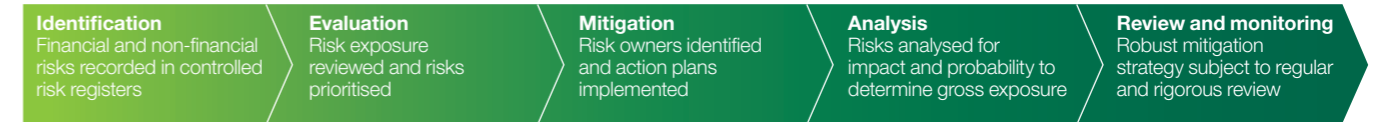
The Board confirms that there is an ongoing process for identifying, evaluating, tracking and managing the principal risks faced by the Group and that these systems, which are subject to regular monitoring and review, have been in place for the year under review

up to the date of approval of this Annual Report and financial statements. The Board further confirms that the systems, processes and controls that are in place accord with the guidance contained in the Financial Reporting Council’s “Guidance on Risk Management, Internal Control and Related Financial and Business Reporting” and the UK Corporate Governance Code (the “Code”).

The Audit Committee monitors, oversees and reviews the effectiveness of the risk management and internal control processes implemented across the Group, through regular updates and discussions with management and a review of the key findings presented by the external and internal auditors. The Board is responsible for considering the Audit Committee’s recommendations and ensuring implementation by divisional management of those recommendations it deems appropriate for the business. A description of the Audit Committee’s activities during the year on risk management can be found on page 97.

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

Risk management framework



In 2019, the Melrose senior management team supplemented the Group’s enterprise risk management programme by building and implementing a data-driven Group reporting dashboard to automate the aggregation and reporting of Group risks, in conjunction with ongoing divisional risk reporting and advice from external risk management consultants. This marked a significant step forward in the Group’s journey towards enhancing both divisional management’s risk reporting transparency, and the Board’s visibility of the Group’s principal risks, to enable an increasingly robust assessment of each business’s risk profile and their impact on the Group risk profile as a whole. The dashboard has since been enhanced to provide the Audit Committee with additional detail and trend analysis compared to each division’s respective key industries, further visibility on the significance of key divisional risks, and greater illustration of each division’s risk appetite. In 2021, the dashboard’s reporting output was enhanced to further highlight the alignment between divisional and Group risks, together with providing the Audit Committee with additional detail on risk control confidence within the Group. Such enhancements have facilitated the Audit Committee’s monitoring, oversight and review of the effectiveness of the Group’s internal controls and risk management systems and processes.

During the year under review, in accordance with provisions 28 and 29 of the Code, the Board continued to monitor the effectiveness of the Group’s risk management and internal control systems. The Board concluded that the Group’s risk management and internal control systems and processes were operating effectively. Follow-up actions in respect of progress and improvement in relation to financial controls are further discussed in the Audit Committee report.

Risk appetite

The Board has undertaken an exercise to consider its risk appetite across a number of key business risk areas. The results of this review indicate the relative appetite of the Board across the risk factors at a specific point in time. Any material changes in risk factors will impact the Board’s assessment of its risk appetite.

The Board has a higher risk appetite towards its strategic risks, with a balanced appetite towards operational and commercial risk, and macro-economic, climate change and political risk. The Board seeks to minimise all health and safety risks and has a low risk appetite in relation to legal, compliance and regulatory risk. Similarly, a conservative appetite is indicated by the Board with respect to pension and finance-related risk and information technology and cyber risk.

The results of the risk appetite review will support the Board’s decision-making processes during 2022. The Board undertakes a review of its risk appetite at least annually.

Risk management actions

During 2021, the Board continued to deliver on the key management priorities identified in the 2020 review across the Group. Risk owners continued to take steps to mitigate the risk exposures across the Group, supported by specific actions undertaken to improve enterprise risk management across the Group during the year, as follows:

- reviewing and reaffirming the Board’s risk appetite, in addition to refining and expanding the Group’s risk categories;
- monitoring the implementation of the risk management governance framework across all business units. This framework defines the Melrose principles for risk management and sets the standards for the identification, evaluation, prioritisation, recording, review and reporting of risks and their management or mitigation throughout the organisation;
- continuing to enhance Melrose risk register methods, dashboard reporting outputs, and risk profile mapping application throughout the Group. These provide the Board with greater levels of detail and visibility 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.

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 aggregated into an interactive data-driven dashboard reporting tool, to facilitate review by the Melrose senior management team, the Audit Committee and 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



No.	Risk rating	Risk title	Risk trend since last Annual Report	2017	2018	2019	2020	2021
1	Moderate	Mergers and acquisitions	Decrease ↓	n/a	n/a	n/a	●	●
2	Moderate	Operations	n/a	n/a	n/a	n/a	n/a	●
3	Moderate	Commercial	Increase ↑	n/a	●	●	●	●
4	High	Economic and political	Increase ↑	●	●	●	●	●
5	Low	Loss of key management and capabilities	Decrease ↓	●	●	●	●	●
6	Moderate	Legal and regulatory	No change →	●	●	●	●	●
7	Moderate	Climate change	n/a	n/a	n/a	n/a	n/a	●
8	High	Information security and cyber threats	No change →	●	●	●	●	●
9	Low	Foreign exchange	No change →	●	●	●	●	●
10	Moderate	Pensions	Decrease ↓	●	●	●	●	●
11	Moderate	Liquidity	Decrease ↓	●	●	●	●	●

Strategic risks

Risk 1 Mergers and acquisitions Realigned risk

Description and impact

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

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

Mitigation

- Strong pipeline of potential opportunities supported by a broad network of advisors and contacts.
- Structured and appropriate due diligence undertaken on potential new targets where permitted and practicable.
- Focus on acquisition targets that have strong headline fundamentals, high-quality products, and leading market share, but which are underperforming their potential and ability to generate sustainable cash flows and profit growth.
- Directors are experienced in judging and regularly reviewing the appropriate time in a business cycle for a disposal to realise maximum value for shareholders.
- Each disposal is assessed on its merits, with a key focus on a clean disposal.
- Flexibility with timing disposals to match market sectors and business maturity.

Responsibility Executive management⁽¹⁾

Risk trend ↓

Trend commentary

Although global M&A markets continue to experience uncertainty, Melrose achieved strong value realisation with the sale of Nortek Air Management, Nortek Control and Brush, as demonstrated on pages 6 to 7 of this report. Whilst no large acquisitions were made in 2021, the Group remains open to potential new opportunities.

Strategic priorities ● Buy ● Improve ● Sell

⁽¹⁾ Comprises executive 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

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 facilities, in numerous countries and is affected by global economic conditions. Businesses are also affected by government actions and the willingness of governments to commit substantial resources. Current global economic and financial market conditions have recently been characterised by high levels of volatility and uncertainty. There has been continued widespread disruption to production and trading environments caused by the COVID-19 pandemic, particularly within the aerospace sector, due to ongoing global travel restrictions.

Fluctuation in commodity prices, the rise in inflation, the potential for a significant and prolonged global downturn, and uncertainty in the political environment, may materially and adversely affect the Group's operational performance and financial condition. It could also have a significant impact on the timing of acquisitions and disposals. Further, these factors may materially affect customers, suppliers and other parties with which the Group does business. Rising inflation levels may result in increased Group costs both in terms of the operation of plants and the manufacturing of products, which in turn may be passed on to customers. More generally, adverse economic and financial market conditions may cause customers to terminate existing orders, to reduce their purchases from the Group, or to be unable to meet their obligations to pay outstanding debts to the Group. These market conditions may also cause our suppliers to be unable to meet their commitments to the Group or to change the credit terms they extend to the Group's businesses.

The impact of the COVID-19 pandemic remains a significant risk to the global economy. Each of the Group's businesses and their respective production and market geographies are impacted by the COVID-19 pandemic to various extents, with the most common impacts across the Group during 2021 being the temporary reduction of manufacturing capacity and reduced requirements due to lockdown measures and international travel restrictions. The Board and the Melrose senior management team continue to regularly monitor the impact of the pandemic on the Group with particular focus on the potential for staff shortages, production delays and supply chain disruption.


The Group operates a number of sites in North America, which during 2021 continued to experience challenging tariffs relating to the US/China trade war. The US has also required close monitoring related to the expected short to medium-term impact of potential changes to international trading relationships following the conclusion of the UK/EU trade deal. The Group's exposure to such US trade risk factors is inherently mitigated by its manufacturing footprint across the UK and European-based GKN Aerospace and GKN Automotive divisions, and has in any case been reduced following the disposal of Nortek Air Management and Nortek Control. Further, the Group's businesses operating in North America continue to take regular specific actions to mitigate the impact of new relevant North American tariffs and changes to international trading regulations by engaging with the relevant authorities prior to and after any such changes are implemented.

Whilst rising inflation, the long-term impact of COVID-19, and tariff wars are not isolated as principal risks to the Group as a whole, they present potential risks that the business units continue to monitor and assess closely, particularly in the context of increasing energy prices, potential changes to travel and working restrictions, and the cross-border trade and regulatory environments in which the business units operate. The Board continues to assess and review the potential impact of these evolving risks.

Mitigation

- Regular monitoring of order books, cash performance, cost control and other leading indicators, to ensure the Group and each of its businesses could respond quickly to adverse trading conditions. This included the identification of cost reduction and efficiency measures.
- Bank financing is readily available to the Group from its supportive banking syndicate. This support has proven to be available to the Group even during periods of unprecedented turmoil, including during the global pandemic.
- Assessment of, and/or use of, national support schemes where deemed appropriate in the context of COVID-19 disruption.
- Short-term inventory buffers are regularly reviewed and assessed to minimise the impact of further lockdown restrictions due to COVID-19.
- Strong customer relationships built on long-term partnerships often with plants in close proximity, technical excellence and quality.
- The Group remains agile, diversified and well positioned to deal with any short-term uncertainties.

Responsibility Executive management⁽¹⁾

Risk trend 

Trend commentary

Significant geopolitical and economic uncertainty continued during 2021. However, the signing of the UK/EU trade deal, coupled with the Group's reduced presence in North America following the disposals of Nortek Air Management and Nortek Control, helped curb some of these associated risks. Melrose is mindful of the very recent events in Ukraine, which our businesses are being proactive in addressing to ensure minimal disruption.

The Melrose senior management team continues to actively engage with the business unit executive teams to track the potential impacts of further lockdowns or tiered restrictions aimed at curbing the impact of COVID-19, as well as the potential impacts of rising inflation levels and the possibility of future tariffs.

The Melrose senior management team engages actively with those who are working on the relevant impact assessments and mitigation actions, and reports the material findings to the Board. The Melrose senior management team monitors key issues with the divisional management teams including the impact of geopolitical uncertainty on order books, cash generation, legal and regulatory threats and other key operational and commercial indicators, to ensure the Group and each of its businesses can respond appropriately to adverse trading conditions. Tactics for mitigating the potential impact of geopolitical uncertainty include identifying cost reduction and operational efficiency measures.

The Board notes that economic uncertainty can depress business valuations and this may increase the number of potential acquisition opportunities for Melrose.

Strategic priorities Buy Improve Sell

(1) Comprises executive 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.

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 opportunities appropriate to their business and stakeholders.
- The Board, with the support of the Melrose senior management team, spends time listening to the Group's key stakeholders to enable informed strategic decisions and to deliver on their needs.
- A robust control framework is in place, underpinned by comprehensive corporate governance and compliance procedures at both a Group and business unit level, including utilisation of third-party verification providers and regular reviews of the Group policies in light of legal and regulatory changes, as well as best practice.
- Where possible and practicable, due diligence processes during the acquisition stage seek to identify legal and regulatory risks. At the business unit level, controls are in place to prevent such risks from crystallising.
- Insurance cover mitigates certain levels of risk and the Group's insurers are instructed to carry out external audits of specified areas 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 by their respective General Counsel reporting to their executive management team, and are properly staffed and supported by external advisors where necessary or helpful to ensure ongoing compliance in the jurisdictions in which they operate across the globe. This is augmented by central oversight from the Melrose legal team and robust annual reviews.

Strategic priorities	<input type="radio"/> Buy <input checked="" type="radio"/> Improve <input type="radio"/> Sell
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(1) Comprises executive Directors and Melrose senior management.
(2) Data has been collected from 98% (by sites) of the Group.

Risk 7
Climate change Realigned risk

Description and impact

The increased frequency of extreme weather and climate-related natural disasters can lead to physical damage to our sites in addition to disruptions in our businesses' supply chains. Additionally, new legislation, regulations and corporate governance practices in relation to the environment may require additional expense, restrict commercial flexibility and business strategies, or introduce additional liabilities for the Group or the Directors. Changing demand patterns influenced by climate change concerns creates risks for the sustainability of product portfolios.

We purchase businesses that are underperforming their potential with respect to their sustainability performance including climate risks and opportunities. Inherent in the nature of the manufacturing businesses we acquire is that they often operate in industries that are the hardest to decarbonise. 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.

Mitigation

- The Board sets the tone on sustainability and climate issues and also holds each business and their management teams accountable for their progress, and provides them with a platform to absorb the Group's best practices, to accelerate their and others' progress.
- The Melrose senior management team, through the Group sustainability function, is responsible for overseeing the reporting of environmental data by the businesses, and driving the Group sustainability strategy and climate change risk management processes. The Melrose senior management team engages with the businesses' executive teams in setting meaningful Group sustainability targets, and Melrose provides the investment to achieve them. The businesses subsequently identify, monitor, and manage the specific environmental risks that affect their operating and market environments, and are responsible for ESG disclosure and performance at a business level.
- During the year, the Board, with the support of the Melrose senior management team working with the divisional sustainability leaders and Ernst & Young, carried out a qualitative climate scenario analysis to assess how Melrose and its businesses are exposed to and 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 have set Group sustainability targets including in respect of reducing Scope 1 and 2 emissions. Further details can be found on pages 58 to 65.
- With Melrose support and investment, each business invests in and implements appropriate systems and processes to manage their impact on the environment, and continually reviews these in line with evolving expected practices. The Melrose senior management team is accountable for regularly reviewing any significant climate-related issues, risks and opportunities related to the Group, including appropriate planning for technology and product development roadmaps. These reviews consider the level of climate-related risk that Melrose is prepared to take in pursuit of its Group business strategy and the effectiveness of management controls in place to mitigate climate-related risk. Where the executive team of a Group business identifies climate-related risk that materially impacts their business, this is discussed with the Melrose senior management team and 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	<input type="radio"/> Buy <input checked="" type="radio"/> Improve <input type="radio"/> Sell
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(1) Comprises executive Directors and Melrose senior management.



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 foreign exchange market, exchange rate fluctuations have, and could continue to have, a material impact on the reported results of the Group.

The Group is exposed to three types of currency risk: transaction risk; translation risk; and the risk that when a business that predominantly trades in a foreign currency is sold, it is sold in that foreign currency. The Group's reported results will fluctuate as average exchange rates change. The Group's reported net assets will fluctuate as the year-end exchange rate changes.

Mitigation

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

Responsibility Executive management⁽¹⁾

Risk trend 

Trend commentary

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

Strategic priorities Buy Improve Sell

(1) Comprises executive Directors and Melrose senior management.

Risk 10
Pensions**Description and impact**


Any shortfall in the Group's defined benefit pension schemes may require additional funding. As at 31 December 2021, the Group's pension schemes had an aggregate deficit, on an accounting basis, of £461 million (2020: £838 million). Changes in discount rates, inflation, asset values or mortality assumptions could lead to a materially higher deficit. For example, the cost of a buy-out on a discontinued basis uses more conservative assumptions and is likely to be significantly higher than the accounting deficit.

Alternatively, if the plans are managed on an ongoing basis, there is a risk that the plans' assets, such as investments in equity and debt securities, will not be sufficient to cover the value of the retirement benefits to be provided under the plans. The implications of a higher pension deficit include a direct impact on valuation, implied credit rating and potential additional funding requirements at subsequent triennial reviews. In the event of a major disposal that generates significant cash proceeds which are returned to the shareholders, the Group may be required to make additional cash payments to the plans or provide additional security.

Mitigation

- The Group's key funded UK defined benefit pension plans are closed to new entrants and future service accrual. Long-term funding arrangements are agreed with the Trustee and reviewed following completion of actuarial valuations.
- The Company actively engages with the Trustees on pension plan asset allocations and strategies to better allocate the exposure across the businesses.
- The Group utilised part of the disposal proceeds from the sale of Nortek Air Management and Brush to eliminate the actuarial deficit under the UK GKN pension schemes.
- The disposal of Nortek Air Management, Brush and Nortek Control resulted in the transfer of the pension schemes related to those businesses to the new owners, which resulted in the transfer of £379 million of pensions liabilities.
- During the year, the Company and the Trustees of the GKN 2016 UK pension scheme worked together to complete the buyout of the pensioner liabilities of the GKN 2016 UK pension scheme, which led to a reduction in gross pension liabilities of £366 million.

Responsibility Executive management⁽¹⁾

Risk trend 

Trend commentary

A number of factors have combined to significantly reduce the accounting deficit during the period, including the disposal of the Nortek pension schemes with the sold businesses, the use of some Nortek Air Management disposal proceeds to fund the GKN schemes, strong investment returns and changes in mortality assumptions. As well as decreasing the deficit, the gross liabilities were significantly reduced by the Nortek Air Management disposal and mortality changes, as well as the GKN 2016 pensioner buyout. The investment return and mortality risks remain but are proportionately smaller, given reduced liabilities. As a result of the deficit reduction in the period, the UK Trustees took further action, supported by Melrose, to fully hedge the UK schemes against movements in inflation and interest rates and to reduce investment risk. Accordingly, the volatility risk to the Group has been reduced.

Strategic priorities Buy Improve Sell

(1) Comprises executive 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.

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 shareholders for setting the Group’s strategy, taking into account the principal risks facing the Group, and for overseeing the Group’s financial and operational performance in line with Melrose’s strategic objectives. Implementation of the Group’s strategic objectives, as determined and overseen by the Board, is delegated to the Melrose senior management team, and with day-to-day operational management delegated to the business unit executive teams. The Board has established an organisational structure with clear reporting procedures, lines of responsibility and delegated authority, as depicted in the diagram on page 40 and in line with the Group’s governance framework, which the Board reviews regularly.

Maintaining a reputation for high standards of business conduct

The Board recognises that culture, values and standards are key contributors to how a company creates and sustains value over the long-term, and to enable it to maintain a reputation for high standards of business conduct. High standards of business conduct guide and assist in the Board’s decision-making, and in doing so, help promote the Company’s success, recognising, amongst other things, the likely consequences of any decision in the long-term and wider stakeholder considerations. The standards set by the Board mandate certain requirements and behaviours with regards to the activities of the Directors, the Group’s employees and others associated with the Group.

Reflecting the decentralised nature of the Group, responsibility for the adoption of policies, practices and initiatives sits at a divisional level, including the Melrose Code of Ethics and Group compliance policies. The Board continues to play an active role in overseeing how the businesses manage compliance, and compliance with the framework is reported on and fed back to the Board, to guide and assist in its decision-making, and to ensure that the business practices of the Group remain aligned with the Company’s purpose. Further detail on the Group’s compliance policies and framework, and reporting to the Board, can be found on pages 72 to 75 of the Sustainability report.

During 2021, the Group continued to work closely with third party audit firms to monitor and verify performance at Group and business unit levels, in respect of both financial and non-financial performance. The outcomes of these processes are reported to the Audit Committee and, ultimately, the Board. The Board considers it to be of the utmost importance that our businesses continue to uphold the highest standards of business conduct possible, and that they strive for improvements in this area.

Engagement with our key stakeholders in 2021

The Board cultivates strong relationships with the Company’s key stakeholders so that it is well placed and sufficiently informed to take their considerations into account when making decisions, where appropriate, in order to discharge their duties and to pursue the Company’s strategic objectives. Stakeholder engagement is on the Board’s agenda to assess whether the identities and priorities of the Company’s principal stakeholders have changed, and whether the Board has sufficient engagement with each principal stakeholder group.

We set out below our key stakeholder groups, along with details of how the Board took them into account in their decision-making in 2021.

Employees

Central to the Group’s performance and success is an engaged, capable and passionate workforce. The Workforce Advisory Panel (“WAP”) promotes effective engagement with the Group’s workforce. The decentralised nature of the Melrose model is reflected in the structure of the WAP, ensuring that the voice of the workforce is heard where it is most effective in the business unit executive decision-making process. The WAP met twice during the year and the outcomes were fed back to the Board accordingly. Further details about the WAP and its actions during 2021 can be found in the Sustainability report on page 67.

Whilst we maintain an open dialogue with employees, they also have an opportunity to raise concerns confidentially and anonymously through Melrose’s Group-wide whistleblowing platform. The platform has a multi-lingual online portal, and local hotline numbers that are available 24/7. The integrity of our whistleblowing practices and procedures are an important part of the Group’s governance arrangements, and the Audit Committee oversees such practices and procedures to ensure they remain effective. This is ultimately reported into the Board, thus enabling it to have oversight of, and to monitor, culture and practices within the businesses. Further details about the Group’s whistleblowing procedures can be found in the Sustainability report on page 73.

We understand that some of the decisions we take in improving our businesses for the long-term benefit of all stakeholders, such as restructurings, can have an impact on employees. These are difficult decisions that we do not take lightly. We undertake thorough event-driven consultations with relevant stakeholders to ensure that the decisions we take are based on a fully informed view of the potential impact on those stakeholders, and we endeavour to achieve the best outcome for the workforce in the circumstances. During 2021, we supported the GKN Automotive executive management team in their decision to close unviable sites in Erdington, UK and Firenze, Italy. Such decisions are never taken lightly or without exploring all alternative options, but are the right decisions and central to the long-term future of these businesses. We nonetheless understand that they involve a significant impact on a wide variety of stakeholders and invoke strong feelings for all involved. There is rarely a consensus view throughout, but we strive to treat people fairly and rely on open and clear communication. For these particular situations, we and our business unit teams engaged closely with the relevant workforces and unions to hear their views and to find an agreed outcome. For Erdington, the closure proposal received overwhelming support from the workforce. For Firenze, a process which received support from local and national governments, we were able to secure a reindustrialised future for the site with a new owner.

Suppliers and customers

It is key to the success of our businesses that they foster positive and open business relationships with their customers and suppliers, and we provide support to them where necessary. Our businesses have worked hard to maintain their strong relationships with suppliers and customers throughout the year, and they are a key focus for our business unit executive teams, who continue to invest heavily in these relationships. Details are set out in the Sustainability report on pages 54 to 77.

The Board is aware that investors are expecting greater transparency, disclosure and assurances regarding the nature of the supply chains within the businesses they invest in. As described in our Modern Slavery Statement, Melrose itself does not have any global supply chains or employees in high risk jurisdictions, but we recognise that our businesses do. We have worked closely with our businesses this year to better understand their respective supplier landscapes and we will support them in this area of critical importance during 2022. 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.

During the year, the Board approved the Group’s fifth Modern Slavery Statement, and the implementation of a Group-wide Human Rights policy, to supplement our other policies in this area including the Conflict Minerals 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.

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 pension deficit: employees, pensioners and shareholders

Through a combination of the disposals referred to opposite and prudent balance sheet management, the Board was able to make significant progress on eliminating the funding deficit of the GKN UK defined benefit pension schemes. We have delivered on our commitment to making the schemes fully funded ahead of schedule, from a total starting accounting deficit at the time of the GKN acquisition of approximately £0.7 billion. In addition, we applied more secure funding targets to achieve more prudent funding, as well as rebalancing the GKN schemes across the GKN businesses, to avoid overburdening any one business and to provide greater stability. These actions have vastly improved the position of these schemes.

This achievement is a clear illustration of Melrose acting as a responsible steward of its businesses and delivering on its acquisition promises. This decision was largely taken for the benefit of the employees and former employees who form part of these schemes, who will benefit from the improved security. For shareholders, we hope this further demonstrates our strategy of building better, stronger businesses for the long-term, which will ultimately increase their value.

Return to shareholder distributions on a prudent basis: shareholders, lenders and other stakeholders

Melrose aims to provide shareholders with sustained returns through a combination of dividend income and special distributions following sales of businesses, operating a progressive dividend policy whenever the financial position of the Company, in the opinion of the Board, justifies the payment. As with many of our peers, this policy was uncharacteristically and temporarily halted during 2020, as the Board focused on retaining cash within the Group in order to keep the businesses trading through this turbulent period.

We understand the importance of returns to our shareholders. The Board made the decision to reinstate dividends to shareholders in 2021, based on its assessment of the Group's performance, and consideration of the impact of such payment on the Company's shareholders and lenders. The Board determined to pay a final 2020 dividend in May 2021 of 0.75 pence per share and an interim 2021 dividend in October 2021 of 0.75 pence per share. Both the decision to pay such amounts, as well as the amounts themselves, were carefully considered by the Board, and the determined amounts were felt to be at levels that were sufficiently financially prudent, and would be understood by the Group's lenders, whilst still satisfying shareholder expectations in line with our strategy. It was also after ensuring that all Group companies had repaid in full any amounts received from the UK Coronavirus Job Retention Scheme, with all amounts received during 2020 having been repaid prior to the end of 2020.

In continuance of this prudence, yet reflecting the Company's improved performance in 2021, the Board is very pleased to be able to propose to pay a final dividend to shareholders of 1 pence per share, subject to approval at the AGM on 5 May 2022. We hope that this represents to shareholders another step on the journey towards returning to pre-pandemic performance.

The Board was also pleased to complete a return of capital to shareholders of £729 million following the sale of Nortek Air Management. It was very important for Melrose to be able to do this, it being a key part of the Melrose strategy to return value created through acquisitions to our shareholders. In determining the amount of the return, the Board balanced the needs of a number of stakeholders, first using the disposal proceeds to reduce the GKN UK pension deficit, as well as to take leverage to a very conservative 1.3x adjusted EBITDA, alongside making a significant return to shareholders.

Setting sustainability targets and commitments: shareholders, environment and communities, employees, suppliers and customers

The Board determined during the year to set its inaugural sustainability targets and commitments in line with the UN Sustainable Development Goals and to report for the first time against all key areas recommended by the Task Force on Climate-related Financial Disclosures (“TCFD”), as well as elevating climate change to a new principal Group risk, all of which are set out on page 55 of the Sustainability Report.

These targets and commitments were set and implemented, and recommendations have been published, in consultation and following extensive engagement with our businesses. Our “Buy, Improve, Sell” strategy causes the composition of the Group to continually change over time through the eventual exit of each business that we acquire. It is therefore important that our sustainability targets and commitments are structured to enable the onboarding and decoupling of businesses from our Group during the course of their respective sustainability improvement cycles, whilst ensuring they are put on a realistically achievable, accelerated trajectory of sustainability improvement during our ownership.

In setting the targets and commitments, the Board was mindful of investor expectations, and ensuring that the targets and commitments sufficiently dealt with these and will result in meaningful disclosure to investors. The targets and commitments that were finally determined cover a range of sustainability topics, including emissions, responsible sourcing, diversity and inclusion, health and safety, the workforce, and communities. This reflects our desire to ensure that all of our key stakeholders are represented and can hold the Board accountable for progress in relation to these matters.

The executive teams of our businesses are fully engaged with, and understand the importance of, meeting these targets and commitments. Being manufacturing businesses, they are acutely aware of the risks and challenges that climate change, and a transition to a net zero emissions economy, present. However, they are very different businesses, and a one-size-fits-all approach is not appropriate. Therefore, Melrose has set its own targets and expectations on sustainability for businesses under its ownership, but the businesses will also continue to review and set their own strategies in this 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 transitional 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 Board with support from the Melrose senior management team, and in the case of risk management, the Audit Committee. The Board is regularly updated, at least quarterly, on key climate and sustainability-related risks and opportunities.

This Sustainability report is an abbreviated version of our full standalone report, which we refer to for full details.

Justin Dowley
Non-executive Chairman
3 March 2022



Download the report:
www.melroseplc.net/sustainability

Our sustainable improvement strategy

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.

In line with the “Sell” aspect of our strategy, our absolute metrics across all areas will fluctuate year-on-year. 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 that can continue 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.

Our targets and commitments

In 2021 we set the following Group sustainability targets and commitments to address some of the key ESG priorities of our businesses and their industries:

Environmental

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 CO₂e/£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.

Social

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.

Governance

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

(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.

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 score (2020: 28.4 "average")



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

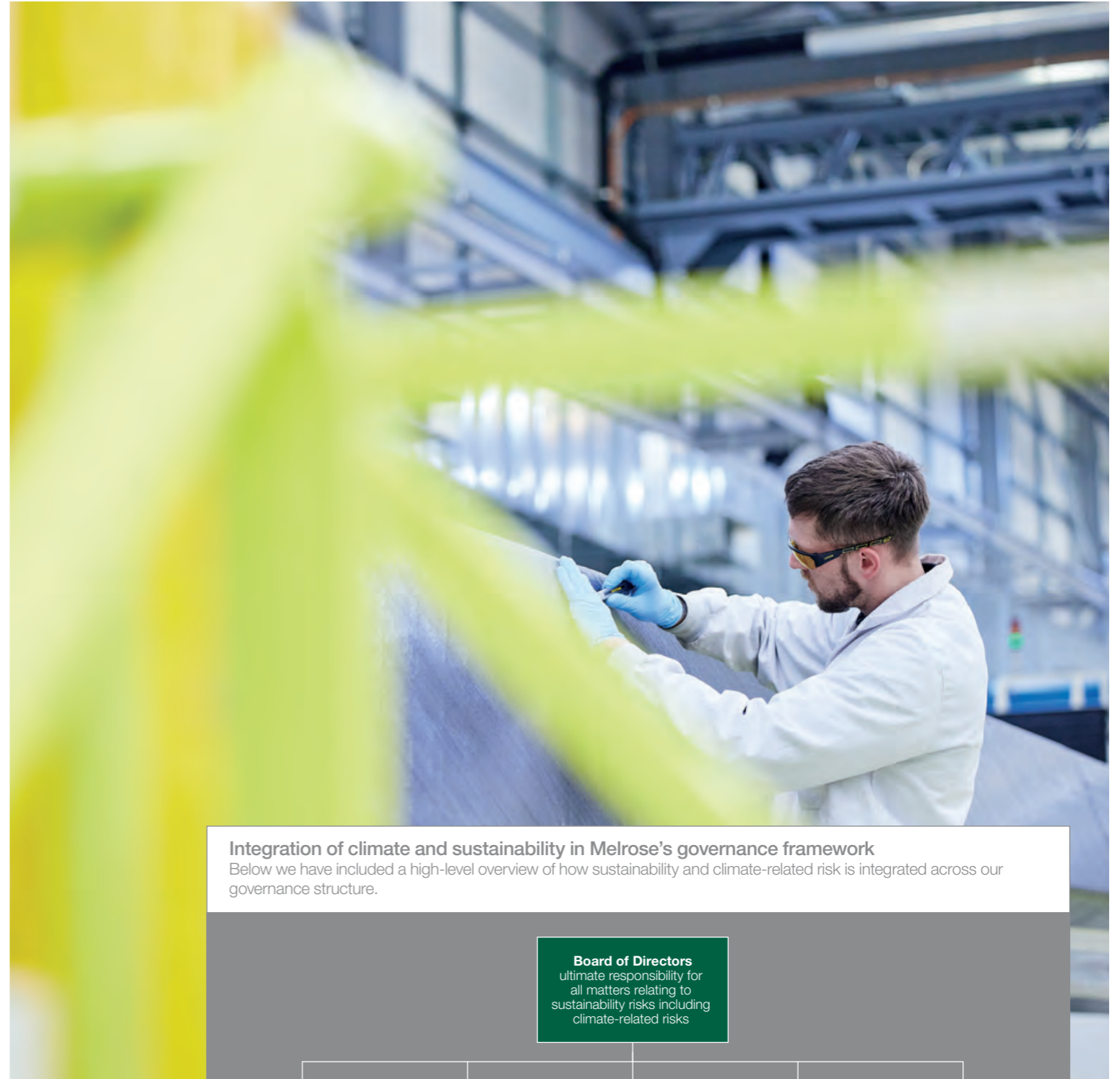
- **Aligning with non-financial reporting frameworks.**

As a UK premium listed company, Melrose complies with the requirements of the new Listing Rule on climate-related disclosures, reporting against all the key areas recommended by the **Task Force on Climate-related Financial Disclosures ("TCFD")**. During the second half of 2021, the Melrose senior management team worked with Ernst & Young and the divisional sustainability leaders to carry out a qualitative climate scenario analysis exercise to identify high-level exposure to climate change. Our TCFD disclosures can be found on pages 60 to 61.

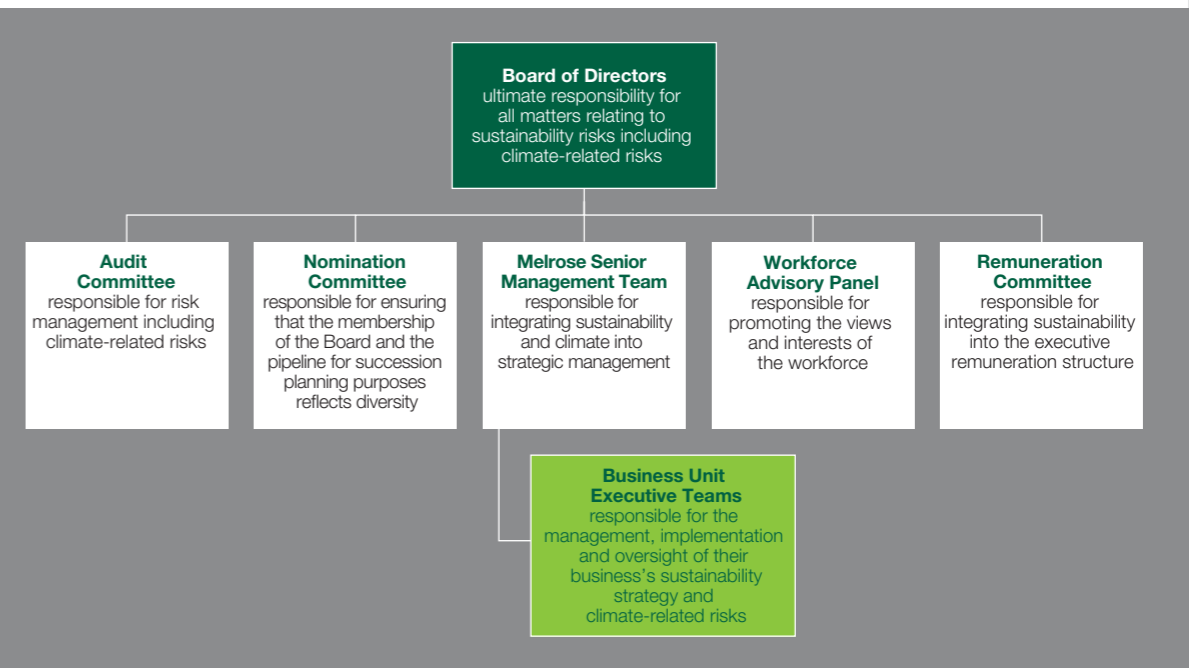
To further enhance the transparency of our non-financial reporting, we have provided additional disclosure on our sustainability performance in line with the **Sustainability Accounting Standards Board ("SASB")** requirements for Aerospace and Defence and Auto Parts sector standards, which are referred to on page 60.

- **Setting business-level sustainability strategies.**

Following the establishment and subsequent implementation and embedding of our Group sustainability principles aligned with the **UN Sustainable Development Goals** in 2020. During 2021, we kick-started our businesses' formulation of their own sustainability strategies, in pursuit of our Group material sustainability issues, targets and commitments. Their strategies are set in alignment with our Group strategy, and sensitive to the context, needs and priorities of their respective sectors. In line with our decentralised business model, we empower and shape the foundations of our businesses to support sustainability improvements that they can carry forward responsibly and proactively after they inevitably leave the Group, in line with our "Buy, Improve, Sell" strategy.



Integration of climate and sustainability in Melrose's governance framework
Below we have included a high-level overview of how sustainability and climate-related risk is integrated across our governance 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	<ul style="list-style-type: none"> Source 50% of our electricity from renewable sources by 2025 and 75% by 2030⁽¹⁾
Divert our waste from landfill	<ul style="list-style-type: none"> Divert 95% of our waste from landfill by 2025 and 100% by 2030⁽²⁾
Reduce our global Scope 1 and Scope 2 emissions intensity	<ul style="list-style-type: none"> Reduce CO₂e/£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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 performance of our businesses whilst helping their customers and key stakeholders tackle pressing climate challenges is at the core of Melrose's "Improve" strategy. Through a combination of investment in our own operations, strategic oversight and ground-breaking research and development, we and our businesses are directly addressing society's most complex longer-term sustainability challenges. By developing and delivering innovative product solutions and processes, we are supporting the transition towards a net zero economy before 2050.

While under our ownership, we enable and support fast and sustainable operational improvement through targeted investment, helping to shape the long-term profitability and sustainability of our businesses. Our ambition is to achieve net zero Greenhouse gas ("GHG") emissions in our Group's operations before 2050 in line with the UK Government's target, and in order to achieve the goals of the Paris Agreement. To meet this goal, each of our businesses have agreed and implemented sustainability targets and commitments aligned with our Group sustainability targets, which are aligned to the UN Sustainability Development Goals ("UN SDGs") and the sustainability issues that are most material to our key stakeholders.

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. Despite these absolute reductions, there were increases in the Company's chosen intensity ratios, as shown on pages 76 to 77. This 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-intensive operations than the Group's remaining businesses, as well as Nortek Air Management's revenues being less impacted in 2021 than the GKN businesses in particular.

Melrose sets a positive example and enables and empowers its businesses to follow its lead. Although the central Melrose carbon footprint is relatively limited, we offset the emissions that we generate. The Melrose corporate offices have attained the CarbonNeutral® company certification for 2019, 2020 and 2021 through a combination of internal energy efficiency initiatives and financing high-quality, high-impact emissions reduction projects in accordance with The CarbonNeutral Protocol⁽⁴⁾. The Melrose corporate office in the US also has the HinesGo (Green Office) designation in recognition of its sustainability practices and energy efficiency performance, among other environmental and wellbeing criteria.

In 2021, we developed our Group Environmental policy to demonstrate our commitment towards driving sustainable production methods and infrastructure, and minimising the potential negative impact that our businesses may have on the environment over the longer term. The policy, which applies to all individuals working across our businesses and has been approved by the Board, can be found on our website (<https://www.melroseplc.net/media/2805/environmental-policy.pdf>). Our Conflict Minerals policy, which sets out the expectations of Melrose and its business units towards their suppliers with regards to conflict minerals can also be found on our website (<https://www.melroseplc.net/media/2593/conflict-minerals-policy.pdf>).

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 CO₂ 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 CO₂ 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.

(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 based 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>.

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 opportunities.

The Chairman and the Melrose Board oversees and has ultimate responsibility for Melrose’s sustainability initiatives, disclosures, and reporting. This includes, but is not limited to, climate risks and opportunities. The Board has responsibility for approving the sustainability strategy, sustainability report and sustainability targets, which also includes climate-related targets. Details of how the Board delegates risk management authority across the divisions is described in the Risk management overview on pages 40 and 41.

The Board receives regular training, at least annually, on sustainability issues that impact our businesses, including climate change. The Board also receives quarterly updates on key sustainability and climate-related issues that impact the sectors in which the Group’s businesses operate, and on the specific measures that need to be implemented to drive improved climate-related performance of the businesses. Please see the governance overview on page 57 for details of how sustainability and climate-related issues fit into wider Melrose governance and Board responsibilities. Our Section 172 statement on pages 50 to 53 describes in more detail the Board’s decision-making in 2021, including in relation to sustainability and climate-related matters.

b) Describe management’s role in assessing and managing climate-related risks and opportunities.

The Melrose senior management team oversees the Group sustainability function. This responsibility includes the publication of the sustainability report and the setting of climate-related targets in line with the TCFD recommendations across the businesses in 2021. We integrate the management of sustainability and climate-related issues across our existing governance and committee structures. Please see page 57 for a diagram that outlines how climate is integrated into our governance and committee structures.

We run a decentralised model and overseeing climate-related issues and implementing relevant actions and initiatives is most effective at the individual business level, where most impact can be had. Each business’s CEO and executive management team are accountable for climate change and sustainability. Throughout the year, the Melrose Group sustainability function has engaged with the CEOs and other relevant senior leaders of each business to set expectations and to ensure there is appropriate oversight of the impacts of climate and other material sustainability risks and opportunities. Please see the Divisional reviews on pages 12 to 29 for detail of how the divisions are engaging on climate change.

Strategy

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term.

In alignment with our “Buy, Improve, Sell” business model, we view managing climate-related risks and opportunities with the aim of protecting and enhancing both the value of our businesses and their impact on the world. We have considered climate risk under short, medium, and long-term time horizons that reflect the investment and value creation cycle of our “Buy, Improve, Sell” model. We have included a description of the climate-related risks identified as part of our qualitative climate scenario analysis on pages 62 and 63. The time horizons used for the scenario analysis were as follows:

- Short-term: until 2023 – aligned with Melrose investment and immediate improvement phases.
- Medium-term: until 2026 – aligned with Melrose ownership, engagement and “Improve” period and beyond.
- Long-term: until 2040 – expected to align with the period beyond Melrose ownership for our current businesses.

b) Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.

In 2021 we invested over £153 million across our businesses on climate-related research and development, for example, to develop products that help their customers to improve their energy efficiency and to reduce their GHG emissions compared with conventional technologies. Please see the Technology case studies contained within the Divisional reviews on pages 12 to 29 and on page 59 of this Sustainability report for further examples. We have described how sustainability and climate-related issues are integrated into our broader strategy in the description of our strategy and business model on pages 2 and 3.

Climate change has a direct impact on product strategy, development, and financial planning across all of our businesses. Our businesses work closely with their customers, partners, and world-class research institutions to develop market-leading, cost-effective innovations and deliver solutions that address environmental challenges. In the Sustainability report on pages 58 and 59, we have provided details on how we are embedding low carbon transition into our businesses alongside our relevant 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.

Risk management

a) Describe the organisation’s processes for identifying and assessing climate-related risks.

Climate change will continue to have direct physical and transitional impacts on the businesses, although for each business the impacts will be different. Each business is individually responsible for developing and managing processes to monitor and manage their climate-related risks. The qualitative climate scenario analysis described on pages 62 and 63 was a key step in identifying climate-related risks and opportunities. Please see the Risks and uncertainties section on pages 42 to 49 for details of our Group approach to assessing principal risks including climate change. This year we also assessed water stress. Please see page 64 for details.

b) Describe the organisation’s processes for managing climate-related risks.

With Melrose’s support, each business invests in and implements appropriate systems and processes to manage their impact on the environment, and continually reviews these in line with evolving expected practices. The executive management team of each business regularly reviews any significant climate-related issues, risks and opportunities related to the business. These reviews consider the level of climate-related risk that the business is prepared to take in pursuit of its business strategy and the effectiveness of management controls in place to mitigate climate-related risk. 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 improve relative to their maturity in this area at the time of becoming 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.

Metrics and targets

a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Improving operational efficiency is a key factor that shapes the long-term profitability and sustainability of our businesses and contributes to ensuring that they are responding appropriately to changing regulatory and stakeholder requirements and expectations. Our ambition is to achieve net zero GHG emissions in our Group’s operations before 2050 in line with the UK Government’s target, to achieve the goals of the Paris Agreement. As part of our evolving sustainability strategy, we have identified relevant Group-level KPIs to support us in better articulating our transition plan to meet our net zero ambition. These metrics include GHG emissions, water (withdrawal and stress) and waste. We have reported Scope 1 and Scope 2 emissions data for the Group for several years and have now set reduction targets for the short, medium and long-term. In 2021, we also began to report a limited number of Scope 3 emissions and will shortly incorporate these into our targets. Please see the environmental reporting section on pages 76 and 77 for our Scope 1, 2 and 3 emissions disclosures.

b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 Greenhouse gas (“GHG”) emissions and the related risks.

We have reported Scope 1 and Scope 2 emissions data for the Group for several years. In 2021, we also began to report a limited number of Scope 3 emissions. Please see the environmental reporting section on pages 76 and 77 for our Scope 1, 2 and 3 emissions disclosures. Our Group emissions are closely linked with our Group climate transition risk exposure. Please see our 2021 qualitative climate scenario analysis on pages 62 and 63 for details on our climate transition risk and how our divisions are addressing and engaging with climate transition risks and opportunities.

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)

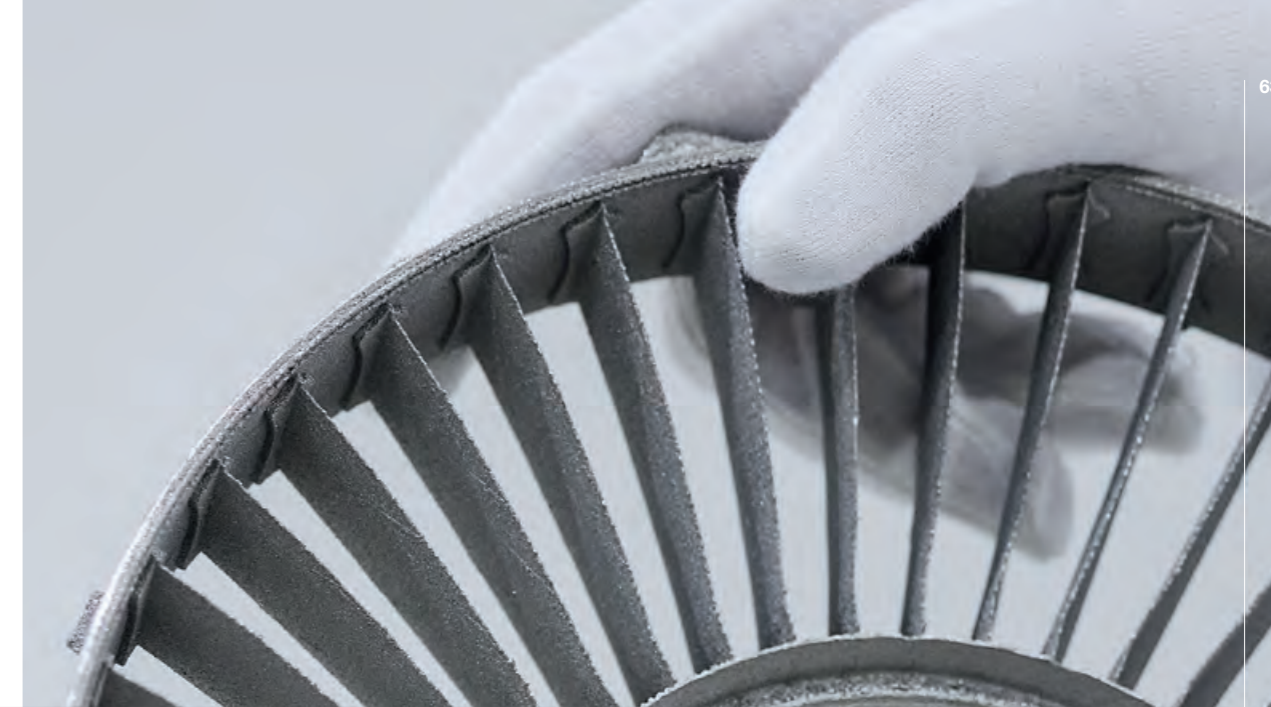
Some emissions mitigation. Emissions rise to 2080 and fall. Warming is likely to exceed 2°C degrees, resulting in higher expected physical climate impacts.

The analysis focused on a selection of climate-related risk categories across physical and transition risk areas. Given the nature of the analysis and the sectors that our businesses operate within, we identified key areas of material risk exposure that are in various stages of mitigation across the businesses. We have provided an overview below of the Group's physical and transition climate risk exposure and responses.

Overview of Melrose Group transition climate risks and opportunities

Risk description	Risk trends and impacts	Lower carbon scenario	Higher carbon scenario																																
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.	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). <i>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.</i>	<table border="1"> <tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr> <tr><td>2023</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2026</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2040</td><td>●</td><td>●</td><td>●</td></tr> </table>		Low	Medium	High	2023	●	●	●	2026	●	●	●	2040	●	●	●	<table border="1"> <tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr> <tr><td>2023</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2026</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2040</td><td>●</td><td>●</td><td>●</td></tr> </table>		Low	Medium	High	2023	●	●	●	2026	●	●	●	2040	●	●	●
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Market Market risks from changing demand for products due to shifting customer sentiment towards lower carbon options.	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. <i>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).</i>	<table border="1"> <tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr> <tr><td>2023</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2026</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2040</td><td>●</td><td>●</td><td>●</td></tr> </table>		Low	Medium	High	2023	●	●	●	2026	●	●	●	2040	●	●	●	<table border="1"> <tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr> <tr><td>2023</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2026</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2040</td><td>●</td><td>●</td><td>●</td></tr> </table>		Low	Medium	High	2023	●	●	●	2026	●	●	●	2040	●	●	●
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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.	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. <i>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.</i>	<table border="1"> <tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr> <tr><td>2023</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2026</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2040</td><td>●</td><td>●</td><td>●</td></tr> </table>		Low	Medium	High	2023	●	●	●	2026	●	●	●	2040	●	●	●	<table border="1"> <tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr> <tr><td>2023</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2026</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2040</td><td>●</td><td>●</td><td>●</td></tr> </table>		Low	Medium	High	2023	●	●	●	2026	●	●	●	2040	●	●	●
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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.	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. <i>Potential impacts include reduced access to capital due to investor preference for companies less exposed to high emitting activities.</i>	<table border="1"> <tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr> <tr><td>2023</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2026</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2040</td><td>●</td><td>●</td><td>●</td></tr> </table>		Low	Medium	High	2023	●	●	●	2026	●	●	●	2040	●	●	●	<table border="1"> <tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr> <tr><td>2023</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2026</td><td>●</td><td>●</td><td>●</td></tr> <tr><td>2040</td><td>●</td><td>●</td><td>●</td></tr> </table>		Low	Medium	High	2023	●	●	●	2026	●	●	●	2040	●	●	●
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(1) Ergotron was excluded from the analysis due to low materiality. Its revenue weighting for the Group was 3% based on H1 2021 data.



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 6.0) ⁽¹⁾									
	2023			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.

How we are responding

Technology is a major strategic focus for the Group. Please see the Chief Executive's review on pages 10 and 11 for further details on our renewed focus on sustainable technologies.

The Melrose senior management team is continuing to engage with the businesses to support strategic investment into the development of products that will be key to the low carbon transition, and to consider the capital requirements to meet its decarbonisation objectives. See our Divisional reviews on pages 12 to 29 for details of how the divisions are investing in lower carbon technology and research and development.

The businesses are acutely aware of, and responding to, the changing market demands for low carbon products. Please see the Divisional reviews on pages 12 to 29 for details on how our divisions are adapting to changing market demand for lower carbon solutions.

Melrose has a Group-level priority to drive the decarbonisation in its businesses' sectors and has set Group-level emissions reduction targets to support this. Please see page 59 for more detail on how our businesses support the decarbonisation of their sectors and pages 55 and 76 to 77 for our climate-related targets and metrics.

The Board oversees and challenges the management of the Group's sustainability strategy. Further details are provided throughout this Sustainability report including on pages 54 to 57. The Board also monitors ESG ratings to ensure continuous improvement across ESG issues that are important to investors, and to ensure that the Group is in line with market and key stakeholder expectations.

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-intensive 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 conducted a high-level analysis of our operations in water stressed⁽¹⁾ areas. We reviewed whether we have any manufacturing or office sites⁽²⁾ operating in areas of 'high' (40%-80%) or 'extremely high' (>80%) baseline water stress, according to the World Resources Institute's ("WRI") Aqueduct Water Risk Atlas tool.

Areas of high or extremely high water stress, according to the WRI definition, are areas where human demand for water exceeds 40% of resources. We have identified that 20% of our businesses' current sites are located in areas of 'extremely high' baseline water stress, and a further 15% of current sites are currently located in areas of 'high' baseline water stress. This analysis is being built upon alongside ongoing engagement with our businesses to work towards reducing withdrawals in these regions.

Waste management

Our businesses are actively encouraged to reduce the amount of waste they generate and to divert waste from landfill. To support this, we have implemented a Group-level target to divert 95% of non-hazardous waste to landfill by 2025 and 100% by 2030⁽³⁾.

Responsible sourcing

We are committed to ensuring that our businesses source raw materials and manufacture products in a responsible, ethical and sustainable manner. This applies to our businesses' global supply chains and is important in mitigating the risk of supply chain shocks.

This year we have elevated the importance and prominence of Responsible Sourcing across the Group 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.

Responsible Sourcing will therefore receive greater focus during 2022 and beyond.

We require our businesses to work closely with their suppliers to ensure they respect human rights and promote good working conditions across their supply bases. In practice, this means that suppliers are expected to treat their workers equally and with respect and dignity, for all workers to be of an appropriate age in compliance with the local legal minimum age for work, for all workers to be paid a fair wage that meets or exceeds the legal minimum standard or prevailing industry standard, to eliminate excessive working hours for all workers in compliance with local laws, and for all workers' health and safety rights to be protected at work.

We require our businesses to have strict procedures in place in respect of sourcing products or raw materials containing 3TG minerals, to the extent required by applicable laws or customer expectations, and to seek to identify whether 3TG minerals are sourced responsibly and from conflict-free regions of the world. As a minimum, relevant suppliers are required to:

- perform due diligence to ascertain whether any 3TG minerals in products are conflict-free; and
- complete the Responsible Minerals Initiative reporting template or equivalent, as required by the respective business.

In line with our decentralised model, while the Board retains oversight of supplier-related Group policies that have applicability across the Group, including our Conflict Minerals policy, responsibility for the implementation and management of all supplier-related policies rests with divisional management. The Group supports its businesses in implementing and managing such policies across their respective supply chains, in line with the nature and geographical representation of their supplier base.

Our businesses implement supplier qualification processes where relevant which, at a minimum, require suppliers to complete a risk assessment. Many of the businesses require suppliers to sign their supplier code of conduct or equivalent policies and depending on the determined level of risk, may also result in an audit or further reviews. The GKN businesses each have a supplier code of conduct that applies globally to all their suppliers and is based on the ethos of “doing the right thing”.

This section has been prepared for the reporting period of 1 January 2021 to 31 December 2021, and in accordance with the principles and requirements of the Greenhouse Gas Protocol, Revised Edition, ISO 14064 Part 1 and the Environmental Reporting Guidelines, including the Streamlined Energy and Carbon Reporting guidance dated March 2019. The Greenhouse Gas Protocol standard covers the accounting and 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) Regulations 2013 and under the UK's Streamlined Energy and Carbon Reporting (“SECR”) requirements. All material emissions from within the organisational and 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 included in our Consolidated Financial Statements. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), and data has been gathered in accordance with our GHG reporting procedure. The emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2021 (DEFRA factors) have been used to calculate the GHG emission figures together with IEA country-specific factors for the 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 domestic, industrial, irrigation, and livestock consumptive and non-consumptive uses. Available renewable water supplies include the impact of upstream consumptive water users and large dams on downstream water availability. Higher values indicate more competition among users. Source: WRI Aqueduct 2019 (https://www.wri.org/applications/aqueduct/water-risk-atlas/#?advance-d=false&basemap=hydro&indicator=w_aur_def_tot_cat&lat=30&lng=-80&mapMode=view&month=1&opacity=0.5&ponderation=DEF&predefined=false&projection=absolute&scenario=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 an interest of 50% 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 54% (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:

£1,936,419

on LED lighting retrofits

£917,525

on more efficient air conditioning and heating systems

£53,398

on renewable energy installations⁽⁴⁾

£953,738

on insulation improvements

£6,003,353

investment on energy efficient equipment

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



Material Issue	Melrose Group Performance Target
Talent and Workforce	<ul style="list-style-type: none"> Ensure that all permanent employees receive regular (annual) formal performance reviews by 2022 where permitted by local laws and employee representative bodies
Community	<ul style="list-style-type: none"> Invest £10 million over five years through the Melrose Skills Fund
Diversity and Inclusion	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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.



Employee engagement

We recognise the importance of engaging with our employees in a meaningful way to support their development and for us to deliver better business performance. We and our businesses regularly consult with employees across the Group, and we are highly responsive in addressing employee concerns.

During the course of the year, all of our businesses undertook all-employee engagement surveys. Upon receipt of survey results, the relevant information is shared with the businesses' executive teams, plant directors, HR teams and other people leaders. These results are then further analysed through such mediums as employee focus groups. Across all our businesses, action plans are developed to help address areas for improvement, be that on a global, site or individual team level. The survey feedback and resulting measures are then shared with employees through various other engagement tools, such as town hall meetings.

In 2019, Melrose established a Group Workforce Advisory Panel ("WAP") to enable key views of the workforce to be heard and considered by our businesses' executive teams where they can have maximum impact. The WAP reports to the Board annually to provide visibility and oversight of key workforce views, which are then discussed at Board meetings. Such oversight by the Board also ensures that the WAP and its underlying engagement processes are operating effectively for each business.

The WAP is chaired by a member of the Melrose senior management team and comprises the Chief Human Resources Officer (or equivalent) from each business. Each member of the WAP is responsible for promoting workforce engagement, disseminating information and collating the voice of their workforce. Each member of the WAP is in turn responsible for demonstrating

(1) Data was collected from 99% (by headcount) of the Group in 2020 and 2021.

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

Reward and recognition

Our businesses have policies in place on recruitment, talent development and succession planning, supported by training programmes and effective management. Opportunities exist across all businesses for employees to discuss career development with their direct managers, and each business encourages internal applications for open positions. In 2021, 20% of open positions were filled by internal candidates (2020: 25%)⁽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.

Diversity and inclusion

We prioritise creating and maintaining a diverse, inclusive and safe environment within our businesses. We recognise the importance of diversity in building a high-calibre workforce, and we are committed to championing diversity in the broadest sense. We are actively engaged in finding ways to increase diversity across the Group, and the sectors in which our businesses operate.

Melrose ensures that entry into, and progression within, the Group is based on aptitude and the ability to meet set, fair criteria outlined in job descriptions. For any employees with a disability, we take steps to ensure reasonable adjustments are made where required. Melrose is proud to be a member of the Business Disability Forum, a not-for-profit member organisation that works with the business community to understand the changes required in the workplace for disabled persons to be treated fairly, so that they can contribute on an equal-opportunity basis to business success, society and economic growth.

The Melrose Code of Ethics highlights the importance of diversity and inclusion, and is supported by our Board of Directors' Diversity policy and a Diversity and Inclusion policy for Melrose more generally, both of which are reviewed and approved each year by our Nomination Committee. Copies of these policies can be found on our website at <https://www.melroseplc.net/sustainability/data-reports-and-policies/>.

Promoting diversity at all levels

Melrose leads its businesses by example, starting at Board level. The Board requests diverse candidates within shortlists, and two of the most important roles on the Board, being the Senior Independent Director and the Chairman of the Audit Committee, are held by a woman. Further, 100% of Non-executive Director appointments within the last four years have been women, including the most recent two appointments made in 2021, whilst all departures from the Board have been men.

As at 31 December 2021, Melrose had 42% female representation on its Board, exceeding the Hampton-Alexander Review target of 33% female representation at Board level. This has increased to 45% following the retirement of Mr Archie G. Kane on 31 December 2021.

Melrose also recognises other forms of diversity, and has achieved the Parker Review target of having one Director from an ethnic minority background on the Board by the end of 2021.

Diversity is valued below Board level. The Melrose Executive Committee, having been established in 2020, currently consists of 36% female representation, with a total 37% female representation for the Executive Committee and direct reports, exceeding the Hampton-Alexander Review target of 33% female representation within executive teams and their direct reports.

Whilst recognising that the Melrose "Buy, Improve, Sell" strategy means that we inherit the shape of our workforces, our businesses are encouraged to promote diversity once they have entered the Melrose Group. Examples of current business unit initiatives include the creation of employee resource groups, focused diversity and inclusion programmes, and mandatory unconscious bias training for leaders.

Gender diversity at Board level

	Male	Female
At 31 December 2021	7 (58%)	5 (42%)
At 31 December 2020	7 (70%)	3 (30%)
At 31 December 2019	7 (70%)	3 (30%)

Senior managers

Melrose is required to report on gender diversity at a senior manager level. In accordance with section 414C of the Companies Act 2006, the definition of senior managers is required to include Group employees who are directors of Group undertakings but excludes the Board of Melrose Industries PLC. Melrose does not consider that including the employee directors of its undertakings provides an accurate reflection of the senior management at Melrose, nor its executive pipeline.

As reflected in note 3 to the financial statements, Melrose has many undertakings, including dormant, non-trading and immaterial subsidiaries that we have inherited and do not remain in the Group for long. We have 36% female representation on the Melrose Executive Committee, which represents a more accurate reflection of the senior management team and executive pipeline at Melrose. However, Melrose has increased female representation among its senior managers under section 414C by 4 percentage points in 2021.

Total Group employee gender diversity at 31 December 2021

	Male	Female	Total	Male (%)	Female (%)
Total Group employees	32,204	7,842	40,046	80	20

Senior managers diversity at 31 December 2021

Senior managers (section 414C of the Companies Act 2006)	Male	Female	Total	Male (%)	Female (%)
Employees in senior management positions	18	8	26	69	31
Directors of Group undertakings, excluding the above	132	25	157	84	16
Total Senior Managers	150	33	183	82	18

Talent and career management

Skills development

Melrose champions talent development and recognises the importance of investing in human capital. Our businesses are proactive in anticipating both short and long-term employment needs and skills requirements for the long-term success of their businesses. This is central to Melrose's strategy to boost productivity and improve business performance. Extensive training opportunities are available and promoted to all workers at all stages of their careers to ensure that high skills levels are cultivated and maintained across the Group.

All employees are encouraged to actively engage in their career development and a wide range of learning opportunities are available throughout their career, extending beyond functional skills development to personal development and leadership opportunities.

Leadership training is an integral part of ensuring the workforce remains engaged and innovative, whilst enabling the businesses to develop a diverse pipeline of successors for key roles and leadership positions. Annual talent reviews and regular check-ins between managers and employees identify individuals who have the ability and aspiration to grow into more stretching roles. Leadership training programmes are in place for high-performing employees to support their transition from individual contributor to first leadership position and beyond. The businesses have developed their own leadership programmes that are most relevant to their employees and organisations with the programmes becoming increasingly popular and receiving positive feedback.

In-person training programmes were largely put on hold in 2020 due to the pandemic, with training adapted to focus on supporting the remote workforce, with modules such as 'leading remote teams' and 'driving collaboration remotely' introduced in a number of businesses. Although the challenges of the pandemic remained in 2021, our businesses were better enabled to deliver flexible training programmes through a combination of online and in-person training, which is represented in the increased training time and spend per employee in 2021.

Training and development

	2021	2020	2019	2018	2017	2016
Average training time per employee (hours) ⁽²⁾	23	13	15	3	9	–
Average training spend per employee (£) ⁽³⁾	209	166	222	128	142	152
Total number of training hours⁽⁴⁾	929,878	338,406	410,638	39,823	37,951	–
Total annual spend on workforce training (£)⁽⁵⁾	8,384,837	8,591,293	12,182,473	1,200,461	1,377,247	300,025

(1) Data was collected from 62% (of administration expenses) of the Group in 2020 and 100% in 2021.

(2) Data was collected from 38% (by headcount) of the Group in 2017, 21% (by headcount) in 2018, 25% (by headcount) in 2019, 39% (by headcount) in 2020 and 100% (by headcount) in 2021. Data was not available in 2016.

(3) Data was collected from 99% (by headcount) of the Group.

(4) Data was collected from 38% (by headcount) of the Group in 2017, 21% (by headcount) in 2018, 25% (by headcount) in 2019, 39% (by headcount) in 2020 and 100% (by headcount) in 2021. Data was not available in 2016.

(5) Data was collected from 99% (by headcount) of the Group.

Apprenticeships and graduate programmes

Apprenticeship programmes assist with training a new generation of employees and help to ensure that knowledge is retained within the businesses. In 2021, 759 apprenticeships were in place across the Group's businesses, providing a mix of on-the-job and classroom training.

We also place a strong focus on training and developing graduates, and our businesses all run a range of graduate development programmes, ranging from GKN Aerospace's Global Graduate Development Programme, to more localised graduate recruitment and training, such as GKN Powder Metallurgy's graduate programmes in China and India, hiring local talent and developing them for the future needs of the business.

Apprenticeship and graduate programmes across the GKN Aerospace and GKN Automotive businesses are supported by the Melrose Skills Fund. The Melrose Skills Fund was launched in 2019 to provide financing to develop the capabilities required to build the UK's industrial base, with a commitment to invest £10 million over five years. As well as supporting apprenticeships and graduate programmes, the Melrose Skills Fund invests in STEM programmes, manufacturing hubs, digital skills and employee development, helping equip the UK with the future skills it needs to grow its industrial skillset.

Community

Our businesses promote the social wellbeing of their employees by encouraging them to actively contribute to local charitable and community projects, and lead by example through the sponsorship of such projects. The Group made cash donations to not-for-profit charitable organisations in 2021 of £703,408 (2020: £634,221)⁽¹⁾.

Our businesses continued to support their local communities through the continued impact of the pandemic. For example, GKN Aerospace in India responded to the local impact of the pandemic by donating dry ration kits to meet the basic needs of persons with disabilities, as well as providing nebulisers, hand wash, hand sanitisers and face masks for quarantine centres. Further, with hospitals and intensive care units in Brazil continuing to be under great stress, GKN Automotive in Brazil donated ten infusion pumps and a respirator to the Charqueadas hospital, near to the Porto Alegre plant. This much needed equipment will be used to continue to treat patients with COVID-19.



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.

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.

Ethics and compliance

Our Sustainability Objective UN Goals

Exercise robust governance, risk management and compliance



Material Issue

Ethical Conduct and Compliance

Business Model Resilience

Melrose Group commitment

- 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 corruption

We take a zero-tolerance approach to bribery, corruption and other unethical or illegal practices, and are committed to acting professionally, fairly and with integrity in all business dealings and relationships, within all jurisdictions in which we and our businesses operate. Melrose requires its businesses to adopt high governance standards, to ensure that the Group conducts business responsibly, sustainably, and in the pursuit of long-term success for the collective benefit of stakeholders. This is outlined in our Anti-Bribery and Corruption policy, which is implemented and administered throughout the Group, and available on our website (<https://www.melroseplc.net/media/2803/abc-policy.pdf>). During 2021, no employees were disciplined or dismissed due to non-compliance with the Anti-Bribery and Corruption policy.

In line with our Anti-Bribery and Corruption policy noted above, Melrose prohibits party political donations, and recognises that from time to time our Group may comprise businesses that engage in policy debate and advocacy activities on subjects of legitimate concern to their respective industries and key stakeholders, including their staff and the communities in which they operate.

Whistleblowing

Melrose runs a Group-wide whistleblowing platform, which is overseen by the Audit Committee and supported by the Melrose senior management team, and ultimately reported to the Board. The platform is monitored by the businesses' legal, compliance and HR functions, with support from the Melrose senior management team. All employees have access to a multi-lingual online portal, together with local hotline numbers that are available 24/7, in order to raise concerns, confidentially and anonymously, about possible wrong-doing in any aspect of their business, including financial and non-financial matters. The businesses take a number of actions to raise employees' awareness of the whistleblowing platform, using online and offline media as appropriate. Employees who come forward with a genuine concern are treated with respect and dignity and do not face retaliation. During 2021, 103 whistleblowing cases were recorded through the platform (2020: 120)⁽¹⁾. This highlights the effectiveness of awareness campaigns together with the trust placed by employees in the whistleblowing programme. Each case is investigated confidentially by the business with appropriate response measures taken. Whistleblowing cases are regularly reported to the Audit Committee and ultimately to the Board.

(1) These figures exclude any whistleblowing cases received by businesses that were no longer part of the Group as at 31 December 2021.

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 CO₂e⁽¹⁾ unless stated)

	2021 ⁽²⁾			2020 ⁽³⁾⁽⁴⁾			Change (2021/2020)
	UK	Global (excl UK)	Total	UK	Global (excl UK)	Total	
Scope 1: Direct GHG emissions							
Combustion of fuel and operation of facilities ⁽⁵⁾	168,315	185,210	223,847	223,847	185,210	168,315	-9%
Scope 2: Indirect GHG emissions							
UK electricity	15,313	17,614	26,909	26,909	17,614	15,313	-13%
Overseas electricity	539,513	631,471	774,569	774,569	631,471	539,513	-15%
Total purchased electricity	554,825	649,085	801,478	801,478	649,085	554,825	-15%
Other purchased energy	220	2,045	3,165	3,165	2,045	220	-89%
Total Scope 2 ⁽⁷⁾	555,045	651,130	804,643	804,643	651,130	555,045	-15%
Total Scope 1 and Scope 2 emissions	723,360	836,340	1,028,490	1,028,490	836,340	723,360	-14%
Company's chosen intensity measurement:							
Emissions reported above normalised tonnes per £1,000 turnover ⁽⁸⁾	0.105	0.096	0.092	0.092	0.096	0.105	9%
Scope 3: Indirect GHG emissions in the value chain							
Business travel ⁽⁹⁾	6,873	-	-	-	-	6,873	-
Other ⁽¹⁰⁾	71,961	-	-	-	-	71,961	-
Total Scope 3 emissions	78,835	-	-	-	-	78,835	-

(1) CO₂e – 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 fall below our 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 threshold.

(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 reporting Group 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 emission.

(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 location-based method.

(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 turnover figure 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 the Group.

(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 and Scope 2 emissions for 2021 encompass methane (CH₄) and nitrous oxide (N₂O). The vast majority of our emissions are from carbon dioxide (CO₂), which is common among most industrial businesses. There have been reductions in all GHG emission types between 2020 and 2021 across the Group. The reductions in SF₆ are attributable to the sale of Brush and the reductions in R134a are attributable to the sale of Nortek Air Management, which were historically responsible for these emissions. Scope 2 N₂O and CH₄ emissions have decreased in line with the general 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 (CO₂e⁽¹⁾ unless stated)

	2021			2020 ⁽²⁾			Change in Total (2021/2020)
	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	-8%
CH ₄	13	210	222	13	227	240	-7%
N ₂ O	6	135	141	6	137	143	-2%
SF ₆	0	0	0	2,075	741	2,816	-100%
R134a	0	0	0	0	59	59	-100%
Total Scope 1 CO₂e	9,394	158,921	168,315	11,794	173,677	185,471	-9%
Scope 2⁽³⁾							
CO ₂	15,156	537,980	553,136	17,455	630,886	648,341	-15%
CH ₄	58	281	339	54	451	505	-33%
N ₂ O	99	1,471	1,570	104	2,180	2,284	-31%
Total Scope 2 CO₂e	15,313	539,732	555,045	17,614	633,516	651,130	-15%

(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 location-based method.

Table 3 shows the energy consumption by type for the Group, broken down by UK and overseas consumption, in accordance with the requirements of the SECR regulations. The Company's chosen intensity ratio in this regard is megawatts usage ("MWh") per £1,000 of turnover.

Table 3: Melrose Group energy consumption by type for the period 1 January 2021 – 31 December 2021 (MWh unless stated)

	2021			2020			Change in Total (2021/2020)
	UK	Global (excl UK)	Total	UK	Global (excl UK)	Total	
Natural gas	50,903	787,088	837,991	52,132	809,336	861,468	-3%
LPG	76	37,748	37,824	317	37,716	38,033	-1%
Gas oil	0	4,894	4,894	0	5,669	5,669	-14%
Fuel oil	0	8,998	8,998	0	9,189	9,189	-2%
Diesel	202	8,467	8,669	261	6,809	7,070	23%
Petrol (gasoline)	28	1,594	1,622	13	667	680	139%
Steam	0	15,150	15,150	0	18,819	18,819	-19%
Wood pellets	0	34,719	34,719	0	21,713	21,713	60%
Total non-renewable fuels consumption	51,209	898,658	949,867	52,723	909,918	962,641	-1%
Total renewable electricity consumption	327	25,743	26,070	0	8,052	8,052	224%
Total non-renewable electricity consumption	72,118	1,684,384	1,756,502	75,549	1,864,732	1,940,281	-9%
Total electricity consumption	72,445	1,710,127	1,782,572	75,549	1,872,784	1,948,333	-9%
Total operational energy consumption	123,654	2,608,785	2,732,439	128,272	2,782,702	2,910,974	-6%
Company's chosen intensity measurement:							
MWh per £1,000 turnover ⁽¹⁾	0.018	0.379	0.397	0.015	0.318	0.332	19%

(1) 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 turnover figure includes continuing businesses only.

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

Table 4: Melrose Group water withdrawal⁽¹⁾ data for the period 1 January 2021 – 31 December 2021

	2021 ⁽²⁾		2020 ⁽³⁾		Change (2021/2020)
	UK	Global (excl UK)	UK	Global (excl UK)	
Water withdrawal (m ³) in operation	3,569,002	3,880,393	3,880,393	3,569,002	-8%
Company's chosen intensity measurement:					
m ³ per £1,000 turnover ⁽⁴⁾	0.519	0.443	0.443	0.519	17%

(1) For these purposes, 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.

(2) Water withdrawal data was collected from 100% of sites across the Group in 2021.

(3) Water withdrawal 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 size, these sites accounted for less than 3% of the Group's total GHG emissions in 2020, and so these omissions are not material.

(4) 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 turnover figure includes continuing businesses only.

Table 5 shows the waste generation data for the Group in 2021, showing an overall increase in the total waste generated compared to 2020. This was partially driven by the reopening of sites following shutdowns caused by the pandemic. Despite the increase in absolute waste weight, there have been significant reductions in the proportion of non-hazardous waste that is incinerated and sent to landfill. Additionally, a larger proportion of waste is being sent to higher waste hierarchy options of recycling and hazardous waste treatment in 2021 compared to 2020.

Table 5: Melrose Group waste generation data for the period 1 January 2021 – 31 December 2021

	2021 ⁽¹⁾		2020 ⁽²⁾		Change (2021/2020)
	UK	Global (excl UK)	UK	Global (excl UK)	
Weight of total non-hazardous waste (tonnes)	151,900	139,388	139,388	151,900	9%
Weight of total hazardous waste (tonnes)	10,436	11,087	11,087	10,436	-6%
Total waste generated (tonnes)	162,336	150,475	150,475	162,336	8%
Breakdown:					
– Total recycled (tonnes)	141,947	121,912	121,912	141,947	16%
– Total incineration (tonnes)	5,850	9,103	9,103	5,850	-36%
– Total landfill (tonnes)	9,175	15,601	15,601	9,175	-41%
– Hazardous waste disposed through legally approved treatment routes (tonnes) ⁽³⁾	5,394	3,859	3,859	5,394	40%

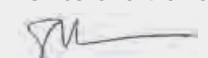
(1) Waste generation data was collected from 100% of sites across the Group in 2021.

(2) Waste generation 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 sites accounted for less than 3% of the Group's total GHG emissions in 2020, and so these omissions are not material.

(3) This figure was 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 waste from physical 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 paint, varnish and 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, and to achieve long-term success for the benefit 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 appointments are outlined in the Nomination Committee report on pages 99 to 101.

Recognising that Ms Liz Hewitt has served on the Board for almost nine years, she will retire as a Non-executive Director at the conclusion of the 2022 Annual General Meeting. The position of Senior Independent Director will be assumed by Mr David Lis, Chairman of the Remuneration Committee, and Heather Lawrence will become Chairman of the Audit Committee.

Succession planning arrangements by the Board as a whole were reviewed in 2021. This included reviewing the skills set, tenure, diversity and independence of those already on the Board in order to ensure that the right balance of skills, experience and diversity were reflected and being developed. Diversity and inclusion continues to be a very important part of succession planning, and is a key consideration of the Nomination Committee in its discussions. The Nomination Committee report on pages 99 to 101 contains further details on how succession planning arrangements for the Board and the Melrose senior management team were reviewed and considered during 2021.

Melrose Executive Committee

The Melrose Executive Committee operates under the direction of the Chief Executive. It is chaired by a member of the Melrose senior management team on a rotating basis to encourage diversity, and comprises members of the Melrose head office team from London, Birmingham and Atlanta. The Melrose Executive Committee meets on a weekly basis and executive and Non-executive Directors attend by invitation. Its key roles are to ensure that there is full knowledge of, and coordination between, the Melrose central team on all important issues, to consider what, if any, actions are required that week in respect of acquisitions, disposals and day-to-day management, to ensure that the appropriate resource is being devoted to resolve any such issues, and to ensure that actions being taken are supportive of the Group’s aims, objectives and culture.

Remuneration

The Directors’ Remuneration report, comprising the annual statement from the Chairman of the Remuneration Committee and the Annual Report on Remuneration, is available on pages 102 to 116.

Following a successful consultation with shareholders during 2020 and 2021, the Company’s long-term incentive plan arrangements were successfully renewed with strong shareholder support in January 2021. The performance period of the 2020 Employee Share Plan will continue to run until May 2023.

Melrose’s remuneration philosophy remains unchanged in order to align senior management with shareholders: executive remuneration should be simple, transparent, support the delivery of the Melrose value creation strategy and pay only for performance.

Sustainability

The Board is mindful of its responsibilities regarding climate change and sustainability more broadly, which are central to the Company’s purpose and strategy (for further details on this, see pages 2 and 3, and pages 54 to 77). It has carefully considered how it can deal with matters relating to sustainability in the most efficient and appropriate way, in light of Melrose’s decentralised model and the industries in which its businesses operate. The Board oversees and retains ultimate responsibility for Melrose’s initiatives, disclosure and reporting in respect of improving the sustainability performance of its businesses. The Board receives regular training at least annually, and quarterly updates are provided for the Board, on sustainability and climate issues that impact the Group’s businesses. The Board also receives quarterly updates on key sustainability and climate-related issues that impact the sectors in 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.

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.

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 responsibly plays a critical role in its success as a business and its ability to generate shareholder value. We maintain high standards of ethical conduct and take a zero-tolerance approach to bribery, corruption, modern slavery and human trafficking and any other unethical or illegal practices. We are committed to acting professionally, fairly and with integrity in all business dealings and relationships, within all jurisdictions in which we operate. Further details of the Group’s stance and focus on ensuring effective stewardship in respect of key environmental, social and governance matters are set out in the Sustainability report on pages 54 to 77. Supporting our updated compliance policies are a comprehensive online training platform, an industry-leading whistleblowing reporting facility and a data-driven risk reporting dashboard providing increased risk management visibility and trend analysis to senior management and the Audit Committee. The integrity of the compliance framework is further reinforced by the use of independent assurance and compliance audits.

Engagement with stakeholders

In 2021, the Company continued to run engagement initiatives with key shareholders and governance bodies on key topics including diversity, sustainability and remuneration. Members of the Board also made themselves available to discuss issues with key investors and other stakeholders on an ad-hoc basis upon request. In particular, there were a number of event-driven consultations with the Group’s workforce during the year, which resulted in positive and agreed outcomes.

Melrose also continued with a variety of workforce engagement initiatives, most notably through its Workforce Advisory Panel (“WAP”), which met twice in 2021. The purpose of the WAP is to promote effective engagement with, and encourage participation from, the Group’s workforce. Given the Group’s decentralised nature and Melrose’s strategic business model, which means that all businesses are eventually sold, the WAP comprises the Chief Human Resources Officer (or equivalent) from each business unit and a Melrose Group representative. The Board remains of the view that this structure is the most appropriate and effective method of ensuring that workforce voices are heard.

It is our intention to continue with our programme of stakeholder engagement in 2022. Full details of how the Board engages with all of its stakeholders and considers them in its decision-making is set out in our Section 172 statement on pages 50 to 53.

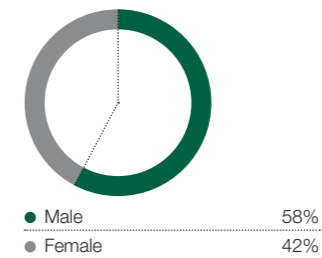
J Dowley
Justin Dowley
 Non-executive Chairman
 3 March 2022

Governance structure

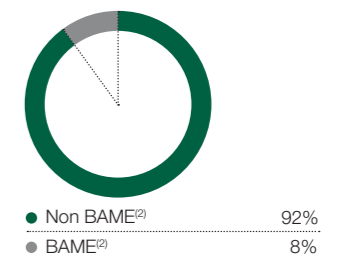
Non-executive Chairman – Justin Dowley		
Executive Directors – Simon Peckham – Geoffrey Martin – Christopher Miller – Peter Dilnot		
Non-executive Directors – Liz Hewitt – Funmi Adegoke – David Lis – Heather Lawrence – Charlotte Twynning – Victoria Jarman		
Audit Committee See page 94	Nomination Committee See page 99	Remuneration Committee See page 102

Diversity and skills overview⁽¹⁾

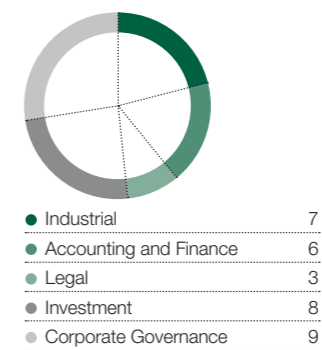
Board gender diversity



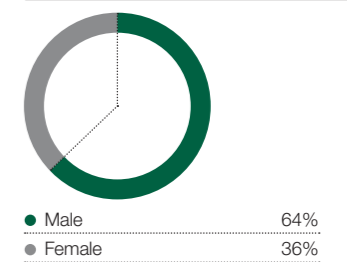
Board ethnic diversity



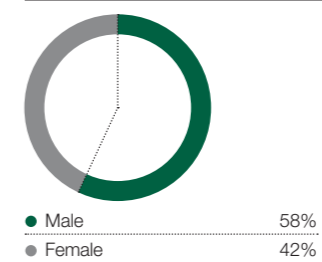
Board skills



Melrose Executive Committee



Melrose Central employees (excl. Board)



(1) Diversity data as at 31 December 2021. Archie G. Kane has since retired from the Board.
 (2) Black, Asian and Minority Ethnic.



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



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



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



Charlotte Twynning
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



Simon Peckham
Chief Executive

Year appointed
Co-founder of Melrose, appointed as Chief Executive on 9 May 2012, having previously served as Chief Operating Officer from May 2003.

Skills and experience
Simon provides widespread expertise in corporate finance, mergers and acquisitions, strategy and operations. Simon qualified as a solicitor in 1986, before moving to Wassall PLC in 1990, where he became an executive director in 1999.

Board meetings attended⁽¹⁾ 4

Business reviews attended 3

Independent Not applicable

Tenure⁽²⁾ Not applicable



Funmi Adegoke
Independent Non-executive Director

Year appointed
Appointed as a Non-executive Director on 1 October 2019.

Skills and experience
Funmi has extensive experience as a global legal and compliance leader, and has also held senior commercial and project management roles. Having worked in a number of multi-nationals, and across sectors including aerospace, manufacturing, energy and technology, Funmi brings diverse industrial knowledge and significant commercial expertise to the Board. Funmi is a qualified barrister, and is currently Group General Counsel at the FTSE 100 company Halma PLC.

Board meetings attended⁽¹⁾ 4

Business reviews attended 3

Committee membership

- Audit
- Nomination

Independent Yes

Tenure⁽²⁾ 2 years



Geoffrey Martin
Group Finance Director

Year appointed
Appointed as Group Finance Director on 7 July 2005.

Skills and experience
Geoffrey provides considerable public company experience and expertise in corporate finance, raising equity finance and financial strategy. A chartered accountant, Geoffrey qualified with Coopers & Lybrand, where he worked within the corporate finance and audit departments. In 1996, Geoffrey joined Royal Doulton PLC, serving as Group Finance Director from October 2000 until June 2005.

Board meetings attended⁽¹⁾ 4

Business reviews attended 3

Independent Not applicable

Tenure⁽²⁾ Not applicable



Heather Lawrence
Independent Non-executive Director

Year appointed
Appointed as a Non-executive Director on 1 June 2021. Heather will become the Chairman of the Audit Committee following Liz Hewitt's retirement at the conclusion of the 2022 Annual General Meeting on 5 May 2022.

Skills and experience
Heather originally qualified as a chartered accountant and subsequently spent well over a decade working in senior roles within corporate finance and investment banking, where she honed her experience across industrials and transportation businesses. Heather has significant non-executive directorship experience, most recently as non-executive director and audit committee chair of FlyBe Group plc. She is currently a senior advisor to a large Swiss-based family office.

Board meetings attended⁽¹⁾ 3⁽³⁾

Business reviews attended 1⁽³⁾

Committee membership

- Audit

Independent Yes

Tenure⁽²⁾ 0 years



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



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



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

(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 disclosure.

Capital structure

During 2021, the Company completed the disposals of its Nortek Air Management, Brush, and Nortek Control businesses, for net cash proceeds of approximately £2.7 billion. After repayment of debt, in accordance with its strategy to return value to shareholders, the Company returned £729 million of the proceeds from the Nortek Air Management disposal to shareholders (the "Return of Capital").

In order to realise the Return of Capital, holders of ordinary shares in the Company as at 6.00 pm on the record date, 6 August 2021, received one B2 share with a nominal value of 15 pence each in the capital of the Company for every ordinary share held as at that date. The B2 shares were not admitted to listing or dealing on any exchange.

On 10 August 2021, the High Court of England and Wales approved the cancellation of the B2 shares. On 14 September 2021, cheques representing the nominal value of the B2 shares (15 pence each) were dispatched to their holdings and CREST accounts were credited with the proceeds, as appropriate.

Following the Return of Capital, the ordinary share capital of the Company was sub-divided and consolidated (the "Share Capital Consolidation"). This was to ensure that, so far as possible, the market price of an ordinary share in the Company remained approximately the same before and after the Return of Capital and, so far as possible, historical per share data remained comparable against future per share data.

The Share Capital Consolidation was effected by the sub-division of each existing ordinary share of 48/7 pence in the capital of the Company into nine undesignated shares and consolidating ten such undesignated shares resulting from such sub-division into one new ordinary share of 160/21 pence in the capital of the Company (the "New Ordinary Shares"). The record date for the Share Capital Consolidation was 6.00 pm on 27 August 2021 and the New Ordinary Shares were admitted to listing and trading from 8.00 am on 31 August 2021. Subject to allowance for fractional entitlements, shareholders continued to own approximately the same proportion of the ordinary share capital of the Company before and after the Share Capital Consolidation.

The Return of Capital and the Share Capital Consolidation were approved by shareholders of the Company at a general meeting of the Company held on 9 July 2021.

The table below shows details of the Company's issued share capital as at 31 December 2020; immediately following the Share Capital Consolidation becoming effective on 31 August 2021; and as at 31 December 2021.

Share class	31 December 2020	31 August 2021 (Post the Share Capital Consolidation) ⁽¹⁾	
		31 December 2020	31 December 2021
Ordinary shares of 48/7 pence each	4,858,254,963	Nil	Nil
Ordinary shares of 160/21 pence each	Nil	4,372,429,473	4,372,429,473

(1) To effect the Share Capital Consolidation, seven ordinary shares of 48/7 pence each were allotted and issued to Investec Bank plc on 26 August 2021 at 171.65 pence per share, being the closing mid-market price of an ordinary share on 25 August 2021, in order to ensure that the number of ordinary shares was exactly divisible by ten. These ordinary shares were issued pursuant to the general authorities granted by the Company's shareholders in accordance with section 551 and section 570 of the Act at the Company's AGM held on 6 May 2021. The terms of this issue were fixed on 24 August 2021 following a meeting of a committee of the Board. These ordinary shares were not entitled to participate in the Return of Capital, but were subject to the Share Capital Consolidation.

The Company's sole class of ordinary shares are admitted to the premium segment of the official list.

The 2017 Incentive Plan was approved by the Company's shareholders at a general meeting of the Company held on 11 May 2017, and 12,831 Incentive Shares of £1.00 each (the "2017 Incentive Shares") were issued pursuant to the authority granted at such meeting to issue Incentive Shares up to an aggregate nominal amount of £50,000. The 2017 Incentive Plan expired in May 2020 for no value, and therefore the 2017 Incentive Shares had no value. As anticipated in the 2020 Annual Report, on 5 April 2021, the 2017 Incentive Shares were transferred, for no consideration, to the Company Secretary in his capacity as custodian and nominee on behalf of the Company, and were thereafter cancelled. The 2017 Incentive Shares comprised all of the Incentive Shares in issue, and as a result there are no longer any Incentive Shares outstanding.

Shareholders' voting rights

Subject to any special rights or restrictions as to voting attached to any class of shares by or in accordance with the Articles, at a general meeting of the Company, each member who holds ordinary shares in the Company and who is present (in person or by proxy) at such meeting is entitled to:

- on a show of hands, one vote; and
- on a poll, one vote for every ordinary share held by them.

There are currently no special rights or restrictions as to voting attached to any class of shares.

The Company is not aware of any agreements between shareholders that restrict voting rights attached to the ordinary shares in the Company.

Where any call or other amount due and payable in respect of an ordinary share remains unpaid, the holder of such shares shall not be entitled to vote at or attend any general meeting of the Company in respect of those shares. As at 3 March 2022, all ordinary shares issued by the Company are fully paid.

Details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the 2022 AGM are set out in the AGM Notice on pages 211 to 216.

Shareholders whose combined shareholdings amount to at least 5% of the issued voting share capital may, pursuant to section 303 of the Act, request that the Directors call a general meeting of the Company. Shareholders whose combined shareholdings amount to at least 5% of the issued share capital entitled to vote can also request that the Company introduces a resolution to be voted on at an AGM.

Restrictions on transfer of securities

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company, aside from the usual restrictions applicable where shares are not fully paid up, if entitled to do so under the Uncertificated Securities Regulations 2001, where the transfer instrument does not comply with the requirements of the Articles or, in exceptional circumstances, where approved, provided such refusal would not disturb the market in such shares. Restrictions may also be imposed by laws and regulations (such as insider trading and market abuse provisions). Directors and certain senior employees of the Group may also be subject to internal approvals before dealing in ordinary shares of the Company and minimum shareholding requirements. We do not have any anti-takeover devices in place, including devices that would limit share ownership.

The Company is not aware of any agreements between shareholders that restrict the transfer of ordinary shares in the Company.

Articles of association

The Articles may only be amended by a special resolution at a general meeting of the shareholders of the Company. There are no amendments proposed to be 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.

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 CO₂ 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 CO₂ 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 "WAP") as its chosen method of complying with the requirements of the Code on employee engagement. Details in relation to the WAP, employment policies, and employee involvement, consultation and development, together with details of some of the human resource improvement initiatives implemented during 2021, are shown in the Sustainability report on pages 54 to 77 and in the Section 172 statement set out in the Strategic Report on pages 50 to 53, both of which are incorporated by reference into this Directors' report.

Business relationships

Details of our businesses' clients and suppliers and how our businesses work and engage with them are described in the Divisional reviews on pages 12 to 29, in the Section 172 statement on pages 50 to 53, and in the Sustainability report on pages 54 to 77, each in the Strategic Report, and all of which are incorporated by reference into this Directors' report.

Environmental

Details of the sustainability initiatives across the Group, and the Group's Greenhouse gas emissions, waste, and water usage, and other energy consumption, as well as the methodology used to calculate such emissions and consumption, are set out in the Sustainability report on pages 54 to 77, which is incorporated by reference into this Directors' report.

In 2021, the Board set its inaugural sustainability targets and commitments for the Group in line with the UN Sustainable Development Goals, in addition to its target of net zero Greenhouse gas emissions before 2050. Details of these targets and commitments is set out in the Sustainability report on page 55. In addition, we reported for the first time against all the key areas recommended by the Task Force on Climate-related Financial Disclosures ("TCFD"), which are set out in the Sustainability report on pages 60 and 61.

Political donations

The Group's policy is not to make any political donations and there were no political donations made during the year ended 31 December 2021 (2020: nil).

Branches

The Melrose Group and its businesses operate across various jurisdictions. The businesses, through their various subsidiaries, have established branches in a number of different countries in which they operate.

Disclosures required under Listing Rule 9.8.4R

Other than the following, no further information is required to be disclosed by the Company in respect of Listing Rule 9.8.4R:

- details of the allotment of ordinary shares to Investec Bank plc in connection with the Share Capital Consolidation, which are set out in the "Capital structure" section of this Directors' report on page 84;
- details of the 2020 Employee Share Plan, which are set out on page 107 of the Directors' Remuneration report and note 23 to the financial statements (incorporated by reference into this Directors' report); and
- GKN had historically operated employee share option plan trusts to satisfy the vesting and exercise of awards of ordinary shares made under GKN's share-based incentive arrangements. On the acquisition of GKN, these shares were converted into Melrose shares. A dividend waiver is in place on the shareholdings in respect of relevant trusts in part, or in full, in accordance with the provisions of the relevant trust deeds.

Significant agreements and change of control

With the exception of the Group's banking facilities, the 2020 Employee Share Plan, and the divisional management long-term incentive plans, there are no other agreements that would have a significant effect upon a change of control of Melrose Industries PLC as at 3 March 2022.

In December 2021, the Group extended the maturity date of both the term loan and the revolving credit facility to 30 June 2024. Subsequent to this extension, in December 2021 the term loan was partly prepaid by £70 million and US\$172 million. Consequently, the Group's committed bank funding includes a multi-currency denominated term loan of £30 million (31 December 2020: £100 million) and US\$788 million (31 December 2020: US\$960 million) and a multi-currency denominated revolving credit facility of £1.1 billion, US\$2.0 billion and €0.5 billion. Details of this facility are provided in the Finance Director's review on page 34 and note 25 to the financial statements.

In the event of a change of control of the Company following a takeover bid, the Company and lenders under the facility agreement are obliged to enter into negotiations to determine whether, and if so how, to continue with the facility. There is no obligation for the lenders to either fund new loans requested during the 30 day period after a change of control, or continue to make the facility available for more than 30 days beyond any change of control. Failure to reach agreement with parties on revised terms could require an acquirer to put in place replacement facilities.

The Company's wholly-owned subsidiary, GKN Holdings Limited, has outstanding £450 million fixed rate notes paying 5.375% p.a. interest and maturing on 19 September 2022 and £300 million fixed rate notes paying 4.625% p.a. interest and maturing on 12 May 2032, in each case issued under Euro medium-term note programmes (together, the "Notes"). Pursuant to the terms and conditions of each of the Notes, a holder of the Notes has the option to require GKN Holdings Limited to redeem or (at GKN Holdings Limited's option) purchase the holder's Notes at their principal amount together with accrued interest, if there is a change of control of GKN Limited and either (i) the Notes are unrated or do not carry an investment grade credit rating from at least two ratings agencies; or (ii) if the Notes carry an investment grade credit rating from at least two ratings agencies, the Notes are downgraded to a non-investment grade rating or that rating is withdrawn within 90 days of the change of control and such downgrade or withdrawal is cited by the ratings agencies as being the result of the change of control.

In the event of a takeover of the Company, awards granted under the 2020 Employee Share Plan would crystallise and convert into ordinary shares in the Company or give rise to an entitlement to a dividend paid in cash. The rate of conversion is based upon the offer price of the Company's ordinary shares as calculated on the date of the change of control of the Company. If the offer price, or any element of the offer price, is not in cash, the Remuneration Committee will determine the value of the non-cash element, having been advised by a reputable investment bank that such valuation is fair and reasonable.

Long-term management incentive plans have been put in place for our key divisions that would be triggered upon a sale of their respective business or a takeover of the Company. The plans provide for the payment of bonuses to certain key managers of these divisions based upon the increase in value of their respective business. If a sale of the relevant business has not occurred within a certain period, the incentive plan will crystallise and any payment to be made to participants will be based on the increase in value of the business during this period.

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 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.

Resources and controls

As described in more detail in the Risk management section of the Strategic Report and the Audit Committee report on pages 40 and 41 and 94 to 98 respectively, the Board has established a framework of reporting procedures, lines of responsibility and delegated authority, which is updated regularly and understood by all Board members and the Melrose senior management team. These reporting processes allow the Board and the Melrose senior management team to allocate resources in a sustainable and appropriate manner, enabling the Group to meet its objectives and measure performance effectively, whilst promoting sustainability. The Board and the Audit Committee have access to the Melrose senior management team and to external assistance in order to satisfy themselves that appropriate and effective controls are in place, including Deloitte who undertake the Group’s external audit, and BM Howarth and Ernst & Young who assist with the Group’s internal audit.

Stakeholder engagement

Through presentations and regular meetings between the executive Directors, analysts and institutional shareholders, including those following the announcements of the Company’s annual and interim results and trading updates, the Company seeks to build on a mutual understanding of objectives with its shareholders and other stakeholders. During 2021, in addition to the usual disclosure rounds following the release of annual and interim results, the Company continued its programme of engagement with key investors and corporate governance bodies in respect of specific material topics, as well as open-agenda discussions between key shareholders and members of the Board. Engagement with key shareholders, proxy advisors, employee bodies, ratings agencies (including sustainability ratings agencies) and other governance bodies remains a central part of the Company’s approach to stakeholder engagement and governance and shall continue in the lead up to the 2022 Annual General Meeting (“AGM”). Further details on the Company’s engagement with stakeholders, including the material topics discussed with investors and corporate governance bodies, are contained in the Section 172 statement on pages 50 to 53.

In order to promote effective engagement with, and encourage participation from, its workforce, Melrose operates a Workforce Advisory Panel (“WAP”). Given the Group’s decentralised nature and Melrose’s strategic business model, which means that all businesses are eventually sold, the WAP comprises the Chief Human Resources Officer (or equivalent) from each business unit and a Melrose Group representative. Each member of the WAP is responsible for determining how the workforce should be defined for their respective business unit, promoting workforce engagement, disseminating information and collating the voice of their workforce. Each member of the WAP is in turn responsible for demonstrating how key workforce views are fed into executive management decisions, which may include executive remuneration, as well as ensuring that the workforce is aware of their impact on such executive management decisions. The WAP meets twice a year and an annual report is prepared for the Board which highlights workforce engagement and key views. Further details on the WAP are contained in the Sustainability report on page 67.

Workforce policies and practices

Melrose’s reputation for acting responsibly plays a critical role in its success as a business and its ability to generate shareholder value. It maintains high standards of ethical conduct which are reflected in the compliance policies that are rolled out to the business units, and cover 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 Company also operates an externally hosted whistleblowing portal which is readily available to all Group employees. This is supported by regularly updated policies, procedures and awareness campaigns to create an environment in which the workforce feels it is safe to raise concerns in confidence without fear of retaliation, and to foster an ethical and supportive culture within each of the Group’s business units. The Board and the Audit Committee are provided with updates on material whistleblowing events as they are reported from time to time to the Melrose senior management team, and the Audit Committee is provided with an overview of whistleblowing activity on a quarterly basis. An annual report is prepared for the Audit Committee which highlights whistleblowing activity in further detail across the business units, together with a summary of the approach taken by each business unit to their whistleblowing process; this is then fed back to the Board.

2. Principles F-I: Division of Responsibilities

The Board

Details of the structure of the Board and its key responsibilities are shown on pages 79 and 81.

There were four formally scheduled Board meetings held during the year and the attendance of each Director at these meetings is shown on page 90.

Business review meetings are held between scheduled Board meetings. There were three business review meetings held during the year, and the attendance of Directors at these review meetings is set out on page 90. These meetings provide the Directors with a comprehensive understanding of the current performance of, and the key issues affecting, the Group’s businesses, without the formality or rigidity of a Board meeting. Divisional CEOs and other senior management from the businesses are periodically invited to attend and present at these meetings, providing the Directors with an opportunity to discuss each business directly and to develop relationships with their leadership teams. The executive Directors also visit the sites of the business units on an ad-hoc basis and sessions are held between the executive Directors and the business unit executive teams at such site visits.

Detailed briefing papers containing financial and operational business summaries and an agenda are provided to the Directors in advance of each Board, Committee (where relevant) or business review meeting. The Directors are able to seek further clarification and information on any matter from any other Director, the Company Secretary or any other employee of the Group whenever necessary.

Decisions are taken by the Board in conjunction with the recommendations of its Committees and advice from external consultants, advisors and Melrose senior management.

The Board has a fully encrypted electronic portal, enabling Board, Committee and business review papers to be delivered securely and efficiently to Directors. This facilitates a faster and more secure distribution of information, accessed using electronic tablets, and reduced resource usage, which in turn helps to reduce paper waste.

The Company Secretary is responsible for advising and supporting the Chairman and the Board on corporate governance matters as well as assisting the Chairman in ensuring a smooth flow of information to enable effective decision-making. All Directors have access to the advice and services of the Company Secretary and, through him, have access to independent professional advice in respect of their duties, at the Company’s expense. The Company Secretary, supported by the Group Company Secretariat, acts as secretary to the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee.

In accordance with its Articles and in compliance with the Act, the Company has granted a qualifying third-party indemnity to each Director. This indemnity is provided both within the Company’s Articles and through a separate deed of indemnity between the Company and each of the Directors. The Company also maintains directors’ and 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.

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 Evaluation

Board composition

The Board believes that the Directors bring a combination of skills, experience and knowledge to the Board that is complementary to the activities of the Company. Biographies of the Directors are shown on pages 82 and 83, and on the Company's website at www.melroseplc.net. These biographies identify any other significant appointments held by the Directors.

During the year, David Roper, one of the co-founders of Melrose, and Archie G. Kane, the Chairman of the Nomination Committee, retired from the Board as planned. Peter Dilnot, Chief Operating Officer, also joined the Board. In addition, the Board gained two new Non-executive Directors, Heather Lawrence and Victoria Jarman, who both bring significant non-executive experience gained through similar roles.

The Board has made significant progress with paving the way for diversity. It continues to meet the Hampton-Alexander Review target of having 33% female representation on its Board, with 45% female representation as at the date of this report. In particular, four of the last five Non-executive Director appointments, including the most recent two made in 2021, have been female, and all departures from the Board have been male. In addition, the Board continues to meet the Parker Review target of having one Director from an ethnic minority background on the Board. Melrose is committed to continuing to meet these targets.

Succession planning

Succession planning is coordinated via the Nomination Committee in conjunction with the Board and includes all Directors and senior management. It was a core focus in 2021 and as explained in section 2 on page 89, the Board and shareholders approved the extension of Justin Dowley's tenure as Chairman of the Board in order to aid effective succession planning.

Succession planning arrangements for the Board as a whole were reviewed by the Nomination Committee and the Board. This included reviewing the skills set, tenure, diversity and independence of those already on the Board, and reviewing the Melrose senior management team, including the career planning and talent management programmes in operation for them. In each case this was to allow the Nomination Committee to ensure that the right balance of skills, experience and diversity were reflected and being developed.

Given the strength of Melrose's decentralised operating structure in achieving the Group's strategic objectives, the Nomination Committee does not have direct involvement in the succession planning arrangements of the divisions. However, the Nomination Committee has access to the divisional executive teams through the business review cycle.

Board evaluation

Evaluation approach and process

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. The Company will again be conducting an external evaluation in 2023.

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. As in prior years, the Company also conducted an evaluation of the Chairman of the Board's performance. These evaluations were conducted and facilitated by the completion of questionnaires, and discussions at the applicable Board and Committee meetings, with follow-up actions taking place as relevant. Directors were also given the option for meetings to be scheduled with the Chairman of the Board or the Chairman of the relevant Committee about any relevant matters that they wished to raise as part of the ongoing review.

A range of topics were discussed as part of the evaluation including the mix of the Board, diversity of gender, race and thought, succession planning oversight, risk management and internal controls, strategic oversight, understanding of the views and requirements of key stakeholders, and the integration of sustainability into the Group's strategy and operations.

Outputs of the evaluation

The report and subsequent discussion concluded that the Board, the Chairman of the Board and the Senior Independent Director continue to be highly effective.

In order to further enhance the Board's effectiveness, the following areas were designated as the subject of management focus during 2022:

- continuing to monitor senior management succession;
- further developing the Board's visibility over the impact of principal risks on the divisions, and continuing to monitor and enhance the Group's management of risk;
- further integrating and embedding sustainability into the Group's business strategy and operations, which the Group views as a process of continuous progression in response to ever-evolving sustainability developments;
- although considerable steps were taken to improve cyber security across all business units in 2021, it was recognised that cyber security is an ongoing risk and will, therefore, be focused on again in 2022;
- continuing to improve and monitor the cash management culture within the businesses (particularly within the GKN businesses) and to improve cash performance; and
- continuing to impress upon all divisions that the health and safety of their workers is of the utmost importance and ensuring that their executive teams place a high degree of focus on implementing, monitoring and maintaining high standards of health and safety awareness, coupled with appropriate protective measures and high performance, with a view to eliminating preventable accidents.

Annual re-election of Directors

Pursuant to the Company's Articles and in accordance with the provisions of the Code, all of the Directors stood for election or re-election at the 2021 AGM. With the exception of Heather Lawrence and Victoria Jarman, who are each standing for election for the first time, and Liz Hewitt, who is retiring at the conclusion of the 2022 AGM, all current Directors of the Company will be standing for re-election by shareholders at this year's AGM, and in each case an ordinary resolution will need to be passed to approve such re-elections.

In considering whether each Director should stand for re-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 re-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. Similarly, following performance evaluations of the Chairman, and having carefully considered the commitments required and the contributions made by the Chairman, the Non-executive Directors, led by the Senior Independent Director, are of the opinion that the Chairman's performance continues to be effective and that he continues to demonstrate 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.

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.melroseplc.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 the effectiveness of the Group's internal controls, including strategic business planning and regular monitoring and reporting of financial performance. A detailed annual budget is prepared by senior management and thereafter is reviewed and formally adopted by the Board.

The budget and other targets are regularly updated via a rolling forecast process and regular business review meetings are held with the involvement of senior management to assess performance. The results of these reviews are in turn reported to, and discussed by, the Board at each meeting. As discussed in the Audit Committee report on page 98, the Group engages BM Howarth as internal auditor with additional support, as required, from Ernst & Young. A total of 42 sites across the Group were assessed by BM Howarth and Ernst & Young during 2021.

As was common across most large, geographically dispersed companies, COVID-19 disruption continued to present a number of challenges and limitations throughout the year due to restricted international travel and extended periods of remote working for many site-based finance teams. Further details about the additional assurance measures that were taken to mitigate the impact of COVID-19 disruption on internal controls during 2021 can be found in the Audit Committee report on pages 94 to 98.

The Directors can report that based on the sites visited and reviewed in 2021, there has been progress across the Group following the 2021 internal audit programme and that the majority of the recommendations presented in the internal audit report have been or are in the process of being implemented.

The Audit Committee also monitors the effectiveness of the internal control process implemented across the Group through a review of the key findings presented by the external and internal auditors. Management are responsible for ensuring that the Audit Committee's recommendations in respect of internal controls and risk management are implemented.

Ethics and compliance

The Company takes very seriously its responsibilities under the laws and regulations in the countries and jurisdictions in which the Group operates, and has in place appropriate measures to ensure compliance. A compliance framework is in place comprising a suite of Group-wide policies relating 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. These policies are in place within each business and, other than in respect of certain policies where it would not be appropriate for them to have such a broad reach, they generally apply to all Directors, employees (whether permanent, fixed-term, or temporary), pension trustees, consultants and other business advisors, contractors, trainees, volunteers, business agents, distributors, joint venture partners or any other person working for or performing a service on behalf of the Company, its subsidiaries and/or associated companies in which the Company or any of its subsidiaries has a majority interest.

During 2021, Melrose implemented new Environmental and Human Rights policies, and the Company also updated the Melrose Code of Ethics in light of key regulatory and legal developments and to align it with the new policies. The new policies and updated Melrose Code of Ethics have been fully implemented across all business units, and they (as well as all other Group compliance policies) continue to be monitored to ensure their effectiveness for the Group. Online compliance training continued to be conducted within all businesses, covering topics such as anti-trust, trade compliance and export controls, data privacy, anti-bribery and corruption, and anti-money laundering, to enhance and supplement the existing compliance regime.

The Company's Modern Slavery Statement is approved by the Board annually and the current statement is available on the Company's website at <https://www.melroseplc.net/media/2759/modern-slavery-statement-fy2020.pdf>. Under Melrose's decentralised group structure, each division is responsible (where applicable) for publishing their own Modern Slavery Statement in accordance with the requirements under the Modern Slavery Act 2015, and are supported by Melrose where needed. To support the Company's belief in the importance of this matter, it has a Group-wide policy on the prevention of modern slavery and human trafficking, which the businesses have rolled out to employees, along with an online compliance training module. Please also refer to section 1 on page 89 for details of the Company's whistleblowing policies and procedures.

BDO LLP were engaged to conduct an independent non-financial review programme of the GKN Aerospace and GKN Automotive businesses, to test and provide additional external assurance in respect of those businesses' key compliance areas and safeguards as a result of their relative scale and complexity. Although COVID-19 travel restrictions caused some delay to the original site visit schedule during 2020, the review programme was completed during 2021, with a total of 67 site visits being conducted by BDO (and overseen by the General Counsels of the businesses) across the programme. The programme included GKN Aerospace sites across the UK, the Netherlands, India, Singapore, Thailand, Sweden, and Norway, as well as GKN Automotive sites including those located in Mexico, France, Malaysia, Germany, Italy, India and Japan. Overall, both GKN Aerospace and GKN Automotive were found to demonstrate a good level of compliance including within the areas of anti-bribery and corruption, anti-money laundering, whistleblowing, data protection, export control, contract compliance, health and safety, and trade compliance.

5. Principles P-R: Executive Remuneration

Policies and practices

Melrose's remuneration philosophy has been the same since being founded in 2003 and requires that executive remuneration be simple, transparent, support the delivery of the value creation strategy, and pay only for performance. The Company's policy of restricting opportunity in annual salary, bonus and benefits to below the lower quartile of its peers, while heavily weighting potential reward to the long-term employee share plan that is entirely performance based, reflects those principles and is intended to align management's incentive arrangements directly with the interests of shareholders. In compliance with the Code, the 2020 Employee Share Plan (which is the only share plan the Company operates for Melrose senior management) has a five-year total vesting and holding period, which promotes long-term sustainable success for shareholders, and is expected to be awarded in shares, further aligning management with shareholders.

Development of policies

The Remuneration Committee has a formal and transparent procedure for developing the Company's policy on executive remuneration. It regularly engages with shareholders to seek their views (and particularly more so in advance of renewals), takes those views into account when formulating proposals on executive remuneration, obtains advice from external remuneration advisors, and undertakes benchmarking exercises with respect to executive pay to ensure that the executive remuneration structure remains appropriate. Shareholders have the opportunity to vote on executive remuneration through their binding vote at least every three years on the Directors' remuneration policy and their advisory vote annually on the Directors' remuneration report. As described further in the Directors' Remuneration report on pages 102 to 116, the Chief Executive retains responsibility for setting and managing the remuneration of Melrose senior management and divisional CEOs, of which the Remuneration Committee has full disclosure. No Director is involved in 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

Liz Hewitt
Audit Committee Chairman



The responsibilities of the Audit Committee (the “Committee”) include overseeing financial reporting, risk management and internal financial controls, in addition to making recommendations to the Board regarding the appointment of the Company’s internal and external auditors.

Member	No. of meetings
Liz Hewitt (Chairman)*	●●●● 4/4
David Lis*	●●●● 4/4
Charlotte Twynning	●●●● 4/4
Heather Lawrence*	●●●● 3/3 ⁽¹⁾
Funmi Adegoke	●● 2/2 ⁽²⁾

* Indicates Committee members with financial expertise. In total, 60% of the Committee has financial expertise.

(1) Mrs Heather Lawrence was appointed as a Non-executive Director with effect from 1 June 2021. Mrs Lawrence attended all Committee meetings held during the period 1 June 2021 to 31 December 2021.

(2) Ms Funmi Adegoke was appointed as a member of the Audit Committee with effect from 1 September 2021. Ms Adegoke attended all Committee meetings held during 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 policy on external audit and overseeing the objectivity and effectiveness of the external auditor;
- assessing annually the external auditor’s independence and objectivity, taking into account relevant UK laws, regulations, the Ethical Standards and other professional requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- reviewing and where necessary challenging the provision of non-audit services by the external auditor; and
- reviewing and considering the Annual Report and financial statements to ensure that it is fair, balanced and understandable and advising the Board on whether it can state that this is the case.

Composition

Ms Liz Hewitt continues to serve as the Chairman of the Committee. However, Ms Hewitt will be stepping down from this position upon her retirement from the Board at the conclusion of the 2022 Annual General Meeting, and Mrs Heather Lawrence will assume the role of Chairman of the Committee. Mrs Lawrence joined the Board and Committee in June 2021. She has strong audit experience, having acted as audit committee chair of FlyBe Group plc.

Ms Hewitt, Mrs Lawrence and Mr David Lis bring significant and relevant financial experience to their roles on the Committee. Furthermore, each member of the Committee, including Ms Charlotte Twynning and Ms Funmi Adegoke, brings strong corporate governance experience to the Committee. Further details of the relevant experience of each member of the Committee are described in the biographies on pages 82 to 83. The Committee is made up 100% of independent Non-executive Directors.

The Company Secretary acts as secretary to the Committee.

To enable the Committee to provide robust challenge of the reports submitted to it, the Committee invites the Group Finance Director, the Head of Financial Reporting, and senior representatives of the external and internal auditors to attend its meetings. The Chairman of the Committee also speaks with the Group Finance Director prior to each Committee meeting. The Committee has the right to invite any other Directors and/or employees to attend meetings where this is

considered appropriate. In addition, the Committee meets at least once per year with the external and internal auditors without management present, and the Chairman of the Committee speaks with the external and internal auditors prior to each Committee meeting.

Summary of meetings in the year

The Committee is expected to meet not less than three times a year. However, during 2020, the Committee had agreed that an additional meeting would be scheduled due to the ongoing uncertainty and disruption caused by COVID-19 in order to enable further review and challenge of significant accounting matters, and this was continued in 2021. In 2021, the Committee met in March, June, September and November. The scheduling of these meetings is designed to be aligned with the financial reporting timetable, thereby enabling the Committee to review the Annual Report and financial statements, the interim financial statements and the audit plan ahead of the year-end audit and to maintain a view of the internal financial controls and processes throughout the year.

Significant activities related to the 2021 financial statements

As part of its duties the Committee undertook the following recurring activities that receive annual scrutiny:

- review of the 2021 Annual Report and financial statements and the interim financial statements, including the going concern of the Group assumption 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.

In addition to these matters, the Committee considered the following significant issues in relation to the financial statements during the year:

Significant issue considered by the Audit Committee

Impairment testing of goodwill

Impairment testing is inherently subjective as it includes assumptions in the calculation of recoverable amount for each of the cash-generating units (“CGU”) being tested. Assumptions include future cash flows of the relevant groups of CGUs, discount rates that reflect the appropriate risk and long-term growth rates which are applicable to the industry and geography of operations. The impairment testing for 2021 has been performed on the groups of CGUs disclosed in the 2021 Annual Report, which specifically now has one group of CGUs for each of Aerospace and Automotive.

During 2021, due to the impact of the COVID-19 pandemic, additional sensitivities were disclosed for almost all of the Group’s individual CGUs. During the year, the businesses have continued to mitigate the impact of lower levels of demand caused by supply chain shortages (Automotive and Powder Metallurgy) and continued market depression (Aerospace) through cost reduction and efficiency actions, including further significant restructuring. Under IAS 36, the value in use basis prohibits the inclusion of benefits from future uncommitted restructuring plans although this is permitted when applying the fair value less costs to sell basis, to the extent that similar actions would be carried out by a market participant. Consistent with the prior year and in accordance with the accounts standards, impairment testing for the GKN businesses’ groups of CGUs remains on a fair value less costs to sell approach as this has resulted in higher valuations than the value in use approach.

(Refer to notes 3 and 11 of the financial statements)

Accounting for revenue under IFRS 15

The overwhelming majority of the Group’s revenue recognition relates to the simple sale of products and services where invoices are raised and amounts are recognised when control of the goods is transferred to the customer. However, the Group has one revenue stream which includes recognition of variable consideration for risk and revenue sharing partnerships (“RRSPs”), in a small number of Aerospace businesses.

As required, management continue to review the key assumptions that have a significant impact on the allocation of overall transaction prices for aerospace engine components. It is particularly important to reassess the operational progress and status of engines’ programmes in the early years of these long-term arrangements, when performance issues can arise. Specifically, in relation to variable consideration for certain RRSPs, revenue is significantly constrained until there is better visibility over the outcome so as to comply with the requirement that amounts are only recognised when it is highly probable that they will not reverse in the future.

Following positive operational progress on engine programmes within certain RRSPs in the year, it was concluded that an update to assumptions was appropriate. Whilst the changes have not led to a material impact on 2021 results (£24 million), they will impact future results too.

The amount of variable consideration recognised in the year of £55 million reflects an underlying increase from the COVID-impacted results in 2020, ramp up in volumes based on customer schedules as well as implications of the change in assumptions.

(Refer to notes 3, 4 and 17 of the financial statements)

How the issue was addressed by the Audit Committee

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.

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.

Significant issue considered by the Audit Committee**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)

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)

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)

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)

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)

How the issue was addressed by the Audit Committee

During the year, the Committee reviewed a report prepared by management updating on the previously disclosed concerns relating to GKN Aerospace’s North American business. The assessment considered trends in inventory carrying amounts and other balance sheet accounts as well as the overall control environment and progress since the prior year. Specifically, management from the Group finance team travelled to sites and met with local management as well as senior members of the divisional finance function to discuss the local control environment, any continued impact of COVID-19 on compliance and documentation, and results of balance sheet review work.

The Committee discussed the results from year-end testing with management as well as the findings from Internal Audit, who had visited many of these sites. Additionally, the Committee sought a view from Deloitte following their audit work, to assess whether the balances included in the Group consolidated financial statements were appropriate.

Having considered the matters presented and evidence provided, the Committee concluded that management’s response to issues was appropriate and balances were reasonably stated.

The Committee has considered the nature, classification and consistency of adjusting items, whilst addressing the guidance provided by ESMA. These items are defined and discussed in the Finance Director’s review and detailed in note 6 to the financial statements, together with the glossary to the financial statements.

Following a review of management’s paper and challenge, the Committee is satisfied that there has not been any change to the substance of the policy. It was noted that as a result of certain restructuring programmes management had reviewed the associated carrying values of operating assets within the Group. A charge of £112 million, relating to assets within the Group, was recorded in the second half of the year.

The Committee also determined that disclosures are clear and transparent, assisting shareholders in measuring the operating performance of the Group. The Committee therefore concluded that adjusting items were appropriately captured and disclosed.

The Committee also considered disclosure of the Group’s APMs with respect to applicable guidelines and noted that these are set out in detail in the glossary to the financial statements together with reconciliations of adjusted performance measures to statutory results in note 6 to the financial statements. The Committee found the disclosures to be clear and transparent.

The Committee reviewed and approved management’s recommendation to prepare the financial statements on a going concern basis. The key principles debated were the level of committed facility headroom on bank covenants and flexibility of liquidity arrangements to meet obligations. This discussion took into account the recently agreed extension to facilities until June 2024. In addition to base case modelling which uses approved financial forecasts, a reasonably possible downside was considered.

The Committee also considered a paper and financial model prepared by management in respect of the longer-term viability statement to be included in the Annual Report and financial statements as well as analysis conducted by the external auditor. The Committee challenged the assumptions and judgements made by management before concluding that the longer-term viability statement was appropriate.

At 31 December 2021, the carrying value of loss-making contract provisions in the Group was £167 million (2020: £241 million). The Committee considered management’s position and challenged the proposed changes during the year as well as the closing provisions. The key assumptions and estimates include volumes, price and costs to be incurred over the life of the contract and, where changes have occurred in commercial terms, relevant legal advice. Deloitte also reported on their audit work covering loss-making contract provisions and the key assumptions to the Committee.

Having considered the matters presented and responses to challenge, the Committee concluded that management’s proposed provisioning, released amounts and the associated disclosures in the financial statements were appropriate and the approach taken was consistent with previous years.

The Committee reviewed and challenged the rationale presented by management and challenged the revised segments proposed. In addition, the work performed by Deloitte was assessed.

The Committee was satisfied that the approach and rationale were consistent with the accounting requirements.

Risk management and internal control

One of the key roles of the Committee is to review and monitor the Group’s risk management, internal financial control systems and processes, and compliance controls. The Committee has a high degree of risk and compliance expertise to enable it to fulfil this role. In particular, Ms Hewitt, Mrs Lawrence and Mr Lis have each held senior roles at various financial institutions. Furthermore, Ms Hewitt was an Independent Member of the House of Lords Commission and Mrs Lawrence has held various non-executive directorship positions, including as audit committee chair of FlyBe Group plc. Ms Twyning and Ms Adegoke have each held senior legal roles at global companies. In particular, Ms Adegoke is currently Group General Counsel at the FTSE 100 company, Halma PLC.

During 2021, the 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.

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. This has bolstered the Committee’s oversight of risk areas and trends. 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. The Committee reviewed and challenged the process of compiling the dashboard, and also reviewed and challenged a summary report of the Group enterprise risk management profile. This summary report guided the 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.

Management also reported on the Group’s internal control systems supported by the internal audit review. Examples of both Group and business unit controls, including financial, operational and compliance controls, were presented and examined.

The Group’s risk management and internal financial control systems were reviewed and the Committee confirmed their effectiveness. No significant weaknesses were identified. The Committee reported its conclusions to the Board at the next scheduled Board meeting.

Whistleblowing

The Committee is tasked with 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. The Company runs a Group-wide whistleblowing platform, which is overseen by the Audit Committee and supported by the Melrose senior management team, and ultimately reported to the Board. The platform is monitored by the businesses’ legal, compliance and HR functions, with support from the Melrose senior management team. All employees have access to a multi-lingual online portal, together with local hotline numbers that are available 24/7, in order to raise concerns, confidentially and anonymously, about possible wrong-doing in any aspect of their business, including financial and non-financial matters. The most material whistleblowing cases are promptly notified to the Chairman of the Committee, and quarterly whistleblowing reports are prepared by Melrose senior management for discussion at each Committee meeting with a view to ultimately reporting 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.

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 appropriate for an internal audit programme to be used within the business. BM Howarth Ltd, an external firm, provides internal audit services to the Group in accordance with an annually agreed Internal Audit Charter and internal audit plan. Where additional or specific resource is required, additional support is provided by Ernst & Young. A rotation programme is in place, such that every business unit site will have an internal audit at least once every three years, with the largest sites being reviewed at least once every two years. The rotation programme allows divisional management's actions and responses to be followed up on a timely basis. The internal audit programme of planned visits is discussed and agreed with the Committee during the year.

The internal auditor's remit includes assessment of the effectiveness of internal financial control systems, compliance with the Group's Policies and Procedures Manual and a review of the businesses' balance sheets. A report of key findings and recommendations is presented to Melrose senior management, including the Head of Financial Reporting, followed by a meeting to discuss these key findings and to agree on resulting actions.

The 2021 internal audit programme continued to be impacted by travel disruption caused by the COVID-19 global pandemic, resulting in the majority of site visits being conducted remotely. However, as was the case in 2020, the internal audit programme was adapted to reflect an achievable level of activity, acknowledging the ongoing implications from the global pandemic. Furthermore, the relaxation of travel restrictions in Q4 resulted in an increased number of physical site visits towards the end of the year. A total of 42 sites were assessed in 2021.

To supplement the internal audit programme, a targeted sample of sites were selected for a balance sheet review with interviews of site controllers conducted by the internal auditor and senior management, together with self-certification questionnaires which were discussed in detail with divisional finance directors at the internal control sign-off meetings. A report of all significant findings is presented by the internal auditor to the Committee at each meeting and implementation of recommendations is followed up at the subsequent Committee meeting.

During the previous year there were no significant deficiencies found in internal financial controls that needed action by the Group Finance Director and the Melrose accounting function. Any control findings are followed up by the businesses to ensure a strengthening of the site-based accounting functions, including specific action plans to address the shortcomings identified. Follow-up visits were performed during 2021 which identified significant progress in the improvement of financial controls at sites.

A review of the internal audit process and scope of work covered by the internal auditor is the responsibility of the Committee, to ensure their objectives, level of authority and resources are appropriate for the nature of the businesses under review. This also considers the insights provided, improvements achieved and feedback from a number of sources including key representatives of the Company.

The Committee reviewed the reappointment of BM Howarth Ltd as internal auditor following an assessment of the services delivered and approved their reappointment.

The Committee would like to thank the Group finance team, the internal auditor, the external auditor and the Group Company Secretariat for their hard work throughout 2021.



Liz Hewitt
Chairman, Audit Committee
3 March 2022

Nomination Committee 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.

Charlotte Twyning
Nomination 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.

Discharge of responsibilities

The Committee discharges its responsibilities through:

- regularly reviewing the size, structure and composition of the Board, including by means of overseeing the annual evaluation processes of the Board and its Committees, and providing recommendations to the Board of any adjustments that may be necessary from time to time;
- giving full consideration to succession planning in order to ensure an optimum balance of executive and Non-executive Directors in terms of skills, experience and diversity, and in particular formulating plans for succession for the key roles of Chairman of the Board and Chief Executive;
- reviewing the career planning and talent management programme related to senior executives of the Company to ensure that it meets the needs of the business;
- managing the Board recruitment process and evaluating the skills, knowledge, diversity and experience of potential Board candidates in order to make appropriate nominations to the Board;
- reviewing and approving the Board of Directors' Diversity policy and the Melrose Diversity and Inclusion policy; and
- keeping up to date and fully informed on strategic issues and commercial changes affecting the Company and the markets in which it operates.

The Committee's terms of reference, which were last reviewed by the Committee in November 2021, are available to view on our website, www.melroseplc.net, and from the Company Secretary at Melrose's registered office.

Committee membership and attendance

The Committee comprises solely independent Non-executive Directors. Archie G. Kane, former Chairman of the Committee, retired from the Board on 31 December 2021, and was succeeded as Chairman of the Committee by Charlotte Twyning effective 1 January 2022, who has been closely involved in the Committee's activities since her appointment 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.

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 2020, the Committee and the Board approved Justin Dowley's extended tenure for up to three years beyond the expiry of his nine year tenure in 2020 in accordance with the Code, to (amongst other things) help oversee succession planning for the Board. Justin Dowley remains subject to annual re-election at the Company's AGM each year and, reflective of the positive responses during the engagement, his reappointment continues to be strongly supported by shareholders.

Re-election and election of Directors

The effectiveness and commitment of each of the Directors is reviewed annually as part of the Board evaluation upon recommendations from the Committee. The Committee reviewed each Director in turn to satisfy itself as to the individual skills, relevant experience, contributions and time commitment of the Directors to the long-term sustainable success of the Company. The Committee and Board have satisfied themselves that each of the Directors should stand for re-election (and Heather Lawrence and Victoria Jarman should stand for election for the first time), and the justifications for such (re-)elections are set out on pages 91 to 92 of this Annual Report and in the Notice of Annual General Meeting on pages 211 to 216. As noted above, Liz Hewitt will retire as a Non-executive Director at the conclusion of this year's AGM and will therefore not stand for re-election.

Skills

Our Board possesses a wide range of knowledge and experience from a variety of sectors. In order to ensure the maximum effectiveness of the Board, the Committee continues to review the balance of skills and experience of Board members. The Committee considers that the current Directors, including the Non-executive Directors, have a diverse range of skills and experience that is necessary both to discharge their duties as Directors of the Company, and to create a culture of collaborative and constructive discussion, which enables the Board to contribute effectively to the delivery of the Company's strategy. The balance of skills across the Board is regularly reviewed by the Committee. As set out on page 81, the current Directors have skills and experience across five areas that the Committee considers to be key to delivering the Company's strategy: industrial; accounting and finance; legal; investment; and corporate governance.

Business unit succession planning

Given the strength of Melrose's decentralised operating structure in achieving the Group's strategic objectives, the Committee does not have direct responsibility for the succession planning arrangements of the businesses. This is the responsibility of the executive Directors, although the Committee retains oversight of changes and has access to the divisional executive teams through site visits and the business review cycle.

Diversity and inclusion

Melrose is a meritocracy and individual performance is the key determinant in any appointment, irrespective of ethnicity, gender or other characteristic, trait or orientation. However, the Board and the Committee also recognise the importance of diversity, and the Committee keeps its approach to diversity under regular review, including ensuring the development of a diverse Board and reviewing diversity policies on an annual basis. As a central part of its sustainability strategy, Melrose encourages diversity in all its forms both internally at all levels of the Group, and externally. In particular, four of the last five Non-executive Director appointments have been women, including the most recent two made in 2021, and all departures from the Board have been men. Furthermore, two of the Committee Chair roles in 2022 will be held by women. Melrose also continued to meet the Parker Review target of having one Director from an ethnic minority background on the Board by the end of 2021.

The Committee currently takes into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience and knowledge needed to ensure a rounded Board and the benefits each candidate can bring to the overall Board composition. The Committee also takes into account race, ethnicity, country of origin, nationality, cultural background and gender in the selection process to ensure a diverse Board and it also strongly encourages executives to adopt the same approach when making appointments to the Melrose Executive Committee and the wider senior management team. The most important priority of the Committee, however, has been, and will continue to be, to ensure that the best candidate is selected, and this approach will remain in place going forward.

As at 31 December 2021, Melrose had 42% female representation on its Board, which has increased to 45% following the retirement of Archie G. Kane on 31 December 2021, and therefore meets the expectations of the Hampton-Alexander Review of having 33% female representation on its Board.

Below Board level, Melrose established an Executive Committee at the beginning of 2020, in part, in order to better facilitate the way for a diverse pipeline for succession planning purposes and to recognise the diversity of thought at a senior level. This focus is represented through the fact that the Executive Committee and its direct reports consisted of 37% female representation (and 36% female representation specifically at an Executive Committee level) as at 31 December 2021, which is in line with the Hampton-Alexander Review target of diversity at this level.

As with succession planning, given Melrose's decentralised operating structure, the Committee does not have direct responsibility for the actual diversity policies and initiatives within the businesses, although they are required to align to the Melrose Diversity and Inclusion policy as a minimum standard, and Melrose provides constant encouragement to the businesses to make continual improvement.

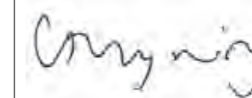
The Committee acknowledges that diversity and inclusion is a changing landscape. In 2021, the Committee determined to separate the existing Diversity policy into two distinct policies: a Melrose Board of Directors' Diversity policy, and a Diversity and Inclusion policy for Melrose more generally, in order to add clarity to the different policies in this area. The policies can be viewed on the Company's website at www.melroseplc.net/sustainability/. The Board of Directors' Diversity policy sets out the Committee's commitment to ensuring that Board membership and pipeline for succession remains diverse, and that it takes into account the recommendations of the Hampton-Alexander Review and the Parker Review. The Melrose Diversity and Inclusion policy, which is applicable to all Melrose employees, sets out Melrose's position on diversity and inclusion in its workforce. In particular, it highlights that Melrose aims to create a workforce that is diverse and inclusive, free from bullying, harassment, victimisation and unlawful discrimination. The principles of the policy apply throughout the Group, and our businesses are encouraged to promote diversity once they have 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.



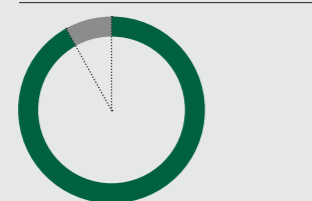
Charlotte Twyning
Chairman, Nomination Committee
3 March 2022

Diversity overview⁽¹⁾

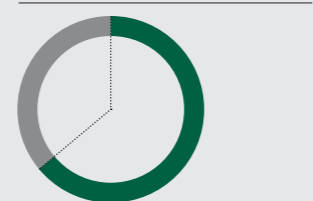
Board gender diversity



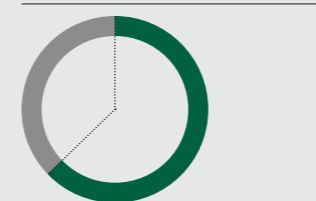
Board ethnic diversity



Melrose Executive Committee



Senior management and direct reports⁽³⁾



(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.

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 Committee has concluded that this is best achieved through the current approach, within the annual bonus scheme as part of the strategic element, as specific objectives relating to key items within the broader topic of sustainability, as determined by the Committee (see page 104 for further details). Executive Directors received limited benefits and a pension contribution capped at 15% of salary, being the same percentage contribution that all Melrose head office employees receive, and therefore aligned with the workforce. The table on page 105 sets out the most recently available CEO annual remuneration (excluding the LTIP element for comparison) and puts this deliberate strategy in context, highlighting a difference of almost £1 million from the average FTSE 100 CEO annual remuneration in 2020.

As this and the table on page 105 clearly indicate, the opportunity for significant reward has always been heavily weighted to the Company's long-term incentive arrangements, which are long-term in nature and based entirely on performance. Executive Directors have the opportunity to share in the value they create for shareholders above a threshold return over a three-year performance period; however, if they do not deliver the required level of performance to achieve the threshold return, they receive no payout, and we strongly believe that this continues to be the right approach for Melrose. We note that the continued market volatility has weighed on the current scheme, such that if the crystallisation date had been 31 December 2021 (effectively the half-way point of the performance period), then there would have been no award to the executive Directors. However, your Board believes that current initiatives being undertaken by management in the businesses will deliver value to shareholders within the remainder of the performance period.

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 compliance with the Directors' Remuneration Policy. The Committee's justification for this is set out on page 107.

Full details are set out in the Annual Report on Remuneration on pages 103 to 116 that will be put to an advisory vote at the 2022 AGM.

Shareholder engagement

We always strive for the full support of our shareholders in all that we do. They are critical to our success, we keep them informed, and their support is never taken for granted. We ran a comprehensive and successful consultation with shareholders in 2020 and early 2021 on the renewal of the Melrose long-term incentive arrangements, which was central to the strong shareholder support received in favour of the 2020 Employee Share Plan at the general meeting in January 2021, with a voting outcome of 82.64% in favour. There were no other key decisions relating to our remuneration structure that necessitated a formal engagement exercise with shareholders in 2021; however, we consult with our key shareholders and proxy advisors during the year and we are available to discuss any questions and concerns. The Committee will continue its programme of engagement during 2022 on matters relating to executive remuneration as appropriate, particularly as we approach the next-scheduled renewal of the Directors' Remuneration Policy in 2023.

We were very pleased that the 2020 Directors' Remuneration Report and the Directors' Remuneration Policy both received strong shareholder support at the 2021 AGM and the 2020 AGM respectively, receiving voting outcomes of 99.57% and 98.40% respectively.

Your Board considers that the Melrose remuneration structure is highly successful, appropriate for the value creation strategy, and critical to the ongoing long-term performance of the Company. We encourage you to provide your support for the 2021 Directors' Remuneration Report at the 2022 AGM.

Yours sincerely

David Lis
Chairman, Remuneration Committee
3 March 2022

Annual Report on Remuneration

In this section of the Directors' Remuneration report, we set out:

- the actual performance and executive remuneration outcomes for the 2021 financial year; and
- the application of the current Directors' remuneration policy (the "Directors' Remuneration Policy") to the 2021 financial year and how the Directors' Remuneration Policy was operated in 2021.

The Directors' Remuneration Policy was approved by shareholders at the AGM on 7 May 2020 with over 98% of votes cast in favour of the resolution, and subsequently amended on 21 January 2021 to include the 2020 Employee Share Plan, which was approved by shareholders on 21 January 2021 with over 82% of votes cast in favour of the proposal.

The full details of the Directors' Remuneration Policy can be found on pages 103 to 111 of the 2019 Annual Report⁽¹⁾ and the full details of the amendments can be found on pages 15 to 24 of the circular to shareholders dated 29 December 2020⁽²⁾.

Key elements of the Annual Report on Remuneration and where to find them

Element	Page
Single figure of remuneration	104 and 113
Share interests awarded in the Financial Year	None / 107
Statement of Director shareholdings and interests	108 and 113
Performance graph	110
CEO pay ratio	109 to 110
Percentage change in remuneration of the CEO	110 to 111
Relative importance of spend on pay	112
Consideration of matters relating to Directors' remuneration	103 to 104
Statement of voting	116
Payments to Past Directors / For Loss of Office	None / 105

Melrose's Remuneration Strategy

Since the Company was first established in 2003, the Remuneration Committee (the "Committee") has pursued a consistent remuneration strategy that closely aligns the executive Directors with the Company's shareholders, drives the Company's "Buy, Improve, Sell" model, and has been central to its success. This strategy is based around four key principles – namely, that executive remuneration is:

- (1) Simple** – since Melrose was first established, executive Directors have received the same four simple elements as the rest of the Melrose employees – base salary, annual bonus, pension contribution (15% of salary, being the same percentage contribution for all Melrose head office employees) and limited benefits – as well as being eligible under a single and consistent long-term incentive plan based on a single value creation metric.
- (2) Transparent** – each year, there is full and detailed disclosure in the Directors' Remuneration Report of each component of remuneration, including an explanation of the calculation of any variable element and the current value of any unvested award pursuant to the Melrose Employee Share Plan.
- (3) Supports the delivery of the value creation strategy** – with the fixed elements and the annual bonus cap being deliberately pegged well below the lower quartile of FTSE 100 peers, the opportunity for any significant reward is heavily weighted to the Melrose Employee Share Plan, which is entirely based on the creation of shareholder value.
- (4) Pays only for performance** – executive remuneration is heavily weighted to the Melrose Employee Share Plan, which pays nothing to participants unless the executive Directors deliver a threshold return to shareholders over a three-year period, and only pays a significant award if they materially outperform in the creation of shareholder value.

These four key principles are wholly aligned with the UK Corporate Governance Code (the "Code") factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture, as set out on pages 114 to 115. The Committee ensured that it took all of these elements into account when establishing the Directors' Remuneration Policy, as well as its application to executive Directors during the period.

(1) Available at www.melroseplc.net/media/2536/melrose-ar2019.pdf.
(2) Available at www.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.

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 specifically the Group's strategic KPIs on pages 30 to 31, demonstrates the good progress that was made in 2021 towards the achievement of our objective of building better, stronger businesses under our ownership, even against a challenging backdrop. The Company's Annual Bonus Plan focuses directly and indirectly on rewarding executive Directors and Melrose senior management for delivering these KPIs. The 2020 Employee Share Plan is designed to reward the flow-through of the successful implementation of the strategy into longer-term sustainable shareholder returns, consistent with previous incentive plans.

Sustainability

We mentioned in the last Directors' Remuneration Report that the Committee would be reviewing and considering in 2021 how progress on sustainability matters may be better incorporated into the executive remuneration structure. We appreciate that stakeholders are looking for remuneration committees to ensure that executive compensation structures and performance targets meaningfully reflect sustainability goals, and that such targets are clearly linked to the Company's commercial strategy. We want to ensure that we do not make changes to our remuneration structure for the sake of it; that we include purposeful targets, which are stretching and measurable, but which make sense for our business model.

The Committee is of the view that the most appropriate place to recognise such progress within the Melrose executive remuneration structure is in the Annual Bonus Plan, as it allows for performance assessment against a number of strategic elements, in addition to the focus on financial elements. The Committee has considered whether any amendments to the Directors' Remuneration Policy would be necessary in order to achieve this, and has concluded that currently this progress is most appropriately measured through the current annual bonus structure as part of the strategic objectives. This gives the Committee the maximum flexibility to determine which sustainability objectives are the most important in any particular period, as well as linking directly to the Company's business model by enabling an alignment against the Company's typical holding period for its businesses. It will also allow the Committee to determine what allocation of the strategic element is appropriate for these objectives, depending on their importance; it considers this to be important, given that topics relating to sustainability matters are constantly evolving in nature and priority, and given that management are still working with the businesses to formulate their sustainability strategies. Therefore, recognising that shareholders would not normally be asked to review the Directors' Remuneration Policy this year, no amendments to the Directors' Remuneration Policy were proposed at this time. However, the Committee noted that there were limitations that could be addressed and will continue to review the position as part of its considerations for the next-scheduled renewal 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	Total Variable £000
Christopher Miller	2021	551	2	n/a	–	83	635	635	–
	2020	490	2	n/a	–	80	572	572	–
David Roper ⁽⁵⁾	2021	230	1	n/a	–	34	265	265	–
	2020	490	3	n/a	–	80	574	574	–
Simon Peckham	2021	551	2	551	–	83	1,186	635	551
	2020	490	3	107	–	80	680	573	107
Geoffrey Martin	2021	450	9	450	–	68	977	527	450
	2020	395	10	86	–	65	556	470	86
Peter Dilnot ⁽⁶⁾	2021	450	15	450	–	68	983	533	450
	2020⁽⁷⁾	2,232	30	1,451	–	335	4,047	2,596	1,451

(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 pandemic. 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 (comprised of a 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 no value was 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 an executive Director.

(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.

Payments to past directors/for loss of office (audited)

David Roper, co-founder of Melrose, retired as a Director and as Executive Vice-Chairman of Melrose on 31 May 2021. He received his salary and benefits (including amounts attributable to pension contributions) from 1 January 2021 up to and including the date of his retirement on 31 May 2021. David Roper did not participate in the 2021 Annual Bonus Plan and he was not granted any further long-term incentive or other share awards in 2021. He retained two elements of his existing compensation during the year which technically qualify as payments for loss of office. Firstly, he continued to receive private medical insurance from retirement until the end of 2021, with a total value of £1,000. In addition, he retains his right to his Conditional Awards under the 2020 Employee Share Plan, qualifying as a "good leaver" under the rules of that plan. The Conditional Awards will vest in accordance with the rules of the 2020 Employee Share Plan. Other than the amounts disclosed on page 104, no other remuneration payment was made to David Roper in the year.

Archie G. Kane retired as a Director and as Chairman of the Nomination Committee of Melrose on 31 December 2021. He received his Non-executive Director fees from 1 January 2021 up to and including 31 December 2021. Non-executive Directors do not receive any taxable benefits, pension contributions or variable remuneration. Other than the amounts disclosed on page 113, no other remuneration payment was made to Archie G. Kane in the year and therefore no payment was made for loss of office.

No other payments for loss of office or any other payments have been made to former Directors during the year.

Comparison to peers

As part of an ongoing commitment to full transparency around remuneration structures at Melrose, the Committee has again benchmarked the Melrose Chief Executive's 2021 pay against the most recent available remuneration information from our FTSE 100 peers, being 2020⁽¹⁾.

As the table below shows, the single total figure of remuneration for the Melrose Chief Executive in 2021 was almost £1 million less than the FTSE 100 average in 2020, notwithstanding the reductions in both salaries and bonuses seen across the FTSE 100 in 2020 due to the pandemic, which will have impacted these comparison numbers. This demonstrates in practice the Committee's policy of deliberately setting salary, benefits and annual bonus for the executive Directors low, with the opportunity for significant reward being heavily weighted towards the Melrose Employee Share Plan, which is entirely performance based, and which ensures that executive Directors only receive substantial rewards when they have outperformed and created very significant value for shareholders.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Total	1,186	1,048	2,130	2,755

Each of the elements in the single figure table is set out in more detail below, along with the benchmark for the Melrose Chief Executive to the most recent available information for our FTSE 100 peers (being 2020).

Base Salary

Salaries are fixed at a level which is well below the lower quartile of FTSE 100 peers. Each executive Director received an inflationary increase in base salary of 3% effective from 1 January 2021.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Annual Salary	551	668	937	1,078

Pensions

Executive Directors receive the same 15% of base salary pension contribution⁽²⁾ as the rest of the Melrose head office employees, thereby providing alignment with the workforce. The Committee also notes that this is within the range of the wider workforce contributions provided in the UK. The level of the executive Director pension contributions has not changed since Melrose was founded, and no executive Director participates or has ever participated in a Group defined benefit or final salary pension scheme.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Pension Contribution	83	111	175	217
Pension Contribution %	15%	11%	17%	20%

Benefits

Executive Directors receive the same taxable non-pension benefits as the rest of the Melrose employees, being generally private medical insurance and a fuel allowance. The Group Finance Director also received paid train travel to and from London and the Chief Operating Officer received a car allowance.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Benefits	2	20	73	75

Annual Bonus

Annual bonuses are entirely performance driven and are calculated by the Committee using two elements: 80% being based on audited diluted earnings per share growth; and 20% based on the achievement of strategic elements. The maximum bonus opportunity is set at 100% of base salary, which is significantly below the lower quartile maximum annual bonus opportunity for other FTSE 100 companies as set out in the table below. The Executive Vice-Chairman does not participate in the annual bonus scheme.

For context, it is noted that for 2020, being the year for which the FTSE 100 comparison figures are provided, the Chief Executive received a bonus of 20% of salary, being £107,000.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Annual Bonus	551	0	902	1,369
Max bonus opportunity %	100%	150%	203%	215%

(1) For comparison 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.

(2) All of the amounts attributable to pension contributions were paid as supplements to base salary in lieu of pension arrangements.

2021 Annual Bonus (audited)

The 2021 Annual Bonus has applied a consistent approach to previous years, in line with the current Directors' Remuneration Policy. The Committee awarded participating executive Directors a bonus of 100% of their 2021 base salary, based on 2021 performance, with the full 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 for this part of it. The Committee did not seek to exercise any discretion to adjust for this. With respect to the strategic element, having given detailed and thorough consideration to each of the strategic objectives and management's performance against them during 2021, the Committee determined that each of the strategic objectives was fully met during 2021 and therefore that the strategic element was met in full. The Committee determined that no exercise of discretion to adjust this element of the award was required. Full disclosure of the strategic objectives and why the Committee determined that these had been met is provided below. The Committee considers that the payout is consistent with 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 well as institutional shareholders, regarding the payment of executive annual bonuses while the COVID-19 pandemic continues. In light of the Company's performance during 2021, including the reinstatement of dividends and return of capital made to shareholders, the Committee believes that the executive remuneration awarded for 2021 is appropriate and in line with that guidance. It is noted 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, 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 executive remuneration structure to incorporate process on sustainability matters. The Committee specifically considered environmental, social and governance factors when considering the strategic objectives for 2021 (outlined below) and the extent to which these were met by the executive 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 bonus earned
	Threshold	Target	Maximum	Actual Performance
EPS Growth	5%	10%	20%	71% ⁽¹⁾
% award	20%	40%	80%	80%
EPS Growth sub-total:				80%
Strategic Objectives (20%)				Percentage of maximum bonus earned
Completion of restructuring projects – 4%	Management made significant progress with the "Improve" phase of Melrose ownership for the GKN businesses, tackling some 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 on 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.			4%
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 businesses 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 restructuring projects were self funded throughout the year.			3%
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 amount used to fund dividends and the return of capital in 2021).			3%
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 cost base of each business, so that they should meet their stated margin targets as their markets recover to pre-pandemic levels.			3%
Sustainability – 4%	<p>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 and commitments in 2021, and established a robust data platform that will enable progress against these targets to be measured.</p> <p>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 Listing 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.</p> <p>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 2021, 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 the currently crowded landscape of ESG ratings agencies, there were improvements across the board.</p>			4%
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 future cash flows for the Group, with no funding requirement from future disposal proceeds.			3%
Strategic Objectives sub-total:				20%
Total annual bonus for 2021:				100%

(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 of 0.6 pence. However, the Committee has taken the conservative approach of using the original figure for 2020 when calculating growth in EPS between 2020 and 2021.

The 2021 bonus payments to the Chief Executive and the Group Finance Director will be made in cash, as both have exceeded their minimum shareholding requirements. As per the terms of the Directors' Remuneration Policy, clawback measures will apply to the 2021 annual bonus payments.

Under the terms of the Directors' Remuneration Policy, the Chief Operating Officer, who was appointed as a Director on 1 January 2021, has three years from his appointment in which to meet the minimum shareholding requirement of 300% of salary. As at 31 December 2021, the Chief Operating Officer did not meet this requirement, although he made purchases of 82,000 ordinary shares during the year towards this requirement, for a total purchase price of approximately £125,000, which is equal to approximately 50% of his net 2021 annual bonus. Under the terms of the Directors' Remuneration Policy, up to 50% of an executive Director's bonus award may be deferred into shares for up to two years, where he or she does not meet the minimum shareholding requirement.

The Committee has determined to exercise its discretion and to award the Chief Operating Officer's annual bonus for 2021 in cash, while he continues to build up to the minimum shareholding requirement. This was considered to be appropriate in light of his acquisition of shares during the year, which were equal to approximately 50% of his net 2021 annual bonus, the unprecedented impact of the pandemic on the performance of the 2017 LTIP (in which the Chief Operating Officer was a participant), which caused it to crystallise for no value (and would have been awarded in shares and therefore contributed towards meeting the requirement), the further period available to build the necessary stake, which will grant him sufficient time outside of the Company's closed periods in which to make further purchases of shares to the extent required, and that such a payment in cash is not misaligned with shareholders and other stakeholders. The Committee considers that the Chief Operating Officer continues to remain fully incentivised under the 2020 Employee Share Plan, which is for the benefit of, and aligned with, the interests of shareholders.

Long-term incentive arrangements (audited)

No long-term incentives were either granted or crystallised during the 2021 financial year under the 2020 Employee Share Plan.

The 2020 Employee Share Plan, which was approved by shareholders on 21 January 2021, is due to crystallise on 31 May 2023. Participants in the 2020 Employee Share Plan share in 7.5% of the increase in invested capital above a 5% annual charge, measured at the end of a three-year performance period commencing on 31 May 2020, which the Committee considers to be the appropriate performance condition in light of the Company's business model and strategy. Awards are subject to an annual rolling cap and downwards adjustment in the event of an earlier than expected aerospace market recovery, which means that executive Directors will not be rewarded for windfall gains. The awards under the 2020 Employee Share Plan are structured as Conditional Awards, which are contingent rights to be granted an award of ordinary shares of the Company or a nil cost option (exercisable into ordinary shares of the Company) on the crystallisation date.

The Conditional Awards of the executive Directors under the 2020 Employee Share Plan were made in one grant on 29 December 2020, subject to approval by shareholders. This approval was granted at the general meeting that was held on 21 January 2021. Full details of the 2020 Employee Share Plan, including the participation rate percentages of the executive Directors, are set out in the circular dated 29 December 2020⁽¹⁾.

(1) Available at www.melroseplc.net/media/2587/291220-melrose-circular.pdf.
(2) Following the Share Capital Consolidation which became effective on 31 August 2021.

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.

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 of shares equal to 300% of salary, for which they are given a period of three years from appointment to meet. The second requirement is for executive Directors to hold all the shares they acquire pursuant to crystallisation of the 2020 Employee Share Plan (to the extent that crystallisation results in an award of ordinary shares being made), after satisfying tax obligations following the crystallisation of that plan and subject to capital adjustments, 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 requirement of 300% of salary, for a two-year period following the date of cessation. This obligation is enforceable under direct contractual arrangements between the Company and each executive Director. We note that these post-cessation obligations currently apply to David Roper following his retirement on 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, who was only appointed as an executive Director on 1 January 2021), which reflects their long-term stewardship of the Company and long-term investment in the Company's shares. It is the Committee's view that it is important when considering the remuneration paid in the year under the single figure to take a holistic view of how each executive Director's total wealth is linked to the performance of the Company. In the Committee's opinion, the impact on the total wealth of an executive Director is as important as the single figure in any one year; this approach encourages executive 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 executive Directors 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 Company. It also sets out the number of ordinary shares of the Company held by each executive Director at the end of the 2020 and 2021 financial years 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) ⁽²⁾	Current shareholding (% salary) ⁽³⁾	Shareholding requirement met?	Shareholding (% ordinary share capital) as at		Shares beneficially held on 31 December 2021 ⁽⁴⁾	Shares beneficially held on 31 December 2020 ⁽⁴⁾	Value of shares on 31 December 2020 ⁽⁵⁾ £	Value of shares on 31 December 2021 ⁽⁵⁾ £	Difference in value of shares between 31 December 2020 and 31 December 2021 £
				31 December 2021	31 December 2020					
Christopher Miller	300%	6,612%	Yes	0.521%	27,108,510	22,777,659	48,266,702	36,421,477	(11,845,225)	
Simon Peckham	300%	3,504%	Yes	0.276%	17,413,217	12,071,895	31,004,233	19,302,960	(11,701,273)	
Geoffrey Martin	300%	2,365%	Yes	0.152%	7,395,256	6,655,730	13,167,253	10,642,512	(2,524,741)	
Peter Dilnot	300% ⁽⁷⁾	36%	No	0.002%	18,000	100,000	32,049	159,900	127,851	

(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 Share Plan (see "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 the meaning of the 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 normally be withheld provided the executive Director will continue to hold at least the "minimum number" of ordinary shares referred to in the table above 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. Christopher Miller and Simon Peckham gifted 1,800,000 ordinary shares and 4,000,000 ordinary shares respectively during the period to family members for nil consideration, as part of standard family financial planning. There have been no changes in the ordinary shareholdings of the executive 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 bonus arrangements for 2022 will remain the same as in 2021, with a maximum bonus opportunity of 100% of salary, based on financial and strategic performance metrics, allocated 80% to financial objectives and 20% to strategic objectives (which will include objectives designed to measure progress in respect of key sustainability matters). The financial performance metric remains consistent with prior years as audited diluted earnings per share growth, which the Committee considers remains the appropriate metric for the Company. The Committee considers that the targets for the financial performance metrics and the details of the strategic performance measures are commercially sensitive but will disclose the nature of both measures on a retrospective basis, where appropriate, on a similar basis to the disclosure on page 106 in respect of the annual bonus for the year ending 31 December 2021.

Long-term incentive arrangements

Given the nature of the long-term incentive arrangements that the Company has in place (see "Long-term incentive arrangements" on page 107), no grants will be made to the executive Directors during 2022.

Regulatory disclosures

Chief Executive remuneration for previous ten years

In accordance with the regulations governing the reporting of executive Director remuneration, the total figure of remuneration set out in the table below includes the value of long-term incentives vesting in respect of the relevant financial year. This means that the full value of the crystallisation 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 Incentive Plan which crystallised in May 2017 is shown for the year ended 31 December 2017, although these each represent rewards earned over the previous five years. The 2017 Incentive Plan crystallised in May 2020 for no value. Per the terms of the 2020 Employee Share Plan, the next award in relation to long-term incentive arrangements is not payable until May 2023, and only if the performance conditions are met.

Financial year	Chief Executive	Non-LTIP £	LTIP £	Total remuneration £	Annual bonus as a percentage of maximum opportunity	Long-term incentives as a percentage of maximum opportunity
Year ended 31 December 2021	Simon Peckham	1,186,316	–	1,186,316	100%	–
Year ended 31 December 2020	Simon Peckham	680,113	– ⁽¹⁾	680,113	20%	n/a ⁽²⁾
Year ended 31 December 2019	Simon Peckham	976,000	–	976,000	72%	–
Year ended 31 December 2018	Simon Peckham	1,049,000	–	1,049,000	95%	–
Year ended 31 December 2017	Simon Peckham	994,000	41,770,000 ⁽³⁾	42,764,000	90%	n/a ⁽⁴⁾
Year ended 31 December 2016	Simon Peckham	987,725	–	987,725	95%	–
Year ended 31 December 2015	Simon Peckham	928,541	–	928,541	88%	–
Year ended 31 December 2014	Simon Peckham	773,167	–	773,167	58%	–
Year ended 31 December 2013	Simon Peckham	927,276	–	927,276	100%	–
Year ended 31 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⁾

(1) The 2017 Incentive Plan crystallised in May 2020 for no value.

(2) Although the 2017 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 upon the shareholder value created over the relevant period, it would not have been possible to express the value derived as a percentage of the maximum opportunity.

(3) The value derived 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 period of approximately five years. This amount was paid in shares, not cash.

(4) On the crystallisation 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 value derived on 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 percentage of the maximum opportunity.

(5) In the year ending 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 2012 onwards. In 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 and in respect of 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 Peckham is the 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.

(6) The value derived 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 over a period of approximately five years.

(7) On the crystallisation 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. Because the value 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 as a percentage of the maximum opportunity.

CEO pay ratio

Our median CEO to employee pay ratio for 2021 continued to be low at 29:1. The following table provides pay ratio data in respect of the Chief Executive's total remuneration compared to the 25th, median and 75th percentile UK employees.

Financial year	Method	25 th percentile pay ratio	Median pay ratio	75 th percentile pay ratio
Year ended 31 December 2021	Option A	34:1	29:1	23:1
Year ended 31 December 2020	Option A	20:1	16:1	13:1
Year ended 31 December 2019	Option A	30:1	24:1	19:1

The employees used for the purposes of calculating the pay ratios in the table above were those employed in the UK by any business within the Group on 31 December 2021 (for the avoidance of doubt, including the Chief Executive), and the remuneration figures were determined with reference to the financial year to 31 December 2021. Option A was chosen as it is considered to be the most accurate way of identifying the relevant employees. This captures all relevant pay and benefits and aligns to how the single figure table is calculated for the Chief Executive and other Directors. The value of each employee's total pay and benefits was calculated using the single figure methodology consistent with the Chief Executive, with the exception of the annual bonus, which was calculated using 2020 financial year bonuses (which were paid during 2021) where the 2021 financial year data was not available at the last practical date before the finalisation of this report. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to reflect full-time and full-year equivalents based on the employees' contracted hours and the proportion of the year they were employed. None of the employees included in the pay ratios were on furlough during any part of 2021.

The following table provides salary and total remuneration information in respect of the employees at each quartile.

Financial year	Element of pay	25 th percentile pay employee	Median employee	75 th percentile employee
Year ended 31 December 2021	Salary and wages ⁽¹⁾	£31,000	£37,000	£46,000
	Total pay and benefits	£35,000	£41,000	£52,000

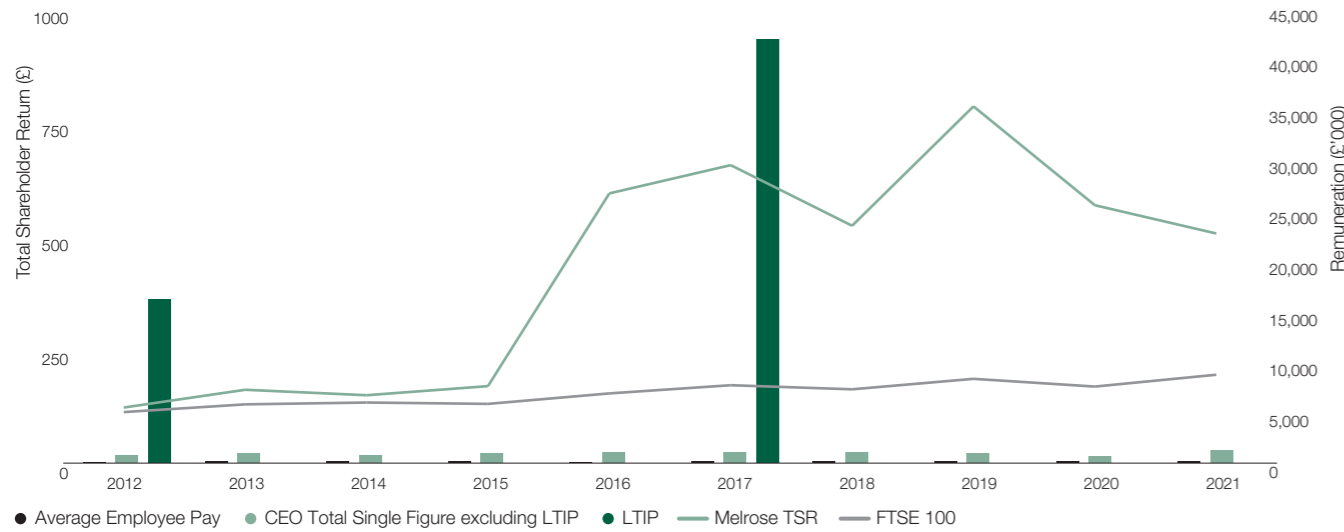
(1) Base salary includes overtime and shift allowances/premiums. The individual at the median received shift premium and overtime during the year.

All ratios have risen slightly since last year. This primarily reflects the return of the Chief Executive's remuneration to full levels following the temporary and voluntary 20% reduction to his salary in 2020 during the pandemic, as well as the significant reduction to his 2020 annual bonus due to the impact of the pandemic. The Chief Executive's salary returned to its full level in 2021, coupled with strong performance in 2021 resulting in a significantly improved annual bonus payout, for the reasons set out on page 106. We note that there was no element of his long-term incentive arrangements that was due to vest in 2021.

Across the businesses, there was also a return to normality in terms of employee pay levels, with furlough schemes no longer being used and improved performance resulting in expected higher performance outcomes for employee bonuses earned in relation to 2021 versus 2020. However, it is noted that 2021 annual bonus data for approximately 84% of the employees included in the 2021 disclosure was not available 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 much lower on average than 2021 bonuses, this has resulted in lower employee numbers and consequentially higher ratios than if the 2021 bonus data had been available as at the date of this report. Notwithstanding this, the trend in the median CEO pay ratio over time has, to date, broadly moved in line with changes in the Chief Executive's remuneration, and therefore continues to reflect the relationship between the Chief Executive's pay 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 amongst the UK workforce. The Committee considers that the median pay ratio is consistent with the relative role and responsibilities of the Chief Executive and the identified employee. Base salaries of all employees, including our executive Directors, are set with reference to a range of factors, including market practice, experience and performance in role. The Chief Executive's remuneration package is weighted towards variable pay due to the 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 is indeed likely to be higher in years where long-term incentive arrangements crystallise. The Chief Executive's remuneration package is otherwise very 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 illustrative chart tracking CEO pay and average employee pay over the last ten financial years alongside Melrose's TSR performance and the FTSE 100's TSR performance over the same period. The Committee has always been committed to ensuring that the Chief Executive's reward is commensurate 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 Director compared to the average increase for a group consisting of the Company's senior head office employees and the divisional CEOs and CFOs of the Group's business units. The reporting legislation in this regard requires companies to publish the annual percentage change in the total remuneration of Directors and employees of the Company. The Company itself does not have any employees other than the executive Directors. However, in the interest of providing a relevant comparison to stakeholders, we choose to voluntarily disclose a comparison against the aforementioned group of senior management, which we consider to be an appropriate comparator group because of their level of seniority and the structure of their remuneration packages. The spread of the Company's operations across various countries and industries means that remuneration policies vary to take account of geography and industry such that the Committee considers that selecting a wider group of employees would not provide a meaningful comparison. The percentages shown relate to the financial year ended 31 December 2021 as a 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 Directors, the percentage increases have been distorted by the temporary 20% reduction that all Directors agreed to take during 2020 to support the Group's cash management strategy in light of the pandemic. The contractual increases for their basic salary and fees for both 2020 and 2021 were 3% 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 the executive Directors due to the pandemic, a full award of 100% of salary for 2021 has resulted in a large percentage increase.

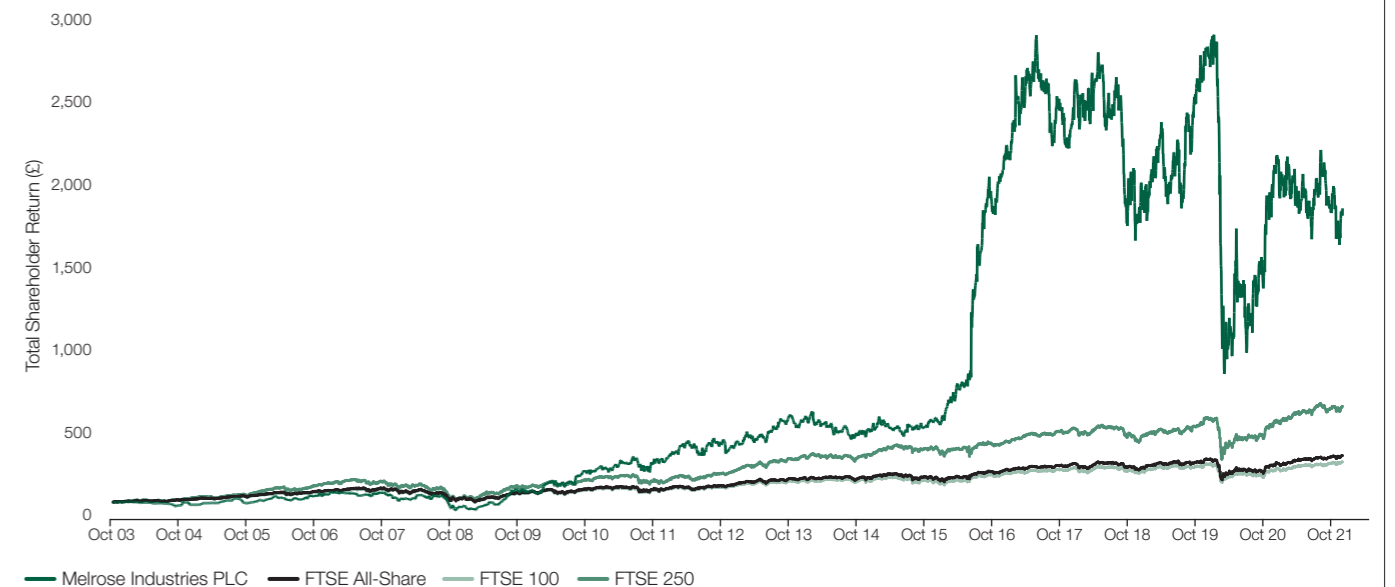
Element of remuneration	2021			2020		
	Basic salary/fee percentage change ⁽¹⁾	Benefits percentage change ⁽²⁾	Annual bonus percentage change ⁽³⁾	Basic salary/fee percentage change ⁽⁴⁾	Benefits percentage change ⁽²⁾	Annual bonus percentage change ⁽⁵⁾
Executive Directors						
Christopher Miller	12%	-30%	n/a	-6%	-20%	n/a
Simon Peckham	12%	-26%	415%	-6%	-2%	-71%
Geoffrey Martin	14%	-6%	422%	-6%	7% ⁽⁶⁾	-72%
Peter Dilnot ⁽⁷⁾	-	-	-	-	-	-
Non-executive Directors						
Justin Dowley	12%	n/a	n/a	-6%	n/a	n/a
Liz Hewitt	8%	n/a	n/a	5%	n/a	n/a
David Lis	10%	n/a	n/a	-4%	n/a	n/a
Charlotte Twynning	12%	n/a	n/a	-6%	n/a	n/a
Funmi Adegoke	12%	n/a	n/a	278% ⁽⁸⁾	n/a	n/a
Heather Lawrence ⁽⁹⁾	-	-	-	-	-	-
Victoria Jarman ⁽¹⁰⁾	-	-	-	-	-	-
Senior employees⁽¹¹⁾	6%	92%	167%	-1%	11%	45%⁽¹²⁾

- (1) The annual percentage 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 the financial year 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 strategy in light 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 Committee, the Audit Committee and the Nomination Committee, and for holding the position of Senior Independent Director.
- (2) Benefits data is calculated on the same basis as the benefits data in the single total figure table. It does not include any pension allowances.
- (3) The annual percentage 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 31 December 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. It is noted that executive Director annual bonuses for 2020 were significantly reduced as a result of the pandemic, and therefore result in a large increase for 2021.
- (4) The annual percentage 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 31 December 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 both their basic 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 position of Senior Independent Director.
- (5) The annual percentage 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 31 December 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. It is noted that executive Director annual bonuses for 2020 were significantly reduced as a result of the pandemic, and therefore result in a large decrease for 2020.
- (6) This reflects an increase to the annual train travel fare.
- (7) Peter Dilnot was appointed to the Board with effect from 1 January 2021 and therefore no prior year comparison is possible.
- (8) Funmi Adegoke 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 directorship in 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 percentage change is -6%.
- (9) Heather Lawrence was appointed to the Board with effect from 1 June 2021 and therefore no prior year comparison is possible.
- (10) Victoria Jarman was appointed to the Board with effect from 1 June 2021 and therefore no prior year comparison is possible.
- (11) In light of the Company'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.
- (12) The change shown was impacted by legacy retention awards granted to GKN employees prior to our acquisition, a number of which crystallised during the period.

Total Shareholder Return

The total shareholder return graph below shows the value as at 31 December 2021 of £100 invested in the Company in October 2003, compared with £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 demonstrates very clearly the long-term performance of the Company.

The Committee considers the FTSE 100 Index, the FTSE 250 Index and the FTSE All-Share Index to be appropriate indices for the year ended 31 December 2021 for the purposes of this comparison because of the comparable size of the companies which comprise the FTSE 100 Index and the FTSE 250 Index and the broad nature of companies which comprise the FTSE All-Share Index. The data shown below assumes that all cash returns to shareholders made by the Company during this period are reinvested in ordinary shares.



Wider workforce considerations

Melrose is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation in a fair manner. The Committee is mindful of wider workforce remuneration and conditions, and uses its awareness of these arrangements to ensure 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 have responsibility for setting and managing the remuneration of the Melrose senior management team nor the divisional executive teams, which are the responsibility of the Melrose Chief Executive, nor the pay policies of the business units, which are the responsibility of the divisional executive teams. The businesses are responsible for engaging with their respective workforces in relation to remuneration. The Committee remains of the view that such an approach is appropriate in light of Melrose's decentralised business model. The Committee does, however, have oversight of workforce pay, policies and incentives at a Melrose level and at a business unit executive level, which enables it to ensure that the approach taken to executive remuneration is consistent with those workforces. This consistency is evidenced by the 15% pension contribution and other benefits payable to the executive Directors, which are equal to those for Melrose head office employees and within the range of benefits of the 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 this be appropriate. However, when conducting its review, it does pay particular attention to whether each element of remuneration is consistent with the Company's remuneration philosophy. The Committee receives detail on divisional executive team remuneration, as well as an annual confirmation from each business, via the Workforce Advisory Panel, that the remuneration provided to its executive team is consistent with the remuneration provided to its wider workforce, and that the incentives operated by that business align with its culture and strategy. Based on these disclosures, and in light of the Company's decentralised structure, the Committee is satisfied that the approaches taken to remuneration 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 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.

Retirement provisions

The Company provides retirement benefits to Melrose employees and the business units determine the retirement benefits provided to their respective employees. The Group's commitments with regards to pension contributions are 15% of an employee's salary for members of the Melrose pension scheme, including the executive Directors, and these contributions are within the range of pension provisions across our 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 pension plans of our business units. As further detailed on page 5, Melrose has a stellar record of successfully taking underfunded pension schemes under our stewardship and bringing them to being fully funded. In particular, under Melrose ownership, 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.

Long-term incentives

Participation in the 2020 Employee Share Plan is limited to senior Melrose head office employees. However, we also recognise the need to appropriately incentivise the executive teams of our businesses, in order to ensure that they are invested in helping us to build stronger, better businesses. Consistent with Melrose's decentralised business model, divisional long-term incentive plans have been implemented for senior managers of our key businesses, to incentivise them to create value for the Company and our shareholders. Depending on the amount of value created in relation to that particular business, participants in such incentive plans will receive a cash payment on the sale of the business. If a sale of the relevant business has not occurred within a certain period, the incentive plan will crystallise and any payment to be made to 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	Year ended	Percentage change
	31 December 2020 £ million	31 December 2021 £ million	
Remuneration paid to all employees ⁽¹⁾	2,071	2,020	-2%
Distributions to shareholders by way of dividend and share buy back	–	798 ⁽²⁾	n/a ⁽³⁾

(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 the table is 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.

Non-executive Directors

Single figure table and share interests (audited)

The following table sets out the single figure of remuneration for 2021 in comparison with 2020 for the Company's Non-executive Directors⁽¹⁾:

Non-executive 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
Justin Dowley (Chairman)	2021	371	–	n/a	371	371	–
	2020	330	–	n/a	330	330	–
Liz Hewitt (Senior Independent Director)	2021	80	45	n/a	125	125	–
	2020	71	45	n/a	116	116	–
David Lis	2021	80	20	n/a	100	100	–
	2020	71	20	n/a	91	91	–
Archie G. Kane ⁽⁴⁾	2021	80	10	n/a	90	90	–
	2020	71	10	n/a	81	81	–
Charlotte Twyning	2021	80	–	n/a	80	80	–
	2020	71	–	n/a	71	71	–
Funmi Adegoke	2021	80	–	n/a	80	80	–
	2020	71	–	n/a	71	71	–
Heather Lawrence ⁽⁵⁾	2021	46	–	n/a	46	46	–
	2020	–	–	–	–	–	–
Victoria Jarman ⁽⁶⁾	2021	46	–	n/a	46	46	–
	2020	–	–	–	–	–	–
Total	2021	863	75	n/a	937	937	–
	2020	685	75	n/a	760	760	–

(1) The "Total" figures in the above table may not add up to the sum of the component parts due to rounding.

(2) Along with the executive 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 strategy in light of the pandemic. The amounts stated in the table for 2020 are the actual amounts that were paid to the Non-executive Directors.

(3) These are additional fees for holding the Chairmanship of the Remuneration Committee, the Audit Committee and the Nomination Committee, and for holding the position of Senior Independent Director. There are no additional fees payable for membership of a Committee. All of our Non-executive Directors are members of at least one Committee.

(4) Archie G. Kane retired as a Non-executive Director of the Company on 31 December 2021.

(5) Heather Lawrence 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 December 2021.

(6) Victoria Jarman 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 December 2021.

The following table sets out the subsisting interests in the equity of the Company held by the Non-executive Directors 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 Company:

Non-executive Directors	Ordinary shares held as at 31 December 2021 ⁽¹⁾	Shareholding (% ordinary share capital) as at 31 December 2021
Justin Dowley	1,424,480	0.0326%
Liz Hewitt	190,239	0.0044%
David Lis	413,052	0.0094%
Charlotte Twyning	70,246	0.0016%
Funmi Adegoke	–	–
Heather Lawrence	22,500	0.0005%
Victoria Jarman	13,500	0.0003%

(1) For these purposes, the interests of each Non-executive Director listed in the table include any ordinary shares held by a person closely associated with that Non-executive Director within the meaning of the EU Market Abuse Regulation, as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

Non-executive Directors' fees

Non-executive Directors' basic fees and the Non-executive Chairman's fee have been increased by 3% with effect from 1 January 2022, in keeping with increases made to executive Directors and other Melrose head office employees, and in line with the Company's FTSE 100 peers. We note that while all Non-executive Directors serve on at least one of the Company's committees (and most serve on multiple committees), there are no additional committee membership fees. As noted in the single figure table above, the Company remains of the view that it is not appropriate for our Non-executive Directors to receive any taxable benefits, 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.

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 Twynning	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 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.

Attendance at meetings

The attendance of the Non-executive Directors at the scheduled meetings of the Committee in 2021 was as follows:

Member	No. of meetings ⁽¹⁾
David Lis (Chairman)	●● 2/2
Justin Dowley	●● 2/2
Archie G. Kane ⁽²⁾	●● 2/2
Charlotte Twynning	●● 2/2
Funmi Adegoke ⁽³⁾	●● 2/2
Victoria Jarman ⁽⁴⁾	● 1/1

(1) Reflects regularly scheduled meetings of the Committee that took place in 2021.

(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 all Committee 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, the key provisions of the Code and the Financial Conduct Authority's Listing Rules and Disclosure Guidance and Transparency Rules, including in relation to minimum shareholding requirements, post-cessation minimum shareholding requirements, pension alignment, malus and clawback, and discretion to override formulaic outcomes.

The Directors confirm that this report has also been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

As mentioned on page 103, the four principles of the Melrose remuneration structure are wholly aligned with the Code factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture, as set out in the table opposite. The Committee ensured that it took all of these elements into account when establishing the Directors' Remuneration Policy, as well as its application to executive Directors during the period.

Factor	How the Remuneration Committee has addressed and link to strategy
Clarity	<p>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.</p> <p>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.</p>
Simplicity	<p>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.</p> <p>In the Committee's view, this provides a very simple incentive framework which can be understood by all of the Company's stakeholders.</p>
Risk	<p>The Directors' Remuneration Policy includes the following elements to mitigate against the risk of target-based incentives:</p> <ul style="list-style-type: none"> • 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.
Predictability	<p>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.</p> <p>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.</p> <p>The method of calculation, limits and discretions under the Directors' Remuneration Policy are clearly set out.</p>
Proportionality	<p>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.</p>
Alignment to culture	<p>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.</p>

Committee membership

All members of the Committee are independent Non-executive Directors within the definition of the Code. None of the Committee members have any personal financial interest (other than as shareholders in the Company) in matters to be decided, nor do they have any conflicts of interest from cross-directorships or any day-to-day involvement in running the business.

Advisors to the Remuneration Committee

During the year, the Committee received advice on the remuneration reporting regulations from PwC LLP. PwC LLP's fees for this advice were £38,850 excluding VAT, which were charged on a time/cost basis. During the year, PwC LLP also provided the Company with reward, tax, accounting, and consulting advice.

The Committee appointed PwC LLP to act as its remuneration consultants and the Committee determined to reappoint PwC LLP to act for the period under review. PwC LLP is a member of the Remuneration Consultants Group, and as such chooses to operate pursuant to a code of conduct that requires remuneration advice to be given objectively and independently. The Committee is satisfied that the advice provided by PwC LLP in relation to remuneration matters is objective and independent.

The Company Secretary acts as secretary to the Committee and attends Committee meetings.

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 Policy at the 2020 AGM, on the 2020 Employee Share Plan at the January 2021 general meeting, and on the consequential amendments to the Directors' 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 May 2020)

● Percentage of votes cast for the resolution	98.40%
● Percentage of votes cast against the resolution	1.60%
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 Directors' Remuneration Policy to accommodate the 2020 Employee Share Plan (21 January 2021)

● Percentage of votes cast for the resolution	81.81%
● Percentage of votes cast against the resolution	18.19%
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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and with International Financial Reporting Standards ("IFRSs") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements also comply with IFRSs as issued by the IASB. The Directors have also chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement, each of which complies with law and regulation.

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

Directors' responsibility statement

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

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 fair view of 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 then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and 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, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under 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 audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the 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 of advisory services around the permissibility of paying a dividend in one of the Group's overseas subsidiaries. This entity was no longer a subsidiary by the year end and no specific reporting was required from the overseas firm in respect of this component. The fee for this work was approximately £7,000. In our opinion, based on the monetary value and the nature of services provided, the impact of providing the services was immaterial and inconsequential, however this is a breach, albeit insignificant, of the Ethical Standard. Following investigation it was concluded in agreement with the Audit Committee that given the size of the services provided and their potential impact, as well as the safeguards in place, the provision 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ! Newly identified ↑ Increased level of risk ↔ Similar level of risk ↓ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £30 million which was determined on the basis of a number of benchmarks including adjusted profit before tax, net assets and revenue.	
Scoping	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.	
Significant changes in our approach	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.	

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included assessment of the following:

- obtained understanding of the financing facilities including nature of facilities, repayment terms and covenants;
- assessed the impact of risk and uncertainties on the business model and future cash flow forecasts;
- considered as part of our assessment the nature of the group, its business model and related risks including where relevant the impact of Covid-19, the requirements of the applicable financial reporting framework and the system of internal control;
- evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment. This was done through detailed assessment of the operating and non-operating cash flows for reasonableness and consistency with the underlying forecast and plans for individual businesses;
- assessed the sufficiency of headroom available in the forecasts (cash and covenants) with respect to the risks and uncertainties;
- assessed management's sensitivity analysis in order to assess whether that the reasonable worst-case sensitivities capture all the reasonably possible downside risks and uncertainties; and
- assessed the adequacy of the disclosures provided in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may 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 months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities 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

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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 statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the 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 thereon, and we do 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 acquired intangible assets balance is £4,193 million (2020: £5,150 million). As required by IAS 36 Impairment of assets ("IAS 36") management performs an impairment review for all goodwill balances on an annual basis and for other assets whenever an indication of 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 quantitative significance of the balances, and the application of management judgement and estimation in performing impairment reviews, specifically with respect to:

- The selection of the appropriate methodology (fair value less costs to sell or value in use) in determining recoverable 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 industries;
- 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 reduced economic uncertainty. During the year the automotive industry has been adversely impacted by the shortage in semi-conductors which disrupted the supply chain. Other economic factors such as cost inflation and increased interest rates have also affected the group. Overall, we have identified a heightened risk in relation to the Automotive group of CGUs.

Further details are included in note 11 to the group financial statements in relation to the sensitivities reflecting the risks inherent in the valuation of goodwill and other non-current assets and also in note 3 to the group financial statements in 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 assets, in particular the relevant controls over the forecasts that underpin the value in use and fair value less cost to sell models and controls around management's preparation of impairment models.

We assessed management's impairment paper, underlying analysis and supporting financial models, and challenged the reasonableness of the assumptions that underpin management's forecasts. Specifically, our work included, but was not limited to:

- assessing the methodology selected by management to estimate recoverable amount (fair value less cost to sell or 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 future restructuring programmes;
- challenging management's assumptions within the impairment models, particularly forecast cash flows and how management will achieve improvements to operating margin through ongoing restructuring programmes by benchmarking against previous restructuring programmes;
- benchmarking long term growth rates to applicable macro-economic and market data, also taking into account the assumed recovery for the Covid-19 pandemic;
- involving our internal valuation specialists to challenge the discount rate applied, by obtaining the underlying data used in the calculation and benchmarking it against market data and comparable organisations, and by evaluating the 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 the 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 financial 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 the overall position adopted was reasonable and that the disclosures in respect of reasonably possible changes to key assumptions are appropriate.

5.2 Classification of adjusting items

Key audit matter description

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).

How the scope of our audit responded to the key audit matter

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.

Key observations

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

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5.3 Revenue Recognition in respect of RRSPs

Key audit matter description	<p>The group has recognised total revenue of £6,883 million in 2021 (2020: £7,132 million).</p> <p>There are judgements taken within the revenue recognition of material Risk and Revenue Sharing Partnerships ("RRSPs") in the Aerospace division (where revenue totals £2,543 million (2020: £2,804 million)). The risk specifically arises in the Engine Systems businesses and focuses on the timing at which performance obligations are met as well as the valuation of revenue recognised given the increased level of estimation and judgement on application of principles set out in IFRS 15 Revenue from contracts with customers. This includes the revenue recognised from those contracts identified by management where the pricing for the same parts varies across the contract. There is judgement in how the overall price is allocated across the units supplied where there is a contractual right to aftermarket revenues in consideration of the requirements of IFRS 15 to constrain variable consideration recognised. The amount of revenue recognised from RRSP contracts during the year was £402 million, which includes variable consideration of £55 million (2020: £354 million, which included variable consideration of £13 million).</p> <p>Furthermore, the revenue recognition models used by management for RRSPs involve a number of significant assumptions based on any modifications to the contracts including programme share or changes in pricing and historical data and trends, such as engineering requirements to support programmes and the expected life of mature engines. Any changes to these assumptions require a higher level of judgement and estimation. This increases the risk that revenue recognition may not be appropriate.</p> <p>Refer to page 95 (Report of the audit committee) and pages 143 to 145 (note 3 to the group financial statements) and page 145 (note 4 to the financial statements).</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls over the recognition of revenue for RRSP contracts.</p> <p>For each RRSP contract with material variable consideration, we recalculated the amount of revenue recognised to assess that it has been calculated in accordance with IFRS 15, the contractual agreement and the latest correspondence with the customer. In particular, we have:</p> <ul style="list-style-type: none"> • 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 settlements and checking historical estimation accuracy; • challenged the assumptions used in arriving at the element of variable consideration recognised. This was done by performing a number of procedures listed below; • performed an assessment of the timing at which control is transferred and revenue is recognised by identifying the performance obligations from the contract and checking the recognition triggers; • obtained and reviewed the contract modifications, including programme share or changes in pricing, and assessed that they have been appropriately included in the RRSP models; and • tested underlying data included in the trend analysis above and performed independent industry research for evidence that may contradict management's assumptions on margin and engine life. <p>In assessing the key assumptions in the revenue recognition model, we performed specific procedures that included:</p> <ul style="list-style-type: none"> • obtained an understanding of the relevant controls in place within the Aerospace businesses, that hold RRSP contracts, 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 including usage profiles, industry data and customer correspondence; and • assessed of the disclosure provided in the group financial statements in relation to the changes in these assumptions against the requirements of IFRS 15.
Key observations	<p>We are satisfied that the key assumptions made in determining the value of revenue recognised on RRSP contracts with variable consideration is within an acceptable range and the overall position is reasonable.</p> <p>We consider the disclosure provided in the financial statements in relation to the changes in the key assumptions is appropriate and consistent with the requirements of IFRS 15.</p>

5.4 Valuation of Loss-making contracts provision

Key audit matter description	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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</p> <p>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).</p>
How the scope of our audit responded to the key audit matter	<p>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:</p> <ul style="list-style-type: none"> • obtaining and checking supporting documentation for key assumptions and inputs, for example: <ul style="list-style-type: none"> – 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.
Key observations	<p>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.</p>

6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the group and parent company financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£30 million (2020: £30 million)	£15 million (2020: £15 million)
Basis for determining materiality	<p>We considered the following metrics:</p> <ul style="list-style-type: none"> • adjusted profit before tax; • revenue; and • net assets. <p>Using professional judgement we determined materiality to be £30m.</p>	<p>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.</p>
Rationale for the benchmark applied	<p>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.</p> <p>Materiality for the current year represents:</p> <ul style="list-style-type: none"> • 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%). 	<p>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.</p>

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6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected 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 materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: <ul style="list-style-type: none"> 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: £1.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on 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 operating segments 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 include head office 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 200 sites in total, each of which is responsible for maintaining their own accounting records and controls and using an integrated consolidation system to 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 such as internal 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 information. We also requested component auditors to audit specified 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.

Aerospace

In respect of the Aerospace division, 7 components were subject to a full audit and 6 components were subject to SAB scope. These 13 components together accounted for 73% of the Aerospace division's adjusted revenue and 87% of the Aerospace division's adjusted operating 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. These 19 components accounted for 88% of the Automotive division's adjusted revenue and 91% of the Automotive division's adjusted operating profit 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 scope. These 6 components together accounted for 55% of the Powder Metallurgy division's adjusted revenue and 80% of the Powder Metallurgy division's 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. These 2 components together accounted for 81% of the Other Industrial division's adjusted revenue and 92% of the Other Industrial division's adjusted operating profit and divisional costs.

Corporate cost centres

In respect of the corporate cost centres, 9 components were subject to a full audit.

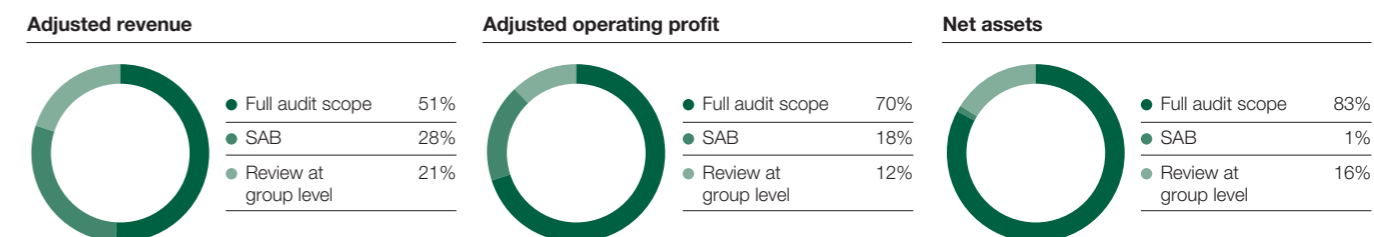
Company

The audit of the Company was performed by the group engagement team based at the Company's head office.

Residual balances

All entities not subject to the audit procedures above were subject to analytical procedures by the group engagement team.

While we understood and tested design and implementation of relevant controls in key areas, given the number and diverse nature of the components of the group, we took controls reliance in certain limited areas of the audit only.



7.2. Our consideration of climate-related risks

Climate change and the transition to a low carbon economy ("climate change") were considered in our audit where they have the potential to directly or indirectly impact key judgements and estimates within the group financial statements. The Group continues to develop its assessment of the potential impacts of climate change, as explained in the Sustainability Report on pages 54 to 77. Climate risks have the potential to materially impact the key judgements and estimates within the financial statements. Our audit considered those risks that could be material to the key judgement and estimates in the assessment of the carrying value of non-current assets and impact on future cashflows.

We also considered whether information included in the climate related disclosures in the Annual Report were consistent with our understanding of the business and the financial statements with involvement of sustainability specialists.

7.3. Working with other auditors

Due to intermittent restrictions on working practices caused by Covid-19 the majority of the audit work was executed remotely. Limited sites were visited due to the restrictions to travel. In order to address the Impact of Covid, regular communication took place with component audit teams and component management teams using conference and video calls, with a particular focus on locations where work was performed on significant audit risks.

In addition to the above, the group audit partners including the senior statutory auditor held group-wide, divisional and individual planning and close meetings which covered all businesses. Each division has a dedicated senior member of the group audit team responsible for the supervision and direction of components, including where appropriate sector-specific expertise. We included the component audit teams in our team briefing, discuss and review their risk assessment, and reviewed documentation of the findings from their work. We also reviewed the audit work papers supporting component teams' reporting to us remotely using shared desktop technology.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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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 responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of 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 laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration 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 own 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 relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - 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 relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements 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 and identified the greatest potential for fraud in the following areas: classification of adjusted items, revenue recognition in respect of RRSPs and valuation of loss-making contracts provisions. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to 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 those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and Listing Rules, UK Bribery Act as well as pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's environmental 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 valuation of loss-making contracts provision as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the 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 provisions of relevant 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 claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating 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 including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations 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 Companies Act 2006.

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 statements are 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 the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 39;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 39;
- the directors' statement on fair, balanced and understandable set out on page 117;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 43 to 49;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 40; and
- the section describing the work of the audit committee set out on page 94.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors in 2003 to audit the financial statements for the year ending 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 years, covering the years ending 31 December 2003 to 31 December 2021.

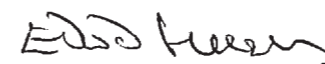
15.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

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

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ("ESEF RTS"). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



Edward Hanson (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

3 March 2022

	Notes	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations			
Revenue	4, 5	6,883	7,132
Cost of sales		(5,872)	(6,330)
Gross profit		1,011	802
Share of results of equity accounted investments	15	38	32
Net operating expenses	7	(1,500)	(1,321)
Operating loss	5, 6	(451)	(487)
Finance costs	7	(169)	(195)
Finance income	7	2	3
Loss before tax		(618)	(679)
Tax	8	172	114
Loss after tax for the year from continuing operations		(446)	(565)
Discontinued operations			
Profit for the year from discontinued operations	13	1,283	32
Profit/(loss) after tax for the year		837	(533)
Attributable to:			
Owners of the parent		833	(536)
Non-controlling interests		4	3
		837	(533)
Earnings per share			
Continuing operations			
– Basic	10	(9.6)p	(11.7)p
– Diluted	10	(9.6)p	(11.7)p
Continuing and discontinued operations			
– Basic	10	17.7p	(11.0)p
– Diluted	10	17.7p	(11.0)p
Adjusted⁽²⁾ results from continuing operations			
Adjusted revenue	5	7,496	7,723
Adjusted operating profit	5, 6	375	141
Adjusted profit/(loss) before tax	6	252	(41)
Adjusted profit/(loss) after tax	6	197	(27)
Adjusted basic earnings per share	10	4.1p	(0.6)p
Adjusted diluted earnings per share	10	4.1p	(0.6)p

(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).

	Notes	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Profit/(loss) after tax for the year		837	(533)
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement gain on retirement benefit obligations	24	297	244
Fair value gain/(loss) on investments in equity instruments	12	43	(16)
Income tax charge relating to items that will not be reclassified	8	(71)	(42)
		269	186
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		(101)	(42)
Share of other comprehensive income from equity accounted investments	15	13	16
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	13	113	–
Derivative gains/(losses) on hedge relationships		54	(99)
Transfer to Income Statement on hedge relationships		46	8
Income tax (charge)/credit relating to items that may be reclassified	8	(19)	9
		106	(108)
Other comprehensive income for the year		375	78
Total comprehensive income/(expense) for the year		1,212	(455)
Attributable to:			
Owners of the parent		1,208	(458)
Non-controlling interests		4	3
		1,212	(455)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Operating activities			
Net cash from operating activities from continuing operations	27	263	476
Net cash from operating activities from discontinued operations	27	–	288
Net cash from operating activities		263	764
Investing activities			
Disposal of businesses, net of cash disposed	13	2,703	10
Purchase of property, plant and equipment		(220)	(253)
Proceeds from disposal of property, plant and equipment		13	25
Purchase of computer software and capitalised development costs		(18)	(37)
Dividends received from equity accounted investments	15	52	54
Purchase of investments	12	(10)	(2)
Acquisition of subsidiaries, net of cash acquired		–	(19)
Interest received		2	3
Net cash from/(used in) investing activities from continuing operations		2,522	(219)
Net cash used in investing activities from discontinued operations	27	(11)	(29)
Net cash from/(used in) investing activities		2,511	(248)
Financing activities			
Repayment of borrowings	27	(1,555)	(598)
Costs of raising debt finance		(4)	(1)
Repayment of principal under lease obligations		(54)	(63)
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)	(662)
Net cash used in financing activities from discontinued operations	27	(7)	(14)
Net cash used in financing activities		(2,466)	(676)
Net increase/(decrease) in cash and cash equivalents, net of bank overdrafts			
Cash and cash equivalents, net of bank overdrafts at the beginning of the year	27	160	317
Effect of foreign exchange rate changes	27	–	3
Cash and cash equivalents, net of bank overdrafts at the end of the year	27	468	160

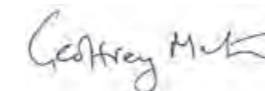
(1) Results for the year ended 31 December 2020 have been restated for discontinued operations (note 1).

As at 31 December 2021, the Group had net debt of £950 million (31 December 2020: £2,847 million). A definition and reconciliation of the movement in net debt is shown in note 27.

Consolidated Balance Sheet

	Notes	31 December 2021 £m	31 December 2020 £m
Non-current assets			
Goodwill and other intangible assets	11	7,390	9,198
Property, plant and equipment	14	2,528	3,133
Investments	12	87	34
Interests in equity accounted investments	15	429	430
Deferred tax assets	22	250	180
Derivative financial assets	25	47	101
Other receivables	17	707	439
		11,438	13,515
Current assets			
Inventories	16	893	1,126
Trade and other receivables	17	1,184	1,658
Derivative financial assets	25	23	47
Current tax assets		11	23
Cash and cash equivalents	18	473	311
		2,584	3,165
Total assets	5	14,022	16,680
Current liabilities			
Trade and other payables	19	2,051	2,456
Interest-bearing loans and borrowings	20	462	165
Lease obligations	28	57	81
Derivative financial liabilities	25	119	58
Current tax liabilities		142	188
Provisions	21	293	415
		3,124	3,363
Net current liabilities		(540)	(198)
Non-current liabilities			
Other payables	19	390	421
Interest-bearing loans and borrowings	20	903	2,926
Lease obligations	28	319	474
Derivative financial liabilities	25	79	210
Deferred tax liabilities	22	614	732
Retirement benefit obligations	24	645	838
Provisions	21	408	606
		3,358	6,207
Total liabilities	5	6,482	9,570
Net assets		7,540	7,110
Equity			
Issued share capital	26	333	333
Share premium account		3,271	8,138
Merger reserve		109	109
Capital redemption reserve		729	–
Other reserves		(2,330)	(2,330)
Translation and hedging reserve	26	76	(30)
Retained earnings		5,319	861
Equity attributable to owners of the parent		7,507	7,081
Non-controlling interests		33	29
Total equity		7,540	7,110

The Financial Statements were approved and authorised for issue by the Board of Directors on 3 March 2022 and were signed on its behalf by:



Geoffrey Martin
Group Finance Director
3 March 2022



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	Non-controlling interests £m	Total equity £m
At 1 January 2020	333	8,138	109	–	(2,330)	78	1,197	7,525	26	7,551
(Loss)/profit for the year	–	–	–	–	–	–	(536)	(536)	3	(533)
Other comprehensive (expense)/income	–	–	–	–	–	(108)	186	78	–	78
Total comprehensive (expense)/income	–	–	–	–	–	(108)	(350)	(458)	3	(455)
Equity-settled share-based payments	–	–	–	–	–	–	14	14	–	14
At 31 December 2020	333	8,138	109	–	(2,330)	(30)	861	7,081	29	7,110
Profit for the year	–	–	–	–	–	–	833	833	4	837
Other comprehensive income	–	–	–	–	–	106	269	375	–	375
Total comprehensive income	–	–	–	–	–	106	1,102	1,208	4	1,212
Capital reduction	–	(4,138)	–	–	–	–	4,138	–	–	–
Return of capital	–	(729)	–	729	–	–	(729)	(729)	–	(729)
Dividends paid	–	–	–	–	–	–	(69)	(69)	–	(69)
Equity-settled share-based payments	–	–	–	–	–	–	16	16	–	16
At 31 December 2021	333	3,271	109	729	(2,330)	76	5,319	7,507	33	7,540

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.

Notes to the Financial Statements

1. Corporate information

Melrose Industries PLC ("the Company") is a public company limited by shares. The Company is incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on the back cover. The nature of the Group's operations and its principal activities by operating segment are set out in note 5 and in the Divisional reviews on pages 12 to 29. The Consolidated Financial Statements of the Group for the year ended 31 December 2021 were authorised in accordance with a resolution of the Directors of Melrose Industries PLC on 3 March 2022.

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

Corporate structure

During the year, the Group completed the disposal of the Nortek Air Management segment and the Brush and Nortek Control businesses, previously included in the Other Industrial segment. The results of Nortek Air Management, Brush and Nortek Control have been classified within discontinued operations for both years presented; with the Income Statement, the Statement of Cash Flows and their associated notes being restated accordingly. At 30 June 2021, the Nortek Control business met the criteria within IFRS 5: Non-current Assets Held for Sale and Discontinued Operations to be classified as an asset held for sale. In addition, discontinued operations for 2020 include the results of the Wheels and Structures business, which was disposed in November 2020. Furthermore, the Aerospace, Automotive and Powder Metallurgy businesses disposed of certain non-core entities, which have not been treated as discontinued operations. Further detail is shown in note 13.

In line with the Group's strategy, following the disposals of Nortek Air Management and Brush, a return of capital of £729 million, equivalent to 15 pence per existing ordinary share, was approved by shareholders on 9 July 2021. On 10 August 2021, a court approved a capital reduction of the Company's share premium account by £4,138 million, taking the Company's share premium account from £8,138 million to £4,000 million. Subsequently, the 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 reduced the number of ordinary shares by 10%, from 4,858 million to 4,372 million (further details are contained in note 26).

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

In the current financial year, the Group has adopted the following new and revised Standards, Amendments and Interpretations. Their adoption has not had a significant impact on the amounts reported in these Financial Statements:

- Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 4: Interest Rate Benchmark Reform (Phase 2)
- Amendments to IFRS 16: Leases

1.2 New Standards, Amendments and Interpretations in issue but not yet effective

At 31 December 2021, the following Standards, Amendments and Interpretations were in issue but not yet effective:

- IFRS 17: Insurance contracts
- IFRS 10 and IAS 28 (amendments): Sale or contribution of assets between an investor and an associate or joint venture
- Amendments to IAS 1: Classification of liabilities
- Amendments to IFRS 3: Reference to the Conceptual Framework
- Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use
- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards: 2018-2020 Cycle
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Directors do not expect that the adoption of the above Standards, Amendments and Interpretations will have a material impact on the Financial Statements of the Group in future periods.

2. Summary of significant accounting policies

Basis of accounting

The Consolidated Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and International Financial Reporting Standards ("IFRSs") as issued by the IASB. The Consolidated Financial Statements have been prepared on an historical cost basis, except for the revaluation of certain financial instruments and investments which are recognised at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Alternative Performance Measures

The Group presents Alternative Performance Measures ("APMs") in addition to the statutory results of the Group. These are presented in 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 reconciling items 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 ("EAls").

Adjusted profit measures exclude items which are significant in size or volatility or by nature are non-trading or non-recurring, any item released to the Income Statement that was previously a fair value item booked on an acquisition, and include adjusted profit from EAls.

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 development costs;
- Significant restructuring project costs and other associated costs, including losses incurred following the announcement of closure for identified businesses, arising from significant strategy changes that are not considered by the Group to be part of the normal 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 business;
- Movement in derivative financial instruments not designated in hedging relationships, including revaluation of associated financial 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; and
- 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 activity, which is 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 which are not 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 of the normal 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 performing as this provides a meaningful reflection of how the businesses are managed and measured on a day-to-day basis and achieves consistency 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 throughout the Group and are also in alignment with performance measures used by certain external stakeholders. The adjusted measures are also 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 reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and 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 addition, the Group's share of the results and equity of joint ventures and associated undertakings (together "equity accounted investments") are included. The results of businesses acquired during the period are included from the effective date of acquisition and, for those sold during the period, to the effective date of disposal. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full.

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

Going concern

The Consolidated Financial Statements have been prepared on a going concern basis as the Directors consider that adequate resources exist for the Company to continue in operational existence for the foreseeable future.

2. Summary of significant accounting policies continued

The Group's liquidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity headroom of £3 billion at 31 December 2021 and sufficient headroom throughout the going concern forecast period. Forecast covenant compliance is considered further below.

Covenants

The Group's banking facility was extended in the year, from its original maturity in January 2023 to June 2024. The facility 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 financial covenants during the period of assessment for going concern are as follows:

	31 December 2021	30 June 2022	31 December 2022
Net debt to adjusted EBITDA	4.25x	4.0x	3.75x
Interest cover	3.0x	3.25x	4.0x

Testing

The Group has modelled two scenarios in its assessment of going concern; a base case and a reasonably possible sensitised case.

The base case takes into account the estimated impact of a continued recovery from the COVID-19 pandemic as well as other end market and operational factors, including supply chain challenges, throughout the going concern period and has been monitored against the actual results and cash generation in the year.

The reasonably possible sensitised case models more conservative sales assumptions for 2022 and the first half of 2023. Given that there is liquidity headroom of £3 billion and the Group's leverage was 1.3x, comfortably below the covenant test at 31 December 2021, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, even with significant reductions, no covenant is breached at any of the forecast testing dates being 30 June 2022 and 31 December 2022, with the testing at 30 June 2023 also favourable, and the Group will not require any additional sources of finance, even following repayment of the £450 million bond in September 2022.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of acquisition is measured at the fair value of assets transferred, the liabilities incurred or assumed at the date of exchange of control and equity instruments issued by the Group in exchange for control of the acquiree. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Costs directly attributable to business combinations are recognised as an expense in the Income Statement as incurred.

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

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

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

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

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

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

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 a business over which the Group exercises joint control with its partners over the financial and operating policies. In all cases voting rights are 50% or lower.

Associated undertakings are entities that are neither a subsidiary nor a joint venture, but where the Group has a significant influence. The results, assets and liabilities of equity accounted investments are accounted for using the equity method of accounting. The 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 transactions with the equity accounted investments are recognised in the Group's Consolidated Financial Statements only to the extent of interests 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 activity basis 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 customers have 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 consideration. The Group allocates revenue to multiple element arrangements based on the identified performance obligations within the contracts in line with the policies below. A performance obligation is identified if the customer can benefit from the good or service on its own or together with other readily available resources, and it can be separately identified within the contract. This review is performed by 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 Air Management and Other Industrial segments operate almost exclusively on this basis, and it also covers a high proportion of the Aerospace segment's revenues.

Invoices for goods are raised and revenue is recognised when control of the goods is transferred to the customer. Dependent upon contractual terms this may be at the point of despatch, acceptance by the customer or, in Aerospace, certification by the customer. 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 with the Group's customers, which are typically earned by the customer over an annual period. These are allocated to performance obligations and are recorded as a reduction in revenue at the point of sale based on the estimated future outcome. Due to the nature of these arrangements an estimate is made based on historical results to date, estimated future results across the contract period and the contractual provisions of the customer agreement.

Many businesses in the Powder Metallurgy and Automotive segments recognise an element of revenue via a surcharge or similar raw material cost recovery mechanism. The surcharge is generally based on prior period movement in raw material price indices applied 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 recognised under RRSPs for both the sale of product as detailed above and sales of services, which are recognised by reference to the stage of completion based on the performance obligations in the contract. In most RRSP contracts, there are two separate phases where the 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 within it.

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 the point of despatch, acceptance by the customer or certification by the customer. Where the amount of revenue recognised is not yet due for collection under the terms of the contract, it will be recognised as variable consideration within contract assets. Revenue is not recognised where recovery is not probable due to potential significant reversals in the future. This can be affected by assessment of future volumes including aftermarket expectations which are impacted by technology development, fuel price and competition.

Participation fees are payments made to engine manufacturers and original equipment manufacturers relating to RRSPs and long-term agreements. They are recognised as contract assets to the extent they can be recovered from future sales. Where participation fees have been paid under the RRSP, the amortisation is recognised as a revenue reduction under IFRS 15, as performance obligations are satisfied.

2. Summary of significant accounting policies continued

Generally, during the design and development phase of a typical RRSP contract, the Group performs contractually agreed-upon tasks for a customer. It is usual for the Intellectual Property Rights ("IPRs") that underpin technology advancement or know-how to remain with the Group such that the customer cannot benefit from the IPRs either on their own or together with other resources that are readily available to the customer. Where IPRs are transferred to the customer the Group has determined this is not separately identifiable from other promises in the contract due to an exclusivity clause for the supply of product. Accordingly, it has been determined that the Group's promise to transfer goods to its customer is a performance obligation that is separately identifiable and this uses development and know-how as an input.

Design and build

This revenue stream affects a discrete number of businesses, primarily in the Aerospace segment but also on a smaller scale in the Automotive segment. Generally, revenue is only recognised on the sale of product as detailed above, however, on occasions cash is received in advance of work performed to compensate the Group for costs incurred in design and development activities. The Group performs an assessment of its performance obligations to understand multiple elements. Where it is determined there is only one type of performance obligation, being the delivery of product, any cash advance is factored into the revenue allocated across the deliveries required under the contract.

Where the performance obligation has not been satisfied amounts received are recognised as a contract liability. If there is more than one performance obligation, revenue is allocated to each one based on a standalone selling price for each element of the contract.

Due to the nature of design and build contracts, there can be significant "learning curves" while the Group optimises its production processes. During the early phase of these contracts, all costs including any start-up losses are taken directly to the Income Statement, as they do not meet the criteria for fulfilment costs.

Construction contracts

Where multiple performance obligations are identified, revenue is recognised as each performance obligation is met. This requires an assessment of total revenue to identify the allocation across the performance obligations, based on the standalone selling price for each obligation.

In cases where one of the following criteria is met, revenue is recognised over time:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance;
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

Due to the nature of the criteria above, only certain contracts in the Group qualify for over time recognition. On this basis revenue is recognised using the input method, which uses costs incurred and the assessed margin across the contract. The input method is used to measure progress as it best depicts the transfer of control to the customer. The margin and associated revenue are calculated based on the estimated transaction price and expected total costs, with considerations made for the associated contract risks.

If any of the above criteria are not met, revenue is recognised at a point in time when control transfers to the customer which, in line with the sale of goods and services above, is the point of delivery or customer acceptance dependent on the terms of the contract.

Variable consideration, such as price or scope amendments, is included based on the expected value or most likely amount. A constraint is included unless it is highly probable that the revenue will not significantly reverse in the future. This constraint is calculated based on a cautious expectation of the life of certain RRSPs and by assessing the impact of a 10% reduction in expected spares sales. Variations in contract work, claims and incentive payments are included in revenue from construction contracts based on an estimate of the expected value the Group expects to receive. Variations are included when the customer has agreed to the variation or acknowledged liability for the variation in principle. Claims are included when negotiations with the customer have reached an advanced stage such that it is virtually certain that the customer will accept the claim.

Finance income

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

Borrowing costs

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

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

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

Issue costs of loans

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

Property, plant and equipment

Property, plant and equipment 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 asset into operation, and any borrowing costs on qualifying assets. Qualifying assets are defined as an asset or programme where the period of capitalisation is more than 12 months. Purchase price or construction cost is the aggregate amount paid and the fair value of any 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. Transfers 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 in useful lives are accounted for prospectively.

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

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

Intangible assets

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

On acquisition of businesses, separately identifiable intangible assets are initially recorded at their fair value at the acquisition date.

Access to the use of brands and intellectual property are valued using a "relief from royalty" method which determines the net present value of future additional cash flows arising from the use of the intangible asset.

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

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

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

Research and development costs

Research costs are expensed as incurred.

2. Summary of significant accounting policies continued

Costs relating to clearly defined and identifiable development projects are capitalised when there is a technical degree of exploitation, adequacy of resources and a potential market or development possibility in the undertaking that are recognisable; and where it is the intention to produce, market or execute the project. A correlation must also exist between the costs incurred and future benefits and those costs can be measured reliably. Capitalised costs are expensed on a straight-line basis over their useful lives of 20 years or less. Costs not meeting such criteria are expensed as incurred.

Inventories

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

Cash and cash equivalents

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

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

Interest-bearing loans and borrowings

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

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

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

Government refundable advances

Government refundable advances are reported in "Trade and other payables" in the Balance Sheet. Refundable advances include amounts advanced by a government, accrued interest and directly attributable costs. Refundable advances are provided to the Group to part-finance expenditures on specific development programmes. The advances are provided on a risk sharing basis, i.e. repayment levels are determined subject to the success of the related programme. Balances are held at amortised cost and interest is calculated using the effective interest rate method.

Leases

Where a lease arrangement is identified, a liability to the lessor is included in the Balance Sheet as a lease obligation calculated at the present value of minimum lease payments. A corresponding right-of-use asset is recorded in property, plant and equipment. The discount rate used to calculate the lease liability is the Group's incremental borrowing rate, unless there is a rate implicit in the lease. The incremental borrowing rate is used for the majority of leases. Incremental borrowing rates are based on the term, currency, country and start date of the lease and reflect the rate the Group would pay for a loan with similar terms and security.

Following initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. Where there is a change in future lease payments due to a rent review, change in index or rate, or a change in the Group's assessment of whether it is reasonably certain to exercise a purchase, extension or break option, the lease obligation is remeasured. A corresponding adjustment is made to the associated right-of-use asset.

Right-of-use assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Lease payments are apportioned between finance costs and a reduction in the lease obligation so as to reflect the interest on the remaining balance of the obligation. Finance charges are recorded in the Income Statement within finance costs.

Leases with a term of 12 months or less and leases for low value are not recorded on the Balance Sheet and lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Expenses relating to variable lease payments which are not included in the lease liability, due to being based on a variable other than an index or rate, are recognised as an expense in the Income Statement.

Financial instruments – assets**Classification and measurement**

All financial assets are classified as either those which are measured at fair value, through profit or loss or Other Comprehensive Income, and those measured at amortised cost.

Financial assets are initially recognised at fair value. For those which are not subsequently measured at fair value through profit or loss, this includes directly attributable transaction costs. Trade and other receivables, contract assets and amounts due from equity accounted investments are subsequently measured at amortised cost.

Recognition and derecognition of financial assets

Financial assets are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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 approach requires that at the point of initial recognition the expected credit loss across the life of the receivable must be recognised. As these balances do not contain a significant financing element, the simplified approach relating to expected lifetime losses is applicable under 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 assets, measured at fair value. Fair value is determined by assessment of expected future dividends discounted to net present value. Any changes in fair value are recognised in Other Comprehensive Income and accumulated in retained earnings. Dividends from 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 impairment. For trade receivables, the carrying amount is reduced by an allowance for expected lifetime losses. Subsequent recoveries of amounts previously written off are credited against the allowance account and changes in the carrying amount of the allowance account are recognised in the Income Statement.

Trade receivables that are assessed not to be impaired individually are also assessed for impairment on a collective basis. In measuring the expected credit losses, the Group considers all reasonable and supportable information such as the Group's past experience at collecting receipts, any increase in the number of delayed receipts in the portfolio past the average credit period, and 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 which is 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 provisions of the instruments and are initially measured at fair value, net of transaction costs. The Group derecognises financial liabilities when the 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 interest expense recognised on an effective interest rate basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that discounts estimated future cash payments throughout the expected life of the financial liability, or, where appropriate, a shorter period to the 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 commodity risks, arising from operating and financing activities. The Group does not hold or issue derivative financial instruments for speculative 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 recalculated at each reporting date. The accounting treatment for the resulting gain or loss will depend on whether the derivative meets the criteria to qualify for hedge accounting 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 value at the period end are recognised immediately in the Income Statement. Where derivatives do meet the criteria to qualify for hedge accounting, recognition of any resulting gain or loss on revaluation depends on the nature of the hedge relationship and the item being hedged.

Derivative financial instruments with maturity dates of less than one year from the period end date are classified as current in the Balance Sheet. Derivatives embedded in non-derivative host contracts are recognised at their fair value in the Group's Balance Sheet when the nature, characteristics and risks of the derivative are not closely related to the host contract. Gains and losses arising on the 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 item being hedged and the hedging instrument, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents that the hedge will be highly 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 Group actually 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 qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

2. Summary of significant accounting policies continued

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

Cash flow hedge

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

The Group designates the full change in the fair value of a foreign exchange forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving foreign exchange forward contracts.

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

Amounts previously recognised in the Statement of Comprehensive Income and accumulated in equity are recycled to the Income Statement in the periods when the hedged item is recognised in the Income Statement or when the forecast transaction is no longer expected to occur. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedges of net investments in foreign operations

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

The Group designates only the spot rate component of cross-currency swaps in net investment hedges. The changes in the fair value of the aligned forward and currency basis elements are recognised in other comprehensive income and accumulated in equity. If the hedged item is time-period related, then the amount accumulated in equity is reclassified to profit or loss on an appropriate basis.

Gains and losses accumulated in equity are recognised immediately in the Income Statement when the foreign operation is disposed.

Provisions

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

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37: Provisions, contingent liabilities and contingent assets and the amount initially recognised less cumulative amount of revenue recognised in accordance with the principles of IFRS 15: Revenue from contracts with customers.

Pensions and other retirement benefits

The Group operates defined benefit pension plans and defined contribution plans, some of which require contributions to be made to administered funds separate from the Group.

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

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

Net interest expense on net defined benefit obligations is determined by applying discount rates used to measure defined benefit obligations at the beginning of the year to net defined benefit obligations at the beginning of the year. The net interest expense is recognised within finance costs.

Remeasurement gains and losses comprise actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest). Remeasurement gains and losses, and taxation thereon, are recognised in full in the Statement of Comprehensive Income in the period in which they occur and are not subsequently recycled.

Actuarial gains and losses may result from differences between the actuarial assumptions underlying the plan obligations and actual experience during the period or changes in the actuarial assumptions used in the valuation of the plan obligations.

For defined contribution plans, contributions payable are charged to the Income Statement as an operating expense when employees have rendered services entitling them to the contributions.

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 environment in which it operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the Consolidated Financial Statements.

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

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

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

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

Taxation

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

Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates 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 that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in 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 tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2. Summary of significant accounting policies continued

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

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

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

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

Share-based payments

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

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

Non-current assets and disposal groups

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

Government grants

Government grants are not recognised in the Income Statement until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Government grants are recognised in the Income Statement on a systematic basis over the periods in which the Group recognises the related costs for which the grants are intended to compensate.

Specifically, government grants where the primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred government grants in the Balance Sheet and transferred to the Income Statement on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the Income Statement in the period in which they become receivable.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Critical judgements

In the course of preparing the Financial Statements, a critical judgement within the scope of paragraph 122 of IAS 1: Presentation of Financial Statements is made during the process of applying the Group's accounting policies.

Adjusting items

Judgements are required as to whether items are disclosed as adjusting, with consideration given to both quantitative and qualitative factors. Further information about the determination of adjusting items in the year ended 31 December 2021 is included in note 2.

There are no other critical judgements other than those involving estimates, that have had a significant effect on the amounts recognised in the Financial Statements. Those involving estimates are set out below.

Key sources of estimation uncertainty

Assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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 million).

Determining whether the goodwill of groups of cash generating units ("CGUs") is impaired requires an estimation of its recoverable amount which is compared against the carrying value. The recoverable amount is deemed to be the higher of the value in use and fair value less costs to sell. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the groups of CGUs and a suitable discount rate in order to calculate present value. The fair values of the groups of CGUs are calculated using a combination of estimated discounted cash flows and EBITDA multiple valuations, as in the current environment it has been difficult to assess a sales value using observable market inputs (level 1) or inputs based on market evidence (level 2) and so 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 the next year, depending on how markets continue to recover from COVID-19 implications. The voluntary sensitivity disclosure in note 11 shows there is no reasonably possible change in key assumptions that could result in an impairment in any of the groups of CGUs.

The Aerospace group of CGUs is the most sensitive to a change in estimates. As at 31 December 2021, the carrying amount of goodwill and other intangible assets (not including computer software and development costs) in the Aerospace group of CGUs is £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% to 9.0% 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 at rates set by reference to market yields on high-quality corporate bonds. Significant estimation is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds to include are the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

In addition, assumptions are made in determining mortality and inflation rates to be used when valuing the plan's defined benefit obligations. At 31 December 2021, the retirement benefit obligation was a net deficit of £461 million (31 December 2020: £838 million).

Further details of the assumptions applied and a sensitivity analysis on the principal assumptions used to determine the defined benefit liabilities of the Group's obligations are shown in note 24. Whilst actual movements might be different to sensitivities shown, 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 agreements, in excess of the contractual inflow expected to be generated in respect of these agreements. In assessing the unavoidable costs, management has considered the possibility that future actions could impact the profitability of the contracts. Calculation of the liability includes estimations of volumes, price and costs to be incurred over the life of the contract, which are discounted to a current value. Future changes within these estimates, or commercial progress could have a material impact on the provision in future periods. At 31 December 2021, the carrying value of the loss-making contract provision in the Group was £167 million (31 December 2020: £241 million). In the last three years significant progress has been made resolving commercial and operational issues within a large number of loss-making contracts inherited on acquisition of GKN. The release has on average been 18% of the balance immediately before reassessment. If the Group were to achieve a similar level of success on the amount outstanding at 31 December 2021, there could 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 allocate total associated consideration.

A key judgement is the measurement of variable consideration, in particular relating to risk and revenue sharing partnerships ("RRSPs"). A detailed review of the Group's RRSP contracts determined where terms and conditions result in variable consideration and this is further set out in note 17. Distinguishing between a contractual right and the economic compulsion of partners with regard to the sale of original equipment ("OE") components and aftermarket activities relies on an interpretation of complex legal agreements. This specific point governs whether variable consideration is recognised on the sale of OE components and this can significantly 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 required to assess the pattern of future maintenance activity, the costs to be incurred and escalation of revenue and costs. The estimates take account of the uncertainties, constraining the expected level of revenue as appropriate. Measurement of variable consideration is driven by forecasting aftermarket revenue per delivered engine which is in turn contingent on overall programme success, levels of discounting that might be offered by the engine manufacturers (the Group's customers), engineering requirements needed for optimal performance of the engine and the allocation of revenue to individual units. In addition, where programmes are at an early stage the wider implications of any competing engines as well as complications outside of the Group can be difficult to assess. Any of these inputs could change in the next year as programmes evolve and due to the size and scale of these contracts, almost any modification could result in material changes in future periods.

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

The variable consideration contract asset calculated is the best estimate of revenue allocated to completed performance obligations using input assumptions and constraints as detailed further in note 17. A reasonably possible change in assumptions, such as engineering requirements to support programmes and the expected life of certain engines, could lead to the variable consideration asset on the Balance Sheet of £305 million (2020: £247 million) increasing to between £335 million and £345 million. This would lead to recognition of additional profit in the next year of between £30 million and £40 million.

4. Revenue

An analysis of the Group's revenue is as follows:

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations		
Revenue recognised at a point in time	5,946	6,038
Revenue recognised over time	937	1,094
Revenue	6,883	7,132

(1) Restated for discontinued operations (note 1).

As set out in the accounting policies in note 2, the Group has four primary revenue streams. There is little judgement or estimation in the revenue recognition of three of these areas: (i) sale of products and services, (ii) design and build and (iii) construction contracts. However, in the fourth area, as disclosed in note 3d, there is estimation involved in accounting for certain RRSP contracts, which arise exclusively in the Aerospace business. RRSP contracts generally include the sale of products and services as well as certain aspects of design and build arrangements. Further details are set out below.

Risk and revenue sharing partnerships

The Group has approximately £11 billion (31 December 2020: £9 billion) in respect of contractual transaction prices including a constrained estimate of variable consideration, on four engine programmes, out of a wider population of such programmes, which has been allocated to contracted performance obligations not satisfied at 31 December 2021. These performance obligations will be satisfied and revenue will be recognised over a period of up to 30 years (2020: 28 years).

The amount of revenue recognised from RRSP contracts during the year was £402 million, which includes variable consideration of £55 million (2020: £354 million, which included variable consideration of £13 million). Within this there is revenue from the delivery of product which is recognised at a point in time of £377 million (2020: £326 million) and revenue from provision of service which is recognised over time of £25 million (2020: £28 million). Due to the nature of certain of these RRSP arrangements, there is associated variable consideration and the contract asset, including movements during the year, is disclosed in note 17.

The nature of products and services delivered in RRSP contracts varies depending on the individual terms. Typically, they include a design and development phase (which has been determined not to be a distinct performance obligation and so no revenue is recognised) and two other phases where the Group does have performance obligations and earns revenue:

- i) Sale of structural OE engine components, such as turbine cases, principally to engine manufacturers, where revenue is recognised at a point in time; and
- ii) Aftermarket support which can include: sale of spare parts where revenue is recognised at a point in time and stand ready services for life of engine obligations to maintain permanent technical, and other programme related, support functions. Obligations can occur at any time during the engine life and include: engineering and technical support for engine configuration changes and provision of aftermarket inventory support solutions.

RRSP revenue recognised over time

The nature of these RRSP contracts on long-term engine programmes means that, as a partner, the Aerospace business can share revenue earned from maintenance, repair and overhaul services which are provided by the engine manufacturers (the Group's customers) or their sub-contractors, but not the Group. The Group has a stand ready obligation to contribute to certain of the partnerships which typically results in the provision of services such as technical and other programme support activities over the whole life of the engine. These services occur over the life of the engine and due to the nature of compensation from customer arrangements, which is often flight hour based, as well as costs which are less predictable, revenue is recognised over time using the engine manufacturer's actual overhaul costs as an input method. This method is considered appropriate as it best reflects the customers' receipt and consumption of benefit from the Group's stand ready performance obligation.

The total contract revenue includes amounts from: expected sales of OE engine components, expected sales of spare parts and aftermarket revenue per delivered engine for stand ready services for the life of engine obligations. The total contract revenue is allocated to all of the performance obligations.

There has been £24 million (2020: £nil) of revenue recognised from changes in assumptions which will also impact the revenue allocation between future years. Assumption changes were made following operational progress by customers.

5. Segment information

Segment information is presented in accordance with IFRS 8: Operating Segments which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reported to the Group's Chief Operating Decision Maker ("CODM"), which has been deemed to be the Group's Board, in order to allocate resources to the segments and assess their performance.

Following the disposal of the Nortek Air Management segment during the year its results are classified within discontinued operations and the comparative results for 2020 have been restated accordingly. In addition, the results of the Brush and Nortek Control businesses, which were disposed of in the year, have also been classified as discontinued operations. The Brush and Nortek Control businesses were previously included within the Other Industrial segment and the comparative results for 2020 have been restated 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 extensive range 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 as the production of powder metal.

Other Industrial – comprises the Group's Ergotron and Hydrogen Technology businesses. The Hydrogen Technology business was launched in the year.

In addition, there are central cost centres which are also reported to the Board. The central corporate cost centres contain the Melrose 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 reasonable 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, the location of 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 segments and 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 assessed that the disaggregation of revenue recognised from contracts with customers by operating segment is appropriate as this is the information regularly reviewed by the CODM in evaluating financial performance. The Group also believes that presenting this disaggregation of revenue based on the timing of transfer of goods or services provides useful information as to the nature and timing of revenue from contracts with customers.

Year ended 31 December 2021	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial ⁽¹⁾ £m	Total £m
Continuing operations					
Adjusted revenue	2,543	3,745	975	233	7,496
Equity accounted investments	(5)	(581)	(27)	–	(613)
Revenue	2,538	3,164	948	233	6,883
Timing of revenue recognition					
At a point in time	1,601	3,164	948	233	5,946
Over time	937	–	–	–	937
Revenue	2,538	3,164	948	233	6,883

Year ended 31 December 2020 – restated ⁽²⁾	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial ⁽¹⁾ £m	Total £m
Continuing operations					
Adjusted revenue	2,804	3,797	905	217	7,723
Equity accounted investments	(6)	(566)	(19)	–	(591)
Revenue	2,798	3,231	886	217	7,132
Timing of revenue recognition					
At a point in time	1,704	3,231	886	217	6,038
Over time	1,094	–	–	–	1,094
Revenue	2,798	3,231	886	217	7,132

(1) Includes revenue in respect of Ergotron of £233 million (2020: £217 million).
(2) Restated for discontinued operations (note 1).

5. Segment information continued

b) Segment operating profit

Year ended 31 December 2021	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial ⁽¹⁾ £m	Corporate ⁽²⁾ £m	Total £m
Continuing operations						
Adjusted operating profit/(loss)	112	172	91	51	(51)	375
Items not included in adjusted operating profit ⁽³⁾ :						
Amortisation of intangible assets acquired in business combinations	(245)	(142)	(49)	(16)	–	(452)
Restructuring costs	(92)	(147)	(18)	–	(12)	(269)
Movement in derivatives and associated financial assets and liabilities	4	(1)	(3)	–	(114)	(114)
Equity accounted investments adjustments	–	(28)	–	–	–	(28)
Melrose equity-settled compensation scheme charges	–	–	–	–	(19)	(19)
Net release and changes in discount rates of fair value items	23	14	11	–	1	49
Acquisition and disposal related gains and losses	2	1	8	–	(4)	7
Operating (loss)/profit	(196)	(131)	40	35	(199)	(451)
Finance costs						(169)
Finance income						2
Loss before tax						(618)
Tax						172
Loss for the year from continuing operations						(446)

Year ended 31 December 2020 – restated ⁽⁴⁾	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial ⁽¹⁾ £m	Corporate ⁽²⁾ £m	Total £m
Continuing operations						
Adjusted operating profit/(loss)	14	82	39	52	(46)	141
Items not included in adjusted operating profit ⁽³⁾ :						
Amortisation of intangible assets acquired in business combinations	(256)	(147)	(52)	(17)	–	(472)
Restructuring costs	(110)	(60)	(48)	(1)	(2)	(221)
Impairment of assets	(133)	(21)	(30)	–	–	(184)
Equity accounted investments adjustments	–	(30)	–	–	–	(30)
Melrose equity-settled compensation scheme charges	–	–	–	–	(11)	(11)
Acquisition and disposal related gains and losses	–	–	–	–	(5)	(5)
Impact of GMP equalisation on UK pension schemes	(1)	(1)	–	–	–	(2)
Movement in derivatives and associated financial assets and liabilities	(9)	(2)	–	–	193	182
Net release and changes in discount rates of fair value items	85	(4)	34	–	–	115
Operating (loss)/profit	(410)	(183)	(57)	34	129	(487)
Finance costs						(195)
Finance income						3
Loss before tax						(679)
Tax						114
Loss for the year from continuing operations						(565)

(1) Includes adjusted operating profit in respect of Ergotron of £58 million (2020: £52 million).

(2) Corporate adjusted 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.

(3) Further details on adjusting items are discussed in note 6.

(4) Restated for discontinued operations (note 1).

5. Segment information continued

c) Segment total assets and liabilities

	Total assets		Total liabilities	
	31 December 2021 £m	Restated ⁽¹⁾ 31 December 2020 £m	31 December 2021 £m	Restated ⁽¹⁾ 31 December 2020 £m
Aerospace	6,267	6,614	2,231	2,691
Automotive	4,608	5,172	2,042	2,407
Powder Metallurgy	1,669	1,816	405	476
Other Industrial ⁽²⁾	631	604	86	76
Corporate	847	513	1,718	3,281
Continuing operations	14,022	14,719	6,482	8,931
Discontinued operations	–	1,961	–	639
Total	14,022	16,680	6,482	9,570

(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⁾		Depreciation of leased assets	
	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	Restated ⁽²⁾ Year ended 31 December 2020 £m
Aerospace	66	98	122	121	24	28
Automotive	113	130	198	199	15	18
Powder Metallurgy	40	33	51	61	9	9
Other Industrial ⁽³⁾	3	2	3	3	1	1
Corporate	–	–	1	1	1	1
Continuing operations	222	263	375	385	50	57
Discontinued operations	12	27	17	33	7	17
Total	234	290	392	418	57	74

(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 UK and the 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 deferred tax assets; non-current other receivables; and non-current derivative financial assets) by geographical location are detailed below:

	Revenue ⁽¹⁾ from external customers		Segment assets	
	Year ended 31 December 2021 £m	Restated ⁽²⁾ Year ended 31 December 2020 £m	31 December 2021 £m	Restated ⁽²⁾ 31 December 2020 £m
UK	580	571	1,977	2,132
Rest of Europe	1,857	1,892	4,375	4,820
North America	3,437	3,642	2,937	3,137
Other	1,009	1,027	1,145	1,216
Continuing operations	6,883	7,132	10,434	11,305
Discontinued operations	884	1,782	–	1,490
Total	7,767	8,914	10,434	12,795

(1) Revenue is presented by destination.

(2) Restated for discontinued operations (note 1).

6. Reconciliation of adjusted profit measures

As described in note 2, adjusted profit measures are an alternative performance measure used by the Board to monitor the operating performance of the Group.

a) Operating profit

	Notes	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations			
Operating loss		(451)	(487)
Amortisation of intangible assets acquired in business combinations	a	452	472
Restructuring costs	b	269	221
Movement in derivatives and associated financial assets and liabilities	c	114	(182)
Equity accounted investments adjustments	d	28	30
Melrose equity-settled compensation scheme charges	e	19	11
Net release and changes in discount rates of fair value items	f	(49)	(115)
Acquisition and disposal related gains and losses	g	(7)	5
Impairment of assets	h	–	184
Impact of GMP equalisation on UK pension schemes	i	–	2
Total adjustments to operating loss		826	628
Adjusted operating profit		375	141

(1) Restated for discontinued operations (note 1).

- a. The amortisation charge on intangible assets acquired in business combinations of £452 million (2020: £472 million) is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.
- b. Restructuring and other associated costs in the year totalled £269 million (2020: £221 million), including a write down of assets in affected sites of £112 million (2020: £20 million). These are shown as adjusting items due to their size and non-trading nature and during the year ended 31 December 2021 these included:
- A charge of £92 million (2020: £110 million) within the Aerospace division primarily relating to the commencement of significant multi-year restructuring projects, necessary for the business to achieve its full potential target operating margins. These included the initial stages of European footprint consolidations in both the Civil and Engines businesses, which commenced in the first half of the year, and significant restructuring programmes in North America, across all three Aerospace sub-segments, which commenced in the second half of the year.
 - 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 a 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, see note 24 for further details.
- c. Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts where hedge accounting is not applied) entered into within the GKN businesses to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts, including foreign exchange movements on the associated financial assets and liabilities are shown as an adjusting item because of its volatility and size. This totalled a charge of £114 million (2020: a credit of £182 million) in the year.
- d. The Group has a number of equity accounted investments ("EAls") in which it does not hold full control, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"), within the Automotive business. The EAls generated £613 million (2020: £591 million) of revenue in the year, which is not included in the statutory results but is shown within adjusted revenue so as not to distort the operating margins reported in the businesses when the adjusted operating profit earned from these EAls is included.

In addition, the profits and losses of EAls, which are shown after amortisation of acquired intangible assets, interest and tax in the statutory results, are adjusted to show the adjusted operating profit consistent with the adjusted operating profits of the subsidiaries of the Group. The revenue and profit of EAls are adjusted because they are considered to be significant in size and are important in assessing the performance of the business.

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, of £19 million (2020: £11 million) is excluded from adjusted results due to its size and volatility. The shares that would be issued, based on the Scheme's current value at the end of the reporting period, are included in the calculation of the adjusted diluted earnings per 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 more favourable amounts than first anticipated are shown as an adjusting item, avoiding positively distorting adjusted operating profit. 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.
- g. An acquisition and disposal related net credit of £7 million (2020: charge of £5 million) arose in the year. These items are excluded 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 the impact of COVID-19, included £133 million within the Aerospace division. The write down of these assets was shown as an adjusting item 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 minimum pensions for occupational pension schemes in the UK. For consistency with the accounting treatment in 2018 and because of its non-trading nature the charge was excluded from adjusted results.

b) Profit before tax

	Notes	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations			
Loss before tax		(618)	(679)
Adjustments to operating loss as above		826	628
Settlement of interest rate swaps	j	45	–
Equity accounted investments – interest	k	2	–
Fair value changes on cross-currency swaps	l	(3)	2
Bank facility negotiation fees	m	–	8
Total adjustments to loss before tax		870	638
Adjusted profit/(loss) before tax		252	(41)

(1) Restated for discontinued operations (note 1).

- j. On disposal of Nortek Air Management and Brush, the significant proceeds received together with future expectations of debt requirements enabled the Group to settle certain interest rate swap instruments that were no longer needed. Specific recycling from the cash flow hedge reserve, under IFRS 9, of £45 million has been accelerated and shown as an adjusting item due to its non-trading nature.
- k. As explained in paragraph d above, the profits and losses of EAls are shown after adjusting items, interest and tax in the statutory results. They are adjusted to show the profit before tax and the profit after tax, consistent with the subsidiaries of the Group.
- l. The fair value changes on cross-currency swaps relating to cost of hedging which are not deferred in equity, is shown as an 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 facility covenants for the remaining period of the facilities. These fees were immediately written off and are shown as an adjusting item because of their non-trading nature.

6. Reconciliation of adjusted profit measures continued**c) Profit after tax**

	Notes	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations			
Loss after tax		(446)	(565)
Adjustments to loss before tax as above		870	638
Tax effect of adjustments to loss before tax	8	(180)	(99)
Tax effect of significant legislative changes	8	(70)	–
Tax effect of significant restructuring	8	32	7
Equity accounted investments – tax	k	(9)	(8)
Total adjustments to loss after tax		643	538
Adjusted profit/(loss) after tax		197	(27)

(1) Restated for discontinued operations (note 1).

7. Expenses

	Notes	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations			
Net operating expenses comprise:			
Selling and distribution costs		(59)	(57)
Administration expenses ⁽²⁾		(1,441)	(1,264)
Total net operating expenses		(1,500)	(1,321)

(1) Restated for discontinued operations (note 1).

(2) Includes £798 million (2020: £598 million) of adjusting items (note 6).

	Notes	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations			
Operating loss is stated after charging/(crediting):			
Cost of inventories		5,872	6,330
Amortisation of intangible assets acquired in business combinations		452	472
Depreciation and impairment of property, plant and equipment		483	552
Amortisation and impairment of computer software and development costs		54	69
Lease expense ⁽²⁾		4	3
Staff costs		2,020	2,071
Research and development costs ⁽³⁾		201	193
Profit on disposal of property, plant and equipment		(3)	(6)
Expense of writing down inventory to net realisable value		76	144
Reversals of previous write-downs of inventory		(67)	(54)
Impairment recognised on trade receivables		2	17
Impairment reversed on trade receivables		(3)	(14)

(1) Restated for discontinued operations (note 1).

(2) Includes costs relating 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 (2020: £1 million).

(3) Includes staff costs totalling £143 million (2020: £137 million).

7. Expenses continued

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	5.9	7.7
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	1.2
Non-statutory audit of certain of the Company's businesses	3.8	1.6
Total audit fees	10.7	10.5
Audit-related assurance services:		
Review of the half year interim statement	0.4	0.4
Other assurance services	0.5	0.4
Total audit-related assurance services	0.9	0.8
Total audit and audit-related assurance services	11.6	11.3
Tax services	–	–
Reporting accountant services	0.1	–
Total audit and non-audit fees	11.7	11.3

Details of the Company's policy on the use of the auditors for non-audit services and how auditor's independence and objectivity were safeguarded are set out in the Audit Committee report on page 94 to 98. No services were provided pursuant to contingent fee arrangements.

An analysis of staff costs and employee numbers is as follows:

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations		
Staff costs during the year (including executive Directors)		
Wages and salaries ⁽²⁾	1,644	1,671
Social security costs ⁽³⁾	283	309
Pension costs (note 24)		
– defined benefit plans ⁽⁴⁾	8	12
– defined contribution plans	69	65
Share-based compensation expense ⁽⁵⁾ (note 23)	16	14
Total staff costs	2,020	2,071

(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 the UK 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	Restated ⁽¹⁾ Year ended 31 December 2020 Number
Average monthly number of persons employed (including executive Directors)		
Aerospace	14,316	16,402
Automotive	19,141	20,040
Powder Metallurgy	6,080	6,433
Other Industrial	1,163	1,140
Corporate	50	50
Continuing operations	40,750	44,065
Discontinued operations	7,908	7,330
Total average number of persons employed	48,658	51,395

(1) Restated for discontinued operations (note 1).

7. Expenses continued

An analysis of finance costs and income is as follows:

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations		
Finance costs and income		
Interest on bank loans and overdrafts ⁽²⁾	(138)	(136)
Amortisation of costs of raising finance ⁽³⁾	(10)	(20)
Net interest cost on pensions	(8)	(19)
Lease interest	(14)	(16)
Unwind of discount on provisions	(2)	(2)
Fair value changes on cross-currency swaps ⁽⁴⁾	3	(2)
Total finance costs	(169)	(195)
Finance income	2	3
Total net finance costs	(167)	(192)

(1) Restated for discontinued operations (note 1).

(2) Includes a £45 million (2020: £nil) charge in respect of the settlement of interest rate swaps which are shown as an adjusting item (note 6).

(3) Includes £nil (2020: £8 million) in respect of bank facility negotiation fees. These costs are shown as adjusting items (note 6).

(4) These costs are shown as adjusting items (note 6).

8. Tax

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations		
Analysis of tax credit in the year:		
Current tax		
Current year tax charge	63	56
Adjustments in respect of prior years	(1)	(13)
Total current tax charge	62	43
Deferred tax		
Origination and reversal of temporary differences	(127)	(248)
Adjustments in respect of prior years	(4)	(9)
Tax on the change in value of derivative financial instruments	(27)	41
Adjustments to deferred tax attributable to changes in tax rates	(5)	(6)
Non-recognition of deferred tax	4	65
Recognition of previously unrecognised deferred tax assets	(75)	–
Total deferred tax credit	(234)	(157)
Tax credit on continuing operations	(172)	(114)
Tax charge on discontinued operations	53	104
Total tax credit for the year	(119)	(10)
Analysis of tax credit on continuing operations in the year:	£m	£m
Tax charge/(credit) in respect of adjusted profit before tax	55	(14)
Tax credit recognised as an adjusting item	(227)	(100)
Tax credit on continuing operations	(172)	(114)

(1) Restated for discontinued operations (note 1).

The tax charge of £55 million (2020: credit of £14 million) arising on adjusted profit before tax of £252 million (2020: loss of £41 million), results in an effective tax rate of 21.8% (2020: 34.1%).

The £227 million (2020: £100 million) tax credit recognised as an adjusting item includes £180 million (2020: £99 million) in respect of tax credits on adjustments to loss before tax of £870 million (2020: £638 million), £9 million (2020: £8 million) in respect of the tax on equity accounted investments, a charge of £32 million (2020: £7 million) in respect of internal Group restructuring and a £70 million credit (2020: £nil) in respect of additional deferred tax asset recognition, primarily as a result of legislative changes in The Netherlands, and rate changes in both The Netherlands and the UK.

8. Tax continued

The tax (credit)/charge for the year for continuing and discontinued operations can be reconciled to the (loss)/profit before tax per the Income Statement as follows:

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
(Loss)/profit before tax:		
Continuing operations	(618)	(679)
Discontinued operations (note 13)	3	144
	(615)	(535)
Tax credit on loss before tax at the weighted average rate of 23.0% (2020: 27.0%)	(141)	(144)
Tax effect of:		
Disallowable expenses and other permanent differences within adjusted profit	(2)	–
Disallowable items included within adjusting items	31	3
Temporary differences not recognised in deferred tax	4	65
Recognition of previously unrecognised deferred tax assets	(75)	–
Tax credits, withholding taxes and other rate differences	11	6
Adjustments in respect of prior years	(5)	(12)
Tax charge classified within adjusting items	63	78
Effect of changes in tax rates	(5)	(6)
Total tax credit for the year	(119)	(10)

(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 weighted average of 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	Year ended 31 December 2020 £m
Deferred tax on retirement benefit obligations	71	42
Deferred tax on hedge relationship gains and losses	19	(9)
Total charge for the year	90	33

Franked investment income – litigation

Since 2003, the GKN group has been involved in litigation with HMRC in respect of various advance corporate tax payments and corporate tax paid on certain foreign dividends which, in its view, were levied by HMRC in breach of the Group's EU community law rights. The most recent Supreme Court judgment in the case was published in July 2021. The Supreme Court ruled on a number of technical points, the most important being that, if any interest is due to taxpayers, it should be calculated on a statutory or simple basis and not compounded. Whilst this limits the size of the claims against HMRC, a number of points remain outstanding, including whether or not the taxpayer claims are within the relevant time limits and thus whether they are valid claims at all, which the Supreme Court referred back to the High Court in November 2020. Accordingly, significant uncertainty over the future outcome remains.

The continuing complexity of the case and uncertainty over the issues raised (and in particular the timetable issue referred back to the High Court) means that it is not possible to predict the final outcome of the litigation with any reasonable degree of certainty.

9. Dividends

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £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 of 1.00p per share was proposed by the Board on 3 March 2022 and in accordance with IAS 10: Events after the reporting period, has not been 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).

10. Earnings per share

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Earnings attributable to owners of the parent		
Earnings for basis of earnings per share	833	(536)
Less: profit for the year from discontinued operations (note 13)	(1,283)	(32)
Earnings for basis of earnings per share from continuing operations	(450)	(568)

	Year ended 31 December 2021 Number	Year ended 31 December 2020 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	4,695	4,858
Further shares for the purposes of diluted earnings per share (million)	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share (million)	4,695	4,858

	Year ended 31 December 2021 pence	Restated ⁽¹⁾ Year ended 31 December 2020 pence
Earnings per share		
Basic earnings per share		

From continuing and discontinued operations	17.7	(11.0)
From continuing operations	(9.6)	(11.7)
From discontinued operations	27.3	0.7

Diluted earnings per share

From continuing and discontinued operations	17.7	(11.0)
From continuing operations	(9.6)	(11.7)
From discontinued operations	27.3	0.7

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Adjusted earnings from continued operations		
Adjusted earnings for the basis of adjusted earnings per share ⁽²⁾	193	(30)

Adjusted earnings per share from continuing operations

	Year ended 31 December 2021 pence	Restated ⁽¹⁾ Year ended 31 December 2020 pence
Adjusted basic earnings per share	4.1	(0.6)
Adjusted diluted earnings per share	4.1	(0.6)

(1) Restated for discontinued operations (note 1).

(2) Adjusted earnings 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 interest of £4 million (2020: £3 million).

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	Total £m
Cost							
At 1 January 2020	4,038	4,961	776	1,037	48	513	11,373
Additions	–	–	–	–	17	25	42
Acquisition of businesses ⁽²⁾	15	10	–	9	–	–	34
Disposals	–	–	–	–	(5)	(8)	(13)
Exchange adjustments	(30)	(55)	–	(1)	(1)	(1)	(88)
At 31 December 2020	4,023	4,916	776	1,045	59	529	11,348
Additions	–	–	–	–	6	13	19
Disposals	–	–	–	–	(1)	(3)	(4)
Disposal of businesses ⁽³⁾	(778)	(331)	(250)	(3)	(14)	(11)	(1,387)
Transfer to held for sale ⁽⁴⁾	(330)	(120)	(37)	(26)	–	–	(513)
Exchange adjustments	(65)	(59)	(9)	(5)	(1)	(6)	(145)
At 31 December 2021	2,850	4,406	480	1,011	49	522	9,318
Amortisation and impairment							
At 1 January 2020	(385)	(726)	(156)	(203)	(23)	(96)	(1,589)
Charge for the year:							
Adjusted operating profit	–	–	–	–	(13)	(44)	(57)
Adjusting items	–	(379)	(43)	(104)	–	–	(526)
Impairments ⁽⁵⁾	–	–	–	–	(1)	(17)	(18)
Disposals	–	–	–	–	5	8	13
Exchange adjustments	2	22	1	1	1	–	27
At 31 December 2020	(383)	(1,083)	(198)	(306)	(31)	(149)	(2,150)
Charge for the year:							
Adjusted operating profit	–	–	–	–	(8)	(46)	(54)
Adjusting items	–	(339)	(30)	(107)	–	–	(476)
Impairments ⁽⁵⁾	–	–	–	–	–	(3)	(3)
Disposals	–	–	–	–	1	–	1
Disposal of businesses ⁽³⁾	214	143	117	3	7	2	486
Transfer to held for sale ⁽⁴⁾	165	42	13	26	–	–	246
Exchange adjustments	4	11	3	1	2	1	22
At 31 December 2021	–	(1,226)	(95)	(383)	(29)	(195)	(1,928)
Net book value							
At 31 December 2021	2,850	3,180	385	628	20	327	7,390
At 31 December 2020	3,640	3,833	578	739	28	380	9,198

(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 assets, including intangible assets, identified at the point of acquisition. The carrying value of goodwill includes a premium, paid in order to secure shareholder agreement to the business combination, that is less than the value that the Directors believed could be added to 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 businesses acquired, synergies as a result of the complementary nature of the business with existing Melrose businesses, the assembled 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 direction, operational improvements and investment, are expected to result in improved profitability of the acquired businesses during the period of ownership and are also expected to result in enhanced disposal proceeds when the acquired businesses are ultimately disposed. 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 comprises several cash generating units (“CGUs”). The goodwill is tested annually for impairment, or as required if indicators of impairment are identified. The date of the annual impairment test is 31 October, aligned with internal forecasting and review processes.

11. Goodwill and other intangible assets continued

	31 December 2021 £m	Restated ⁽¹⁾ 31 December 2020 £m
Goodwill		
Ergotron	409	406
Aerospace ⁽²⁾	933	942
Automotive ⁽²⁾	1,001	1,026
Powder Metallurgy	507	524
Continuing operations	2,850	2,898
Discontinued operations	–	742
Total	2,850	3,640

(1) Restated for discontinued operations (note 1).

(2) Reflects the revised groups of CGUs effective 1 November 2020 whereby the Aerostructures and Aerospace Engine Systems groups of CGUs were organised into one Aerospace group of CGUs and the Automotive Driveline and Automotive ePowertrain groups of CGUs were organised into one Automotive group of CGUs.

Impairment testing

The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired. In accordance with IAS 36: Impairment of assets, the Group values goodwill at the recoverable amount, being the higher of the value in use basis and the fair value less costs to sell basis. Due to the maturity of the different groups of CGUs within Melrose’s strategic life cycle of “Buy, Improve, Sell” the value in use methodology generally yields a higher recoverable amount for businesses owned for a longer time and fair value less costs to sell give a higher value where the improvement phase is ongoing.

Value in use calculations have been used to determine the recoverable amount of goodwill and other relevant net assets allocated to the Ergotron groups of CGUs. The calculation used the latest approved forecasts extrapolated into perpetuity using growth rates shown below, which do not exceed the long-term growth rate for the relevant market.

Fair value less costs to sell calculations have been used to determine the recoverable amount of goodwill and other relevant net assets allocated to the Aerospace, Automotive and Powder Metallurgy groups of CGUs. When applying the fair value less cost to sell methodology, it has been difficult to assess a sale value using observable market inputs (level 1) or inputs based on market evidence (level 2) in the current environment and so unobservable inputs (level 3) have been used. A combination of discounted cash flows and EBITDA multiple valuations have been used to establish fair values for each of the groups of CGUs.

Under IAS 36, the value in use basis prohibits inclusion of benefits from future uncommitted restructuring plans although this is permitted when applying the fair value less costs to sell basis, to the extent that similar actions would be carried out by a market participant.

Based on impairment testing completed no impairment was identified in respect of any of the groups of CGUs. There is no reasonably possible change in key assumptions that could result in an impairment in any of the groups of CGUs. Given 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.

Significant assumptions and estimates

The basis of impairment tests and the key assumptions are set out in the tables below:

Groups of CGUs – value in use	31 December 2021			31 December 2020		
	Pre-tax discount rates	Long-term growth rates	Years in forecast	Pre-tax discount rates	Long-term growth rates	Years in forecast
Ergotron	10.1%	3.0%	3	9.4%	3.0%	3

Groups of CGUs – fair value less costs to sell	31 December 2021			31 December 2020		
	Post-tax discount rates	Long-term growth rates	Years in forecast	Post-tax discount rates	Long-term growth rates	Years in forecast
Aerospace ⁽¹⁾	7.8%	3.0%	5	7.5%	2.8%	5
Automotive ⁽¹⁾	8.8%	2.5%	5	9.0%	2.5%	5
Powder Metallurgy	8.8%	2.5%	5	9.0%	2.5%	5

(1) Reflects the revised groups of CGUs effective 1 November 2020 whereby the Aerostructures and Aerospace Engine Systems groups of CGUs were organised into one Aerospace group of CGUs and the Automotive Driveline and Automotive ePowertrain groups of CGUs were organised into one Automotive group of CGUs.

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 Aerospace, Automotive and Powder Metallurgy groups of CGUs are discounted using a post-tax discount rate specific to each group of CGUs. Discount rates reflect the current market assessments of the time value of money and the territories in which the group of CGUs operates. In determining the cost of equity, the Capital Asset Pricing Model ("CAPM") has been used. Under CAPM, the cost of equity is determined by adding a risk premium, based on an industry adjustment ("Beta"), to the expected return of the equity market above the risk-free return. The relative risk adjustment reflects the risk inherent in each group of CGUs relative to all other sectors and 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 premium equivalent 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 been prepared using a cash flow period deemed most appropriate by management, considering the nature of each group of CGUs. The key assumptions used in forecasting cash flows relate to future budgeted revenue and operating margins likely to be achieved and the expected rates of long-term growth by market sector. Underlying factors in determining the values assigned to each key assumption 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 management, taking into account industry growth rates and management's historical experience in the context of wider industry and economic conditions. Projected sales are built up with reference to markets and product categories. They incorporate past performance, historical growth rates, projections of developments in key markets, secured orders and orders forecast to be achieved in the short to medium-term given trends in the relevant market sector. Revenue assumptions are made using external market data, where available, 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 economic environments and competitive landscapes on volumes and revenues and the impact of management actions on costs. Projected margins reflect the impact of all initiated projects to improve operational efficiency and leverage scale and increases from returning sale volumes. The projections do not include the impact of future restructuring projects to which the Group is not yet committed, where testing has been performed using a value in use methodology. Where testing has been performed using the fair value less costs to sell methodology, the assumptions to derive operating margins take into account both normal cost saving activities and, where applicable a significant contribution from planned restructuring activity. Forecasts for other operating costs are based on inflation 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 military aircraft. Consumer spending, passenger load factors, raw material input costs, market expectations for aircraft production requirements, 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, ranging from smaller low-cost cars to larger premium vehicles. This is impacted in the short to medium-term by expectations of recovery in supply chains, interrupted by the COVID-19 pandemic. Demand is influenced by technological advancements, particularly in electric and full hybrid vehicles, market expectations for global vehicle production requirements, fuel prices, raw material input costs and expectations 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 industrial markets. This is impacted in the short to medium-term by expectations of recovery in supply chains, interrupted by the COVID-19 pandemic. Market expectations for global light vehicle production requirements, raw material input costs and technological advancements, particularly in additive manufacturing, influence demand for these products along with other macro-economic factors.

Ergotron – The key driver for growth in revenue and operating margins is demand for technology and wellness products in the markets in which Ergotron operates. Seasonal factors, public authority spending, corporate and consumer spending, employment levels, the public awareness of wellness, regulation, technological advancements and other macro-economic factors influence 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 CGUs operates. Long-term growth rates are determined using long-term growth rate forecasts that take into account the international 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 CGUs. Given 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% or from 3.0% to 1.5% respectively would reduce headroom to £nil. A failure to execute restructuring plans or a delay in currently anticipated market recovery would impact operating profit and operating margin assumptions and a reduction in the terminal operating profit of 22% would reduce the terminal operating margin by 2.8 percentage points and would reduce headroom to £nil.

11. Goodwill and other intangible assets continued**Automotive group of CGUs – sensitivity analysis**

Sensitivity analysis has been carried out and a change in the discount rate from 8.8% to 11.2% would reduce headroom to £nil.

Powder Metallurgy group of CGUs – sensitivity analysis

Sensitivity analysis has been carried out and a change in the discount rate from 8.8% to 11.1% would reduce headroom to £nil.

Ergotron group of CGUs – sensitivity analysis

Sensitivity analysis has been carried out and a change in the discount rate from 10.1% to 14.3% would reduce headroom to £nil.

Allocation of significant intangible assets

The allocation 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
Ergotron	5	6	51	61	13	14	62	67
Aerospace ⁽²⁾	17	18	1,967	2,145	17	18	575	648
Automotive ⁽²⁾	9	10	670	790	17	18	309	356
Powder Metallurgy	14	15	492	551	17	18	67	77
Continuing operations			3,180	3,547			1,013	1,148
Discontinued operations			–	286			–	169
Total			3,180	3,833			1,013	1,317

(1) Restated for discontinued operations (note 1).

(2) Reflects the revised groups of CGUs effective 1 November 2020 whereby the Aerostructures and Aerospace Engine Systems groups of CGUs were organised into one Aerospace group of CGUs and the Automotive Driveline and Automotive ePowertrain groups of CGUs were organised into one Automotive group of CGUs.

12. Investments

	31 December 2021 £m	31 December 2020 £m
Investments, carried at fair value		
Shares	87	34

During the year, the Group invested £10 million in HiiROC Limited, a hydrogen technology company, for a 10% equity share.

The Group continues to hold a 4% investment in PW1100G-JM Engine Leasing LLC, an engine leasing business. There was a gain on remeasurement to fair value of £43 million (2020: a loss of £16 million) and a foreign exchange translation impact of £nil (2020: £nil). A dividend of £17 million (2020: £4 million) was received during the year which was recorded within operating profit.

These investments are classified as a level 3 fair value under the IFRS 13 fair value hierarchy. To calculate the value at 31 December 2021, the expected dividend flow was discounted to net present value using a discount rate of 9.0%. If the discount rate changed from 9.0% to 8.0% the fair value would have changed by £9 million.

13. Discontinued operations

On 18 June 2021, the Group completed the sale of the Brush business, previously included in the Other Industrial division, for net cash consideration of £127 million. The costs charged to the Income Statement associated with the disposal were £2 million. The profit on disposal was £24 million after the recycling of cumulative translation gains of £22 million.

On 22 June 2021, the Group announced the completion of the sale of the Nortek Air Management business for net cash consideration of £2,470 million. The costs charged to the Income Statement associated with the disposal were £41 million. The profit on disposal was £1,347 million after the recycling of cumulative translation losses of £110 million.

At 30 June 2021, the Nortek Control business met the criteria within IFRS 5: Non-current Assets Held for Sale and Discontinued Operations to be classified as an asset held for sale. On 4 October 2021, the Group completed the sale of the Nortek Control business for net cash consideration of £212 million. The costs charged to the Income Statement associated with the disposal were £1 million. The loss on disposal was £38 million after the recycling of cumulative translation losses of £26 million.

During the year, the Aerospace, Automotive and Powder Metallurgy businesses disposed of certain non-core entities. Cumulative disposal proceeds from these activities amounted to £3 million and a profit on disposal was £2 million after the recycling of cumulative translation gains of £1 million, and disposal costs of £5 million.

13. Discontinued operations continued

The results of Nortek Air Management, Brush and Nortek Control have been classified within discontinued operations for both years presented. In addition, discontinued operations for 2020 include the results of the Wheels and Structures business which was disposed in November 2020.

Financial performance of discontinued operations:

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Revenue	884	1,782
Operating costs ⁽²⁾	(879)	(1,633)
Operating profit	5	149
Finance costs	(2)	(5)
Profit before tax	3	144
Tax	(53)	(104)
(Loss)/profit after tax	(50)	40
Gain/(loss) on disposal of net assets of discontinued operations, net of recycled cumulative translation differences	1,333	(8)
Profit for the year from discontinued operations	1,283	32

(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 Control business on reclassification to assets held for sale.

13. Discontinued operations continued

Classes of assets and liabilities held for sale and disposed of during the year were as follows:

	Held for sale			Businesses disposed
	Reclassified	Remeasured	Held for sale	
	£m	£m	£m	£m
Goodwill and other intangible assets	267	(85)	182	901
Property, plant and equipment	18	–	18	254
Retirement benefit surplus	–	–	–	53
Inventories	46	–	46	233
Trade and other receivables	36	–	36	248
Cash and cash equivalents	–	–	–	53
Total assets	367	(85)	282	1,742
Trade and other payables	(35)	–	(35)	(333)
Lease obligations	(13)	–	(13)	(138)
Provisions	(6)	–	(6)	(112)
Current and deferred tax	(18)	–	(18)	(67)
Total liabilities	(72)	–	(72)	(650)
Net assets	295	(85)	210	1,092
Movement in the value of net assets classified as held for sale in the period prior to disposal			13	
Net assets held for sale disposed			223	223
Total net assets disposed				1,315
Cash consideration, net of costs ⁽¹⁾				2,763
Cumulative translation difference recycled on disposals				(113)
Profit on disposal of businesses				1,335
Profit on disposal of businesses classified as discontinued operations				1,333
Profit on disposal of businesses classified within continuing operations				2
				1,335
Net cash inflow arising on disposal:				
Consideration received in cash and cash equivalents, net of costs ⁽¹⁾				2,763
Less: cash and cash equivalents disposed ⁽²⁾				(60)
				2,703

(1) Cash consideration of £2,812 million net of £49 million of disposal costs.

(2) Includes £7 million related to Nortek Control.

14. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2020	1,335	2,805	4,140
Additions	74	230	304
Right-of-use asset reassessments	14	–	14
Acquisition of businesses	3	8	11
Disposals	(33)	(54)	(87)
Exchange adjustments	1	6	7
At 31 December 2020	1,394	2,995	4,389
Additions	68	192	260
Right-of-use asset reassessments	4	(1)	3
Disposals	(12)	(42)	(54)
Disposal of businesses ⁽¹⁾	(256)	(314)	(570)
Transfer to held for sale ⁽²⁾	(24)	(13)	(37)
Exchange adjustments	(31)	(95)	(126)
At 31 December 2021	1,143	2,722	3,865
Accumulated depreciation and impairment			
At 1 January 2020	(168)	(540)	(708)
Charge for the year	(86)	(349)	(435)
Disposals	4	44	48
Impairments ⁽³⁾	(68)	(93)	(161)
Exchange adjustments	2	(2)	–
At 31 December 2020	(316)	(940)	(1,256)
Charge for the year	(69)	(326)	(395)
Disposals	2	40	42
Disposal of businesses ⁽¹⁾	112	204	316
Transfer to held for sale ⁽²⁾	9	10	19
Impairments ⁽³⁾	(40)	(69)	(109)
Exchange adjustments	2	44	46
At 31 December 2021	(300)	(1,037)	(1,337)
Net book value			
At 31 December 2021	843	1,685	2,528
At 31 December 2020	1,078	2,055	3,133

(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 and fair value less costs to sell methodologies. The aggregate recoverable amount was £19 million and where a value in use methodology was used, discount rates ranged from 8.3% to 10.5%.

14. Property, plant and equipment continued

Property, plant and equipment includes the net book value of right-of-use assets as follows:

	Land and buildings £m	Plant and equipment £m	Total £m
Right-of-use asset			
At 1 January 2020	478	88	566
Additions	39	17	56
Right-of-use asset reassessments	14	–	14
Depreciation	(52)	(22)	(74)
Disposals	(18)	(2)	(20)
Impairments	(68)	(14)	(82)
Exchange adjustments	(12)	–	(12)
At 31 December 2020	381	67	448
Additions	31	14	45
Right-of-use asset reassessments	4	(1)	3
Depreciation	(39)	(18)	(57)
Disposals	(3)	–	(3)
Disposal of businesses ⁽¹⁾	(75)	(3)	(78)
Transfer to held for sale ⁽²⁾	(8)	–	(8)
Impairments	(15)	–	(15)
Exchange adjustments	(11)	(11)	(22)
At 31 December 2021	265	48	313

(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).

15. Equity accounted investments

	31 December 2021 £m	31 December 2020 £m
Aggregated amounts relating to equity accounted investments:		
Share of current assets	403	334
Share of non-current assets	350	371
Share of current liabilities	(310)	(263)
Share of non-current liabilities	(14)	(12)
Interests in equity accounted investments	429	430

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Group share of results from continuing operations		
Revenue	613	591
Operating costs	(547)	(529)
Adjusted operating profit	66	62
Adjusting items	(21)	(22)
Net finance income	2	–
Profit before tax	47	40
Tax	(9)	(8)
Share of results of equity accounted investments	38	32

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Group share of equity accounted investments		
At 1 January	430	436
Share of results of equity accounted investments	38	32
Dividends paid to the Group	(52)	(54)
Exchange adjustments	13	16
At 31 December	429	430

15. Equity accounted investments continued

Within the Group's share of equity accounted investments there is one significant joint venture, held within the Automotive segment, Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"). SDS had total sales in the year of £1,159 million (2020: £1,101 million), adjusted operating profit of £116 million (2020: £116 million), adjusting items of £41 million (2020: £44 million), statutory operating profit of £75 million (2020: £72 million), an interest credit of £4 million (2020: £nil) and a tax charge of £16 million (2020: £15 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 non-current assets of £636 million (31 December 2020: £684 million), current assets of £668 million (31 December 2020: £598 million), current liabilities of £508 million (31 December 2020: £484 million) and non-current liabilities of £6 million (31 December 2020: £nil). During 2021, SDS paid a dividend to the Group of £50 million (2020: £53 million). Further information about SDS can be found in note 3 to the Melrose Industries PLC Company Financial Statements.

16. Inventories

	31 December 2021 £m	31 December 2020 £m
Raw materials	413	481
Work in progress	280	292
Finished goods	200	353
	893	1,126

In 2021 the write down of inventories to net realisable value amounted to £93 million (2020: £163 million), of which £8 million related to restructuring activities (2020: £1 million in restructuring activities and £14 million in write down of assets) and is included within adjusting items (note 6). The reversal of write downs amounted to £77 million (2020: £65 million). Write downs and reversals in both years relate to ongoing assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

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

17. Trade and other receivables

	31 December 2021 £m	31 December 2020 £m
Current		
Trade receivables	847	1,269
Allowance for expected credit loss	(23)	(41)
Other receivables	200	258
Prepayments	40	54
Contract assets	120	118
	1,184	1,658

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

	31 December 2021 £m	31 December 2020 £m
Non-current		
Other receivables	32	13
Contract assets	491	426
Retirement benefit surplus (note 24) ⁽¹⁾	184	–
	707	439

(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 £5 million (31 December 2020: £nil).

As described in note 25, certain businesses participate in receivables working capital programmes and have the ability to choose whether to receive payment earlier than the normal due date, for specific customers on a non-recourse basis. As at 31 December 2021, eligible receivables under these programmes have been factored and derecognised in line with the derecognition criteria of IFRS 9.

17. Trade and other receivables continued

An allowance has been made for expected lifetime credit losses with reference to past default experience and management's assessment of 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
At 1 January 2020	12	12	5	2	16	47
Income Statement charge/(credit)	3	–	–	–	(2)	1
Utilised	(3)	(1)	–	–	(3)	(7)
At 31 December 2020	12	11	5	2	11	41
Income Statement (credit)/charge	–	(1)	–	–	4	3
Utilised	(1)	(1)	–	–	(6)	(8)
Disposal of businesses ⁽²⁾	(3)	–	–	–	(7)	(10)
Transfer to held for sale ⁽³⁾	–	–	–	–	(2)	(2)
Exchange adjustments	(1)	–	–	–	–	(1)
At 31 December 2021	7	9	5	2	–	23

(1) Restated for discontinued operations (note 1).

(2) Disposal of businesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).

(3) 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).

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

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

	31 December 2021 £m	31 December 2020 £m
0 – 30 days	12	15
31 – 60 days	–	1
60+ days	11	25
	23	41

Included in the Group's trade receivables balance are overdue trade receivables with a gross carrying amount of £63 million (31 December 2020: £97 million) against which a provision of £23 million (31 December 2020: £41 million) is held. There are no amounts provided against balances that are not overdue as these are deemed recoverable, following an assessment for impairment in accordance with policies described in note 2.

The ageing of the balance deemed recoverable of £40 million (31 December 2020: £56 million) is as follows:

	31 December 2021 £m	31 December 2020 £m
0 – 30 days	27	41
31 – 60 days	11	10
60+ days	2	5
	40	56

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

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	Total £m
At 1 January 2020	202	105	242	48	597
Additions	9	1,096	26	5	1,136
Utilised	(11)	(1,149)	(13)	(3)	(1,176)
Exchange adjustments	(5)	–	(8)	–	(13)
At 31 December 2020	195	52	247	50	544
Additions	5	949	68	9	1,031
Utilised	(9)	(941)	(13)	(6)	(969)
Exchange adjustments	2	1	3	(1)	5
At 31 December 2021	193	61	305	52	611

An assessment for impairment of contract assets has been performed in accordance with policies described in note 2. No such 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 the related 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 contain a legal right 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 arrangements in the Aerospace business. RRSP contracting is a feature of the aircraft engine market and typically reflects the engine manufacturer's economic model where discounts are given on the sale of original equipment (“OE”) and generally a higher value is associated with the subsequent maintenance, repair and overhaul services. The nature of RRSP arrangements is covered further in the accounting policies (note 2) and the impact on the Group is that OE products sold to engine manufacturers are at a lower margin with more favourable pricing in the aftermarket phase. As a partner in the arrangements, the Aerospace business' cash compensation profile 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 allocated to the performance obligations. The principal contractual term that determines the existence of variable consideration is the absence of a termination clause that the customer can unilaterally exercise and which results in future purchases being considered optional. Where there is such a termination clause and the Group commercially relies on economic compulsion of the contracting parties, the two phases of activity are treated as distinct and no variable consideration is recognised. In the absence of such a term, there is a contractual link between the sale of OE components and aftermarket, which results in variable consideration, and the total contract 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 selling price for individual performance obligations and is recognised when control of the OE component passes to the customer (the engine manufacturer). Due to the long-term nature of agreements, calculation of the total programme revenues is inherently imprecise and as set out in note 3d requires significant estimates, including an assessment of the aftermarket revenue per engine which reflects the pattern of future maintenance activity and associated costs to be incurred. In order to address the future uncertainties, risk adjustments as well as constraints have been applied to the expected level of revenue as appropriate. This approach best represents the value of goods and services supplied taking account of the performance obligations, risk and overall contract revenues.

As a consequence of allocating additional revenue to the sale of OE components, a variable consideration contract asset has been recognised which will be satisfied through cash receipt during the aftermarket phase. The constraints applied to variable consideration are reassessed at each period end, and will unwind as risks reduce and when uncertainties are resolved. This is expected to lead to additional revenue recognition in future periods in relation to items sold in the current and preceding periods. Further information is shown in note 4.

18. Cash and cash equivalents

	31 December 2021 £m	31 December 2020 £m
Cash and cash equivalents	473	311

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

19. Trade and other payables

	31 December 2021 £m	31 December 2020 £m
Current		
Trade payables	1,016	1,153
Other payables	338	417
Customer advances and contract liabilities	347	397
Other taxes and social security	59	91
Government refundable advances	5	7
Accruals	264	371
Deferred government grants	22	20
	2,051	2,456

As at 31 December 2021, and as described in note 25, included within trade payables were drawings on supplier finance facilities of £102 million (31 December 2020: £62 million).

Trade payables are non-interest-bearing. Normal settlement terms vary by country and the average credit period taken for trade and other payables is 86 days (31 December 2020: 69 days).

	31 December 2021 £m	31 December 2020 £m
Non-current		
Other payables	12	13
Customer advances and contract liabilities	273	304
Other taxes and social security	6	3
Government refundable advances	50	51
Accruals	27	36
Deferred government grants	22	14
	390	421

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

Non-current amounts; other payables, other taxes and social security and accruals fall due for payment within one to two years; government refundable advances are forecast to fall due for repayment between 2022 and 2055 and the deferred government grants will be utilised over the next five years.

Customer advances and contract liabilities include cash receipts from customers in advance of the Group completing its performance obligations and are generally utilised as product is delivered. Non-current amounts in respect of customer advances and contract liabilities will be utilised as follows: one to two years £33 million, two to five years £91 million and over five years £149 million (31 December 2020: one to two years £90 million, two to five years £124 million and over five years £90 million).

20. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. Details of the Group's exposure to credit, liquidity, interest rate and foreign currency risk are included in note 25.

	Current		Non-current		Total	
	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m
Floating rate obligations						
Bank borrowings – US Dollar loan	–	–	582	1,850	582	1,850
Bank borrowings – Sterling loan	–	–	30	254	30	254
Other loans and bank overdrafts	5	151	–	80	5	231
Fixed rate obligations						
2022 £450 million bond	450	–	–	450	450	450
2032 £300 million bond	–	–	300	300	300	300
Other loans	–	3	–	–	–	3
	455	154	912	2,934	1,367	3,088
Unamortised finance costs ⁽¹⁾	–	–	(13)	(19)	(13)	(19)
Non-cash acquisition fair value adjustment	7	11	4	11	11	22
Total interest-bearing loans and borrowings	462	165	903	2,926	1,365	3,091

(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 2024. Subsequent to this extension, in December 2021 the term loan was partly prepaid by £70 million and US\$172 million. Consequently, the Group's committed bank funding includes a multi-currency denominated term loan of £30 million (31 December 2020: £100 million) and US\$788 million (31 December 2020: US\$960 million) and a multi-currency denominated revolving credit facility of £1.1 billion, US\$2.0 billion and €0.5 billion. Loans drawn under this facility are guaranteed by Melrose Industries PLC and certain of its 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 credit facility. Applying the exchange rates at 31 December 2021, the headroom equated to £3.0 billion. There are also a number of uncommitted 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 Group companies continue to be guarantors under the bank facilities. Further details on covenant compliance for the year ended 31 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 in the year. As part of the extension of the bank facility in December 2021, the bank margin on the revolving credit facility was reduced to 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 2020: 2.0%) on the term 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 below:

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 €284	5.70% 3.87%
May 2032	300	4.625%	n/a	n/a

20. Interest-bearing loans and borrowings continued**Maturity of financial liabilities (excluding currency contracts and lease obligations)**

The table below shows the maturity profile of anticipated future cash flows, including interest, on an undiscounted basis in relation to the Group's financial liabilities (other than those associated with currency risk, which are shown in note 25, and lease obligations which are shown in note 28). The amounts shown therefore differ from the carrying value and fair value of the Group's financial liabilities.

	Interest-bearing loans and borrowings £m	Interest rate derivative financial liabilities £m	Other financial liabilities £m	Total financial liabilities £m
Within one year	501	4	1,623	2,128
In one to two years	27	3	45	75
In two to five years	661	–	15	676
After five years	383	–	29	412
Effect of financing rates	(207)	–	–	(207)
31 December 2021	1,365	7	1,712	3,084
Within one year	242	33	1,948	2,223
In one to two years	539	34	53	626
In two to five years	2,252	22	17	2,291
After five years	397	–	30	427
Effect of financing rates	(339)	(2)	–	(341)
31 December 2020	3,091	87	2,048	5,226

21. Provisions

	Loss-making contracts £m	Property related costs £m	Environmental and litigation £m	Warranty related costs £m	Restructuring £m	Other £m	Total £m
At 1 January 2021	241	43	191	330	147	69	1,021
Utilised	(48)	(1)	(34)	(73)	(167)	(3)	(326)
Charge to operating profit ⁽¹⁾	6	–	50	69	138	21	284
Release to operating profit ⁽²⁾	(22)	(7)	(38)	(56)	(14)	(1)	(138)
Disposal of businesses ⁽³⁾	(4)	(6)	(30)	(35)	(18)	(19)	(112)
Transfer to held for sale ⁽⁴⁾	–	–	(2)	(4)	–	–	(6)
Unwind of discount ⁽⁵⁾	(1)	–	–	–	–	–	(1)
Exchange adjustments	(5)	–	(2)	(9)	(5)	–	(21)
31 December 2021	167	29	135	222	81	67	701
Current	43	5	70	100	72	3	293
Non-current	124	24	65	122	9	64	408
	167	29	135	222	81	67	701

(1) Includes £142 million of adjusting items and £142 million recognised in adjusted operating profit.

(2) Includes £68 million of adjusting items and £70 million recognised in adjusted operating profit.

(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 2021 (note 1).

(5) Includes £2 million 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 fair value items on the acquisition of GKN, which has been included as an adjusting item within operating profit (note 6).

Loss-making contracts

Provisions for loss-making contracts are considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received under it. This obligation has been discounted and will be utilised over the period of the respective contracts, which is up to 15 years.

Calculation of loss-making contract provisions is based on contract documentation and delivery expectations, along with an estimate of directly attributable costs and represents management's best estimate of the unavoidable costs of fulfilling the contract.

Utilisation during the year of £48 million (2020: £59 million) has benefited adjusted operating profit with £23 million recognised in Aerospace, £21 million recognised in Automotive, £4 million recognised in Powder Metallurgy and £nil recognised in Other Industrial. In 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 the release of fair value items split; £4 million in Aerospace, £8 million in Automotive and £10 million in Powder Metallurgy.

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 expenditure over the next eight years. Calculation of dilapidation obligations are based on lease agreements with landlords and external quotes, or 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 contamination at certain 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 reasonably estimated.

Provisions are recorded for product and general liability claims which are probable and for which the cost can be reliably estimated. These liabilities include an estimate of claims incurred but not yet reported and are based on actuarial valuations using claim data. 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 other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, considering professional advice received. This represents management's best estimate of the likely outcome. The timing of utilisation of these provisions is frequently uncertain, reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent management's best estimate of the cost of settling future obligations and reflect management's assessment of the likely settlement method, which may change over time. However, no provision is made for proceedings which have been, or might be, brought by other parties against Group companies unless management, considering 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 of sale of the relevant products and subsequently updated for changes in estimates as necessary. The provision for warranty related costs represents the best estimate of the expenditure required to settle the Group's obligations, based on past experience, recent claims 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, usually resulting in cash spend within one year. A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by either starting to implement the plan or by announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are necessarily entailed by the restructuring programmes.

Other

Other provisions include long-term incentive plans for divisional senior management and the employer tax on equity-settled incentive 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% and 7%) depending on the territory in which the provision resides and the length of its expected utilisation.

22. Deferred tax

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

	Deferred tax assets		Deferred tax liabilities		
	Tax losses and other assets £m	Accelerated capital allowances and other liabilities £m	Deferred tax on intangible assets £m	Total deferred tax liabilities £m	Total net deferred tax £m
At 1 January 2020	160	(174)	(598)	(772)	(612)
Acquisition of businesses	–	–	(5)	(5)	(5)
Credit/(charge) to income	17	(13)	84	71	88
Charge to equity	(33)	–	–	–	(33)
Exchange adjustments	7	1	2	3	10
Movement in set off of assets and liabilities ⁽¹⁾	29	19	(48)	(29)	–
At 31 December 2020	180	(167)	(565)	(732)	(552)
Credit to income	149	41	48	89	238
Charge to equity	(90)	–	–	–	(90)
Disposal of businesses ⁽²⁾	(53)	–	78	78	25
Transfer to held for sale ⁽³⁾	(6)	–	24	24	18
Exchange adjustments	(18)	(3)	18	15	(3)
Movement in set off of assets and liabilities ⁽¹⁾	88	2	(90)	(88)	–
At 31 December 2021	250	(127)	(487)	(614)	(364)

(1) Set off of deferred tax assets and liabilities in accordance with IAS 12 within territories with a right of set off.

(2) Disposal of businesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).

(3) 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).

As at 31 December 2021, the Group had gross unused corporate income tax losses of £1,841 million (31 December 2020: £2,166 million) available for offset against future profits. A deferred tax asset of £396 million (31 December 2020: £290 million) has been recognised in respect of £1,683 million (31 December 2020: £1,377 million) of these gross losses. No asset has been recognised in respect of the remaining losses due to the divisional and geographic split of anticipated future profit streams. Most of these losses may be carried forward indefinitely subject to certain continuity of business requirements. Where losses are subject to time expiry, a deferred tax asset is recognised to the extent that sufficient future profits are anticipated to utilise these losses. Despite incurring tax losses in certain territories due to the effects of COVID-19, the Group continues to recognise deferred tax assets in those territories as it is confident that the global recovery, together with restructuring actions taken, will result in future taxable profits against which the deferred tax assets will be realised. In addition to the corporate income tax losses included above, a deferred tax asset of £50 million (31 December 2020: £60 million) has been recognised on tax credits (primarily US) and US state tax losses.

Deferred tax assets have also been recognised on Group retirement benefit obligations at £33 million (31 December 2020: £122 million) and on other temporary differences at £313 million (31 December 2020: £338 million). The gross deferred tax assets therefore amount to £792 million (31 December 2020: £810 million).

Deferred tax liabilities have been recognised on intangible assets at £993 million (31 December 2020: £1,161 million) and accelerated capital allowances and other temporary differences at £163 million (31 December 2020: £201 million). The gross deferred tax liabilities therefore amount to £1,156 million (31 December 2020: £1,362 million).

There are no material unrecognised deferred tax assets at 31 December 2021 (31 December 2020: £nil), other than the losses referred to above.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries except where the distribution of such profits is planned. If these earnings were remitted in full, tax of £53 million (31 December 2020: £65 million) would be payable.

23. Share-based payments**2020 Employee Share Plan**

During the year, the Group recognised a charge of £19 million (2020: £10 million) in respect of the 2020 Employee Share Plan, inclusive of a £3 million charge in respect of related national insurance (2020: £1 million) and a charge of £nil (2020: £1 million) in respect of the 2017 Incentive Plan, inclusive of a £nil credit in respect of related national insurance (2020: £4 million), recognised in adjusting items (note 6).

Further details of the 2020 Employee Share Plan are set out in the Directors' Remuneration Report on page 107.

The estimated value of the 2020 Employee Share Plan at 31 December 2021 if settled at that date was £nil (31 December 2020: £33 million). Using a Black-Scholes option pricing model, the projected value of this plan at 31 May 2023 (being the end of the three year performance period) is £51 million (31 December 2020: projected value of the 2020 Incentive Plan at 31 May 2023 was £34 million). The projected value is impacted by future acquisition and disposal assumptions.

23. Share-based payments continued

The annual IFRS 2 charge to be recognised in respect of the 2020 Employee Share Plan is £16 million. The inputs into the Black-Scholes valuation model that were used to fair value the plan at the grant date were as follows:

	Valuation assumptions
Weighted average share price	£1.81
Weighted average exercise price	£1.71
Expected volatility	58%
Expected life as at inception	2.4 years
Risk free interest	0.0%

Expected volatility was determined by calculating the historical volatility of the Company's share price.

24. Retirement benefit obligations**Defined contribution plans**

The Group operates defined contribution plans for qualifying employees across several jurisdictions. The assets of the plans are held separately from those of the Group in funds under the control of Trustees.

The total costs charged in relation to the continuing businesses during the year of £69 million (2020: £65 million) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit plans

The Group sponsors defined benefit plans for qualifying employees of certain subsidiaries. The funded defined benefit plans are administered by separate funds that are legally separated from the Group. The Trustees of the funds are required by law to act in the interest of the fund and of all relevant stakeholders in the plans. The Trustees of the pension funds are responsible for the investment policy with regard to the assets of the fund.

During the year, a buy-in policy was purchased fully insuring all pensioner members who were in the GKN UK 2016 Pension Plan as of October 2020. Effective as at 31 December 2021, a buy-out was performed with any remaining liabilities for members of the GKN UK 2016 Pension Plan who were not part of the buy-out, along with the residual assets, transferred into GKN Group Pension Scheme No.2. In addition, defined benefit pension plans with a net surplus of £53 million were disposed with Nortek Air Management, Brush and certain other non-core entities.

The most significant defined benefit pension plans in the Group at 31 December 2021 were:

GKN Group Pension Schemes (Numbers 1 – 4)

The GKN Group Pension Schemes (Numbers 1 – 4) are shown within the Aerospace and Automotive segments and the net surplus is split 60% and 40% respectively as at 31 December 2021. These plans are funded, closed to new members and were closed to future accrual in 2017. The valuation of the plans was based on a full actuarial valuation as of 30 June 2019, updated to 31 December 2021 by independent actuaries.

GKN US Consolidated Pension Plan

The GKN US Consolidated Pension Plan is a funded plan, closed to new members and closed to future accrual. The US Pension Plan valuation was based on a full actuarial valuation as of 1 January 2021, updated to 31 December 2021 by independent actuaries.

GKN Germany Pension Plans

The GKN Germany Pension Plans provide benefits dependent on final salary and service with the Company. The plans are generally unfunded and closed to new members.

Other plans include a number of funded and unfunded defined benefit arrangements and retiree medical insurance plans, predominantly in the US and Europe.

The cost of the Group's defined benefit plans is determined in accordance with IAS 19 (revised): Employee benefits using the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations and using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK and annually in the US and Germany.

Contributions

During the year, the funding target agreed on acquisition of GKN was achieved, being gilts plus 25 basis points for the GKN UK 2016 Pension Plan and gilts plus 75 basis points for the GKN Group Pension Schemes (Numbers 1 – 4). The commitments from acquisition have ceased as a result and the Group will now contribute £30 million per year into the GKN Group Pension Schemes (Numbers 1 – 4).

The Group contributed £128 million (2020: £111 million) to defined benefit pension plans and post-employment plans in the year ended 31 December 2021; comprising £54 million of ongoing payments to Group pension plans, £34 million paid to the GKN UK Group Pension Schemes following the disposal of Nortek Air Management, to satisfy the funding commitment made on the acquisition of GKN, £39 million paid to pension schemes disposed with Nortek Air Management and Brush and £1 million relating to discontinued operations. The Group expects to contribute £56 million in 2022.

24. Retirement benefit obligations continued**Actuarial assumptions**

The major assumptions 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) %
31 December 2021			
GKN Group Pension Schemes (Numbers 1 – 4)	2.7	2.0	3.2/2.7
GKN US plans	n/a	2.7	n/a
GKN Europe plans	2.1	1.1	2.1/2.1
31 December 2020			
GKN Group Pension Schemes (Numbers 1 – 4)	2.4	1.4	2.7/2.2
GKN UK 2016 Pension Plan	1.9	1.4	2.7/2.2
GKN US plans	n/a	2.4	n/a
GKN Europe plans	1.4	0.6	1.4/1.4
Brush UK Pension Plan	3.1	1.4	2.7/2.2

Mortality**GKN Group Pension Schemes (Numbers 1 – 4)**

The GKN Group Pension Schemes (Numbers 1 – 4) use the SAPS "S3PA" base tables with scheme-specific adjustments. The base table mortality assumption for each of the UK plans reflects best estimate results from the most recent mortality experience analyses for each scheme. Weighting factors vary by scheme.

Future improvements for all UK plans are in line with the 2020 Continuous Mortality Investigation ("CMI") core projection model (SK = 7.0, A = 0%) with a long-term rate of improvement of 1.25% p.a. for both males and females.

GKN US Consolidated Pension Plan

GKN US Pension and Medical Plans use base mortality tables that are adjusted for recent plan experience (equivalent to RP2006 projected to 2018 using scale MP2018 with a 6.1001% load). Future improvements for all US plans are in line with MP2021.

GKN Germany Pension Plans

All German plans use the Richttafein 2018 G tables, with no adjustment.

The following table shows the future life expectancy of individuals aged 65 at the year end and the future life expectancy of individuals aged 65 in 20 years' time.

	GKN Group Pension Schemes (Numbers 1 – 4) years	GKN US Consolidated Pension Plan years	GKN Germany Pension Plans years
Male today	21.3	19.1	20.5
Female today	24.3	21.1	23.9
Male in 20 years' time	22.2	20.6	23.2
Female in 20 years' time	25.7	22.5	26.1

Balance Sheet disclosures

The amounts recognised in the Consolidated Balance Sheet in respect of defined benefit plans were as follows:

	Notes	31 December 2021 £m	31 December 2020 £m
Present value of funded defined benefit obligations		(2,848)	(3,930)
Fair value of plan assets		3,010	3,775
Funded status		162	(155)
Present value of unfunded defined benefit obligations		(623)	(683)
Net liabilities		(461)	(838)
Analysed as:			
Retirement benefit surplus (non-current other receivables) ⁽¹⁾	17	184	–
Retirement benefit obligations (non-current liabilities)		(645)	(838)
Net liabilities		(461)	(838)

(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 £5 million (31 December 2020: £nil).

24. Retirement benefit obligations continued

The net retirement benefit obligation in continuing businesses is attributable to Aerospace: asset of £67 million (31 December 2020: liability of £171 million), Automotive: liability of £484 million (31 December 2020: £693 million), Powder Metallurgy: liability of £37 million (31 December 2020: £47 million), Other Industrial: £nil (31 December 2020: £nil) and Corporate: liability of £7 million (31 December 2020: asset of £64 million). The net retirement benefit obligation in respect of discontinued businesses was an asset of £9 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	Total £m
Plan assets	2,754	203	23	30	3,010
Plan liabilities	(2,582)	(289)	(566)	(34)	(3,471)
Net assets/(liabilities)	172	(86)	(543)	(4)	(461)

(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 million.

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	31 December 2020 £m
Equities	141	699
Government bonds	1,420	1,164
Corporate bonds	459	671
Property	71	96
Insurance contracts	38	162
Multi-strategy/Diversified growth funds	424	83
Private equity	209	175
Other ⁽¹⁾	248	725
Total	3,010	3,775

(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 bonds were issued by reputable governments and were generally AA rated or higher. Interest rate and inflation rate swaps were also employed to 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 pension benefits and to ensure appropriate matching of risk and return profiles. The main strategic policies included maintaining an appropriate asset mix, managing interest rate sensitivity and maintaining an appropriate equity buffer. Investment results are regularly reviewed.

Movements in the present value of defined benefit obligations during the year:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
At 1 January	4,613	4,533
Current service cost	8	10
Past service cost ⁽¹⁾	–	2
Interest cost on obligations	59	88
Remeasurement (gains)/losses – demographic	(14)	7
Remeasurement (gains)/losses – financial	(162)	365
Remeasurement gains – experience	(49)	(178)
Benefits paid out of plan assets	(186)	(192)
Benefits paid out of Group assets for unfunded plans	(16)	(36)
Settlements ⁽²⁾	(366)	(7)
Disposal of businesses ⁽³⁾	(379)	–
Exchange adjustments	(37)	21
At 31 December	3,471	4,613

(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 ("GMP") benefits 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).

24. Retirement benefit obligations continued

The defined benefit plan liabilities were 23% (31 December 2020: 20%) in respect of active plan participants, 27% (31 December 2020: 27%) in respect of deferred plan participants and 50% (31 December 2020: 53%) in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2021 was 17.7 years (31 December 2020: 16.4 years).

Movements in the fair value of plan assets during the year:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
At 1 January	3,775	3,412
Interest income on plan assets	51	69
Return on plan assets, excluding interest income	72	438
Contributions	112	75
Benefits paid out of plan assets	(186)	(192)
Plan administrative costs	(7)	(14)
Settlements ⁽¹⁾	(372)	(7)
Disposal of businesses ⁽²⁾	(432)	–
Exchange adjustments	(3)	(6)
At 31 December	3,010	3,775

(1) 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).

(2) Disposal of businesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).

The actual return on plan assets was a gain of £123 million (2020: £507 million).

Income Statement disclosures

Amounts recognised in the Consolidated Income Statement in respect of these defined benefit plans were as follows:

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Continuing operations		
Included within operating loss:		
– current service cost	8	10
– past service cost ⁽²⁾	–	2
– settlements ⁽³⁾	6	–
– plan administrative costs ⁽⁴⁾	7	12
Included within net finance costs:		
– interest cost on defined benefit obligations	56	80
– interest income on plan assets	(48)	(61)

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Discontinued operations		
Included within operating profit:		
– plan administrative costs	–	2
Included within net finance costs:		
– interest cost on defined benefit obligations	3	8
– interest income on plan assets	(3)	(8)

(1) Restated for discontinued operations (note 1).

(2) 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 ("GMP") benefits in the UK. This was treated as an adjusting item (note 6).

(3) A settlement loss 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).

(4) Includes £1 million (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).

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 were as follows:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Return on plan assets, excluding interest income	72	438
Remeasurement gains/(losses) arising from changes in demographic assumptions	14	(7)
Remeasurement gains/(losses) arising from changes in financial assumptions	162	(365)
Remeasurement gains arising from experience adjustments	49	178
Net remeasurement gain on retirement benefit obligations	297	244

Risks and sensitivities

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, inflation risk, interest rate risk and market (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	Increase/(decrease) to profit before tax £m
Discount rate	58	1
	(61)	(1)
Inflation assumption ⁽¹⁾	(41)	n/a
	38	n/a
Assumed life expectancy at age 65 (rate of mortality)	(175)	n/a
	171	n/a

(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, while holding all other assumptions constant. There has been no change in the methods or assumptions used in preparing the sensitivity analysis from prior years. Sensitivities are based on the relevant assumptions and membership profile as at 31 December 2021 and are applied to obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation to the sensitivity of assumptions shown. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate and the sensitivity analysis presented may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

25. Financial instruments and risk management

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their carrying values at 31 December 2021 and 31 December 2020:

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate £m	Discontinued Operations £m	Total £m
31 December 2021							
Financial assets							
Classified as amortised cost:							
Cash and cash equivalents	–	–	–	–	473	–	473
Net trade receivables	393	274	123	34	–	–	824
Classified as fair value:							
Investments	77	–	–	10	–	–	87
Derivative financial assets							
Foreign currency forward contracts	–	–	–	1	58	–	59
Embedded derivatives ⁽¹⁾	11	–	–	–	–	–	11
Financial liabilities							
Classified as amortised cost:							
Interest-bearing loans and borrowings	–	–	–	–	(1,365)	–	(1,365)
Government refundable advances	(55)	–	–	–	–	–	(55)
Lease obligations	(203)	(105)	(58)	(1)	(9)	–	(376)
Other financial liabilities	(585)	(798)	(165)	(52)	(57)	–	(1,657)
Classified as fair value:							
Derivative financial liabilities							
Foreign currency forward contracts	–	(2)	(1)	–	(113)	–	(116)
Interest rate swaps	–	–	–	–	(7)	–	(7)
Cross-currency swaps	–	–	–	–	(69)	–	(69)
Embedded derivatives ⁽¹⁾	(6)	–	–	–	–	–	(6)
31 December 2020 (restated)⁽²⁾							
Financial assets							
Classified as amortised cost:							
Cash and cash equivalents	–	–	–	–	311	–	311
Net trade receivables	453	372	143	24	–	236	1,228
Classified as fair value:							
Investments	34	–	–	–	–	–	34
Derivative financial assets							
Foreign currency forward contracts	–	1	–	1	126	7	135
Embedded derivatives ⁽¹⁾	13	–	–	–	–	–	13
Financial liabilities							
Classified as amortised cost:							
Interest-bearing loans and borrowings	–	–	–	–	(3,091)	–	(3,091)
Government refundable advances	(58)	–	–	–	–	–	(58)
Lease obligations	(266)	(113)	(59)	(2)	(3)	(112)	(555)
Other financial liabilities	(564)	(899)	(179)	(39)	(53)	(256)	(1,990)
Classified as fair value:							
Derivative financial liabilities							
Foreign currency forward contracts	–	(4)	–	–	(69)	(13)	(86)
Interest rate swaps	–	–	–	–	(87)	–	(87)
Cross-currency swaps	–	–	–	–	(89)	–	(89)
Embedded derivatives ⁽¹⁾	(6)	–	–	–	–	–	(6)

(1) The embedded derivative is classified as a level 3 fair value under the IFRS 13 fair value hierarchy.

(2) Restated for discontinued operations (note 1).

Reconciliation of liabilities arising from financing activities

Liabilities arising from financing activities, as defined by IAS 7, totalled £3,584 million at 31 December 2020 comprising: external debt of £2,940 million (excluding £151 million of bank overdrafts), cross-currency swaps of £89 million and lease obligations of £555 million. During the year a cash outflow in those liabilities totalled £1,616 million as follows: repayment of external debt and cross-currency swaps associated with debt of £1,555 million (note 27) and repayment of principal on lease obligations of £61 million (note 28). Whilst there is a payment of £4 million included within the financing activities section of the Consolidated Statement of Cash Flows, in respect of costs of raising debt finance, this does not affect liabilities arising from financing activities. There is also a decrease to liabilities arising from financing activities relating to non-cash items totalling £163 million comprising: a reduction in external debt and cross-currency swaps associated with debt of £45 million due to changes in foreign exchange rates and other non-cash movements and a net decrease in respect of lease obligations of £118 million. As at 31 December 2021, liabilities arising from financing activities, as defined by IAS 7, totalled £1,805 million comprising: external debt of £1,360 million (excluding £5 million of bank overdrafts), 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; external debt of £3,553 million (excluding £195 million of bank overdrafts), cross-currency swaps of £80 million and lease obligations of £582 million. During the year a cash outflow in those liabilities totalled £674 million as follows: repayment of external debt and cross-currency swaps associated with debt of £598 million (note 27) and repayment of principal on lease obligations of £76 million (note 28). Whilst there is a payment of £1 million included within the financing activities section of the Consolidated Statement of Cash Flows, in respect of costs of raising debt finance, this does not affect liabilities arising from financing activities. There is also an increase to liabilities arising from financing activities relating to non-cash items totalling £43 million comprising; a reduction in external debt and cross-currency swaps associated with debt of £6 million due to changes in foreign exchange rates and an increase in respect of lease obligations of £49 million. As at 31 December 2020, liabilities arising from financing activities, as defined by IAS 7, totalled £3,584 million comprising; external debt of £2,940 million (excluding £151 million of bank overdrafts), cross-currency swaps of £89 million and 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 2020: £467 million) and a fair value of £462 million (31 December 2020: £478 million), and the £300 million bond maturing in 2032 had a carrying value of £304 million (31 December 2020: £305 million) and a fair value of £321 million (31 December 2020: £322 million).

The Directors consider that the other financial assets and liabilities have fair values not materially different to the carrying values.

Credit risk

The Group's principal financial assets were cash and cash equivalents, trade receivables and derivative financial assets which 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 counterparties were banks with strong credit ratings assigned by international credit rating agencies. Exposure is managed on the basis of risk rating and counterparty limits. The value of credit risk in derivative assets has been modelled using publicly available inputs as part of their fair value.

The Group's credit risk was therefore primarily attributable to its trade receivables. The amounts presented in the Consolidated Balance Sheet were net of allowance for expected credit loss, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Note 17 provides further details regarding the recovery of trade receivables.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

	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
31 December 2021					
Cash and cash equivalents	473	–	473	(5)	468
Derivative financial assets	70	–	70	(58)	12
Financial assets subject to master netting arrangements	543	–	543	(63)	480
Interest-bearing loans and borrowings	(1,365)	–	(1,365)	(127)	(1,492)
Derivative financial liabilities	(198)	–	(198)	190	(8)
Financial liabilities subject to master netting arrangements	(1,563)	–	(1,563)	63	(1,500)

25. Financial instruments and risk management continued

	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
31 December 2020					
Cash and cash equivalents	338	(27)	311	(146)	165
Derivative financial assets	148	–	148	(131)	17
Financial assets subject to master netting arrangements	486	(27)	459	(277)	182
Interest-bearing loans and borrowings	(3,118)	27	(3,091)	19	(3,072)
Derivative financial liabilities	(268)	–	(268)	258	(10)
Financial liabilities subject to master netting arrangements	(3,386)	27	(3,359)	277	(3,082)

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern.

The capital structure of the Group as at 31 December 2021 consists of net debt, as disclosed in note 27, and equity attributable to the owners of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

Liquidity risk management**Overview of banking facilities**

In December 2021, the Group extended the maturity date of both the term loan and the revolving credit facility to 30 June 2024. Subsequent to this extension, in December 2021 the term loan was partly prepaid by £70 million and US\$172 million. Consequently, the Group's committed bank funding includes a multi-currency denominated term loan of £30 million (31 December 2020: £100 million) and US\$788 million (31 December 2020: US\$960 million) and a multi-currency denominated revolving credit facility of £1.1 billion, US\$2.0 billion and €0.5 billion. Loans drawn under this facility are guaranteed by Melrose Industries PLC and certain of its subsidiaries, and there is no security over any of the Group's assets in respect of this facility.

As at 31 December 2021 the term loan was fully drawn and there were no drawings on the multi-currency revolving credit facility. There remains a significant amount of headroom on the multi-currency committed revolving credit facility at 31 December 2021. Applying the exchange rates at 31 December 2021, the headroom equated to £2,998 million (31 December 2020: £1,632 million).

Cash, deposits and marketable securities amounted to £473 million at 31 December 2021 (31 December 2020: £311 million) and are offset to arrive at the Group net debt position of £950 million (31 December 2020: £2,847 million). The combination of this cash and the headroom on the revolving credit facility allows the Directors to consider that the Group has sufficient access to liquidity for its current needs. The Board takes careful consideration of counterparty risk with banks when deciding where to place cash on deposit.

Covenants

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 normally tested half-yearly in June and December.

Following the sale of Nortek Air Management in the year, the net debt to adjusted EBITDA covenant test level is 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 onwards. At 31 December 2021, the Group net debt leverage was 1.3x.

The interest cover 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 from 31 December 2022 onwards. At 31 December 2021, the Group interest cover was 5.9x, affording comfortable headroom.

Bonds

Capital market borrowings as at 31 December 2021, inherited as part of the GKN acquisition, consist of a £450 million bond maturing September 2022 and a £300 million bond maturing May 2032. Details of the bonds outstanding at 31 December 2021 are shown in note 20.

The £450 million bond was fully swapped into US\$373 million and €284 million by GKN in September 2014 by using a number of cross-currency swaps. At 31 December 2021, the fair value liability of these cross-currency swaps was £68 million (31 December 2020: £80 million).

In respect of the cross-currency swaps on the £450 million bond, during the year there was a charge of £2 million (2020: £1 million) recognised within the cost of hedge reserve related to the cost of hedging. At 31 December 2021, the cumulative value of the cost of hedging recognised within the cost of hedge reserve is £10 million (2020: £8 million).

Working capital

The Group has a small number of uncommitted working capital programmes, which predominantly relate to the programmes inherited as part of the GKN acquisition. These programmes provide favourable financing terms on eligible customer receipts and competitive financing terms to suppliers on eligible supplier payments.

25. Financial instruments and risk management continued

GKN businesses which participate in these customer related finance programmes have the ability to choose whether to receive payment earlier than the normal due date, for specific customers on a non-recourse basis. As at 31 December 2021, the drawings on these facilities were £310 million (31 December 2020: £314 million), 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 small number of the Group's banks. There is no cost to the Group for providing these programmes to its suppliers. These arrangements do not change the date suppliers are due to be paid by the Group, and therefore there is no additional impact on the Group's liquidity. If the Group exited these arrangements there could be a potential impact of up to £60 million (31 December 2020: £32 million) on the Group's cash flow. These programmes allow suppliers to choose whether they want to accelerate the payment of their invoices, by the financing banks, for an interest cost which is competitive, based on the credit rating of the Group as determined by the financing banks. The amounts owed to the banks are presented in trade payables on the Balance Sheet and the cash flows are presented in cash flows from operating activities. As at 31 December 2021, total facilities were £321 million (31 December 2020: £250 million) with drawings of £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 in the 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	31 December 2020 £m
Local borrowing:		
US Dollar	457	1,478
Euro	126	381
GKN cross-currency swaps:		
US Dollar	276	273
Euro	239	255

The foreign exchange movement on the local borrowings, which is recorded in currency translation on net investments within Other 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 fair value of these cross-currency swaps was a liability of £1 million (31 December 2020: £9 million). The foreign exchange movement on these cross-currency swaps, which is recorded in derivative gains/(losses) on hedge relationships within Other Comprehensive Income, was a gain of £15 million (2020: loss of £49 million). Net cash receipts in the year totalled £7 million (2020: settlement of £46 million).

The foreign exchange movement on the GKN cross-currency swaps, which is recorded in derivative gains/(losses) on hedge 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 in the year. Following the extension of the bank facility in December 2021, the bank margin on the revolving credit facility was reduced to 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 2020: 2.0%) on 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 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, with £45 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 of the contracts as at 31 December 2021 was a net liability of £7 million (31 December 2020: £87 million). The movement of £80 million for the year ended 31 December 2021 (2020: charge of £28 million) comprised of a credit of £19 million (2020: charge of £28 million) booked to derivatives gains/(losses) on hedge relationships in the year within Other Comprehensive Income, a £47 million cash outflow from 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 were not perfectly matched; however, this did not give rise to any ineffectiveness through the Income Statement in the year (2020: £nil). Going forward, the critical terms of the interest rate swaps and the hedged items are perfectly matched and no ineffectiveness is expected in future periods.

25. Financial instruments and risk management continued**Interest rate sensitivity analysis**

Assuming the net debt, inclusive of interest rate swaps, held as at the balance sheet date was outstanding for the whole year, a one percentage point 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
Sterling	–	(1)
US Dollar	(2)	(2)
Euro	(1)	–

On the basis of the floating-to-fixed interest rate swaps in place at the balance sheet date, a one percentage point fall in market interest rates for all currencies would decrease Group equity by £2 million (31 December 2020: £35 million).

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 long-term nature of the contracts within these divisions. Typically, in total the Group hedges around 90% of foreign exchange exposures expected over the next year, and approximately 60% to 80% of exposures between one and two years. 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 converted to Sterling. However, the Group utilises its multi-currency revolving credit facility 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 proceeds for those businesses may be received in a foreign currency and therefore an exchange rate risk may arise on conversion of foreign currency proceeds into Sterling, for instance to pay a Sterling dividend or Capital Return to shareholders. Protection against this risk is considered on a case-by-case basis and, if appropriate, hedged at the time.

As at 31 December 2021, the Group held foreign exchange forward contracts to mitigate expected exchange rate fluctuations on future cash flows from sales to customers and purchases from suppliers. The fair value of all foreign exchange forward contracts across the Group was a net liability at 31 December 2021 of £57 million (31 December 2020: net asset of £49 million). A small proportion of these contracts have been designated as cash flow hedges within the Other Industrial reporting segment. Contracts where hedge accounting was applied had a fair value asset as at 31 December 2021 of £1 million (31 December 2020: liability of £5 million) within Other Industrial and Discontinued Operations. These contracts all mature between January 2022 and September 2022.

The change in fair value of foreign exchange forward contracts recognised in derivative gains/(losses) on hedging relationships within Other Comprehensive Income was a credit of £8 million (2020: charge of £16 million) and a credit of £2 million (2020: charge of £6 million) was reclassified to the Income Statement.

Cross-currency swaps are designated as net investment hedges. The critical terms of the hedges are not perfectly matched against the hedged item in terms of the cost of hedging; this gives rise to ineffectiveness through the Income Statement for the year ended 31 December 2021 and could also do so in future reporting periods.

In respect of the cross-currency swaps designated as net investment hedges, for the year ended 31 December 2021, a credit of £4 million (2020: £5 million) was booked through the Income Statement in finance costs, of which a credit of £3 million (2020: charge of £2 million) was reclassified to the Income Statement from Other Comprehensive Income and has been treated as an adjusting item (note 6). The cross-currency swaps are designated in a net investment hedge accounting relationship against US Dollar and Euro net assets of certain subsidiaries. The hedged risk is the spot rate, which represents the significant component of the movement and therefore has been recorded in the foreign currency translation reserve (note 26).

25. Financial instruments and risk management continued

The following table shows the maturity profile of undiscounted contracted gross cash outflows of derivative financial liabilities used to manage currency risk, being both the cross-currency swaps above and foreign exchange forward contracts used to manage transaction exchange rate risk:

	0-1 years £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Year ended 31 December 2021					
Foreign exchange forward contracts	1,051	479	715	28	2,273
Cross-currency swaps	666	–	–	–	666
Year ended 31 December 2020					
Foreign exchange forward contracts	712	393	374	–	1,479
Cross-currency swaps	407	553	–	–	960

Foreign currency sensitivity analysis

Currency risks are defined by IFRS 7: Financial instruments: Disclosures as the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates.

The following table details the transactional impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the balance sheet date, illustrating the increase/(decrease) in Group operating profit caused by a 10% strengthening of the US Dollar and Euro against Sterling compared to the year-end spot rate. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with a notable impact are shown below:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
US Dollar	2	(10)
Euro	7	(2)

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the balance sheet date, illustrating the increase/(decrease) in Group equity caused by a 10% strengthening of the US Dollar and Euro against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant.

	31 December 2021 £m	31 December 2020 £m
US Dollar	(5)	8
Euro	(10)	(7)

In addition, the change in equity due to a 10% strengthening of the US Dollar against Sterling for the translation of net investment hedging instruments would be a decrease of £74 million (2020: £178 million) and for the Euro, a decrease of £37 million (2020: £65 million). However, there would be no overall effect on equity because there would be an offset in the currency translation of the foreign 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 quoted interest 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 foreign exchange rates.

25. Financial instruments and risk management continued**Hedge accounted derivatives**

The following table sets out details of the Group's material hedging instruments where hedge accounting is applied at the balance sheet date:

Hedging Instruments	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
Pay fixed, receive floating interest rate swaps						
Within one year	2.24%	1.95%	246	1,752	–	(2)
In one to two years	2.24%	1.98%	246	1,876	(7)	–
In two to five years	–	1.94%	–	2,079	–	(85)
Total					(7)	(87)
Pay fixed, receive fixed cross-currency swaps						
Within one year	4.85%	4.82%	515	528	(68)	–
In one to two years	–	4.82%	–	528	–	(80)
In two to five years	–	–	–	–	–	–
Total					(68)	(80)

The Group also has cross-currency swaps designated in net investment hedge accounting relationships which convert US Dollar borrowings to Euros as discussed in the Hedge of net investments in foreign entities using loans and derivatives section of this note.

The Group is exposed to the following interest rate benchmarks within its hedge accounting relationships, which are subject to interest rate benchmark reform: USD LIBOR, EURIBOR ("IBORs"). The hedged items are US Dollar and Euro floating rate debt.

The Group has closely monitored the market and the output from various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority ("FCA") and the US Commodity Trading Futures Commission) regarding the transition away from LIBOR to the Sterling Overnight Indexed Average Rate ("SONIA"), Secured Overnight Financing Rate ("SOFR") and Euro Short-Term Rate ("ESTR") respectively. The FCA has made it clear that, at the end of 2021, it will no longer seek to persuade, or compel banks to submit to LIBOR.

In response to the announcements, the Group amended the banking facility in December 2021 with its banking group in respect of IBOR reform, with Sterling borrowings under SONIA from that date. The Group has no Sterling interest rate swaps as at 31 December 2021. US Dollar borrowings continue under USD LIBOR with the option to switch to SOFR on or prior to discontinuation in June 2023. The Group expects to continue using EURIBOR for Euro borrowings going forward.

Below are the details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform by hedge type. The terms of hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing	Notional	Hedged item
Cash flow hedges	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

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fallback clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

Derivative and financial assets and liabilities are presented within the Balance Sheet as:

	31 December 2021 £m	31 December 2020 £m
Non-current assets	47	101
Current assets	23	47
Current liabilities	(119)	(58)
Non-current liabilities	(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 Director's 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 the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and they are therefore categorised within Level 2 of the fair value hierarchy set out in IFRS 13: Fair value measurement. The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer to occur. There have been no 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 accounting is applied:

	Change in fair value for calculating ineffectiveness		Balance in translation and hedging reserve for continuing hedges		Balance in translation and hedging reserve for discontinued hedges	
	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m
Hedged items						
Floating rate borrowings – interest risk	(66)	28	4	70	2	7
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 applied. During 2020, at the request of one of its financial counterparties, the Group novated one of its interest rate swaps to another of its financial counterparties, which had the initial effect of leaving a £9 million debit in the translation and hedging reserve for the discontinued hedge, reducing to £2 million by 31 December 2021 (31 December 2020: £7 million). The remaining value in reserves will be charged to the Income Statement over the remaining life of the cash flows to January 2023, reflecting the cash flow profile on which the hedge had been originally designated.

26. Issued share capital and reserves

	31 December 2021 £m	31 December 2020 £m
Share Capital		
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	333
Nil (31 December 2020: 12,831) 2017 Incentive Plan Shares of £1 each ⁽²⁾	–	–
	333	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 reduced the 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 by the Company in 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 acquisition of 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 reserve are combined. Including the different components of hedging in one place enables a clearer explanation of the three components of hedging. These components are disaggregated below with movements within Other Comprehensive Income during the year shown below and further explanation provided in note 25.

26. Issued 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
At 1 January 2020	(7)	(34)	119	78
Movements within other comprehensive income/(expense):				
Retranslation of net assets	–	–	(87)	(87)
Foreign exchange differences on borrowings hedging net assets	–	–	61	61
Associated deferred tax	–	–	–	–
Change in fair value of derivatives designated in net investment hedges	–	–	(55)	(55)
Associated deferred tax	–	–	–	–
Change in fair value of derivatives designated in cash flow hedges	–	(44)	–	(44)
Associated deferred tax	–	9	–	9
Amounts reclassified to the Income Statement	(1)	6	3	8
At 31 December 2020	(8)	(63)	41	(30)
Movements within other comprehensive income/(expense):				
Retranslation of net assets	–	–	(101)	(101)
Foreign exchange differences on borrowings hedging net assets	–	–	13	13
Associated deferred tax	–	–	–	–
Change in fair value of derivatives designated in net investment hedges	–	–	27	27
Associated deferred tax	–	–	–	–
Change in fair value of derivatives designated in cash flow hedges	–	27	–	27
Associated deferred tax	–	(19)	–	(19)
Amounts reclassified to the Income Statement	(2)	46	115	159
At 31 December 2021	(10)	(9)	95	76

The cash flow hedge reserve represents the cumulative fair value gains and losses on derivatives for which cash flow hedge accounting has been applied. Movements and balances on derivatives designated in net investment hedges are shown as part of the foreign currency translation reserve.

The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than Sterling, together with gains and losses on the translation of liabilities and cumulative fair value gains and losses on derivatives that hedge the Company's net investment in foreign subsidiaries.

Amounts reclassified to the Income Statement during the year includes £113 million (2020: £nil) following the disposal of businesses.

27. Cash flow statement

	Notes	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Reconciliation of operating loss to net cash from operating activities generated by continuing operations			
Operating loss		(451)	(487)
Adjusting items	6	826	628
Adjusted operating profit	6	375	141
Adjustments for:			
Depreciation of property, plant and equipment		374	391
Amortisation of computer software and development costs		51	51
Share of adjusted operating profit of equity accounted investments	15	(66)	(62)
Restructuring costs paid and movements in provisions		(233)	(135)
Defined benefit pension contributions paid ⁽²⁾		(88)	(107)
Change in inventories		(31)	173
Change in receivables		79	269
Change in payables		14	(71)
Tax paid		(65)	(14)
Interest paid on loans and borrowings		(128)	(144)
Interest paid on lease obligations		(14)	(16)
Acquisition and disposal costs		(5)	–
Net cash from operating activities		263	476

(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 disposal of Nortek Air Management, satisfying the funding commitment made on the acquisition of GKN.

	31 December 2021 £m	31 December 2020 £m
Reconciliation of cash and cash equivalents, net of bank overdrafts		
Cash and cash equivalents per Balance Sheet	473	311
Bank overdrafts included within current interest-bearing loans and borrowings (note 20)	(5)	(151)
Cash and cash equivalents, net of bank overdrafts per Statement of Cash Flows	468	160

Cash flow information relating to discontinued operations is as follows:

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Cash flow from discontinued operations		
Net cash from discontinued operations	84	284
Defined benefit pension contributions paid	(40)	(4)
Interest paid on lease obligations	(2)	(5)
Tax (paid)/received	(42)	13
Net cash from operating activities from discontinued operations⁽²⁾	–	288
Purchase of property, plant and equipment	(12)	(24)
Proceeds from disposal of property, plant and equipment	2	–
Purchase of computer software and capitalised development costs	(1)	(5)
Net cash used in investing activities from discontinued operations	(11)	(29)
Repayment of principal under lease obligations	(7)	(14)
Net cash used in financing activities from discontinued operations	(7)	(14)

(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 Management and specific 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), cross-currency swaps and cash and cash equivalents. Currency denominated balances within net debt are translated to Sterling at swapped rates where hedged by cross-currency swaps.

27. Cash flow statement continued

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of interest-bearing loans and borrowings (current and non-current) and cash and cash equivalents. A reconciliation from the most directly comparable IFRS measure to net debt, used as a basis for banking covenant calculations, is given below:

	31 December 2021 £m	31 December 2020 £m
Interest-bearing loans and borrowings – due within one year	(462)	(165)
Interest-bearing loans and borrowings – due after one year	(903)	(2,926)
External debt	(1,365)	(3,091)
Less:		
Cash and cash equivalents	473	311
	(892)	(2,780)
Adjustments:		
Impact of cross-currency swaps	(69)	(89)
Non-cash acquisition fair value adjustments	11	22
Net debt	(950)	(2,847)

The table below 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
External debt (excluding bank overdrafts)	(2,940)	1,562	–	5	13	(1,360)
Cross-currency swaps	(89)	(7)	–	–	27	(69)
Non-cash acquisition fair value adjustments	22	–	–	(11)	–	11
	(3,007)	1,555	–	(6)	40	(1,418)
Cash and cash equivalents, net of bank overdrafts	160	(2,380)	2,688	–	–	468
Net debt	(2,847)	(825)	2,688	(6)	40	(950)

28. Commitments

Amounts payable under lease obligations:

	31 December 2021 £m	31 December 2020 £m
Minimum lease payments		
Amounts payable:		
Within one year	64	101
After one year but within five years	166	239
Over five years	206	325
Less: future finance charges	(60)	(110)
Present value of lease obligations	376	555
Analysed as:		
Amounts due for settlement within one year	57	81
Amounts due for settlement after one year	319	474
Present value of lease obligations	376	555

It is the Group's policy to lease certain of its property, plant and equipment. The average lease term is ten years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under lease arrangements are secured by the lessors' rights over the leased assets.

Certain leases within the Group contain extension or termination options to allow for flexibility within these lease agreements. Where these options are not reasonably certain to be exercised, they are not included in the lease obligation. The value of these associated undiscounted cash flows is £232 million.

28. Commitments continued

The table below shows the key components in the movement in lease obligations.

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
At 1 January	555	582
Additions	45	56
Interest charge	16	21
Reassessment of lease obligation	3	14
Payment of principal	(61)	(76)
Payment of interest	(16)	(21)
Disposals	(3)	(20)
Disposal of businesses ⁽¹⁾	(138)	–
Transfer to held for sale ⁽²⁾	(13)	–
Exchange adjustments	(12)	(1)
At 31 December	376	555

(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 acquisition of new plant and machinery.

29. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Sales to and purchases from Group companies are priced on an arm's length basis and generally are settled on 30-day terms.

In the ordinary course of business, sales and purchases of goods take place between subsidiaries and equity accounted investment companies priced on an arm's length basis. Sales by subsidiaries to equity accounted investments in the year ended 31 December 2021 totalled £21 million (2020: £23 million). Purchases by subsidiaries from equity accounted investments in the year ended 31 December 2021 totalled £10 million (2020: £7 million). At 31 December 2021, amounts receivable from equity accounted investments totalled £2 million (31 December 2020: £9 million) and amounts payable to equity accounted investments totalled £2 million (31 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 for each of the categories specified in IAS 24: Related party disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 104 and 113.

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Short-term employee benefits	5	3
Share-based payments	10	7
	15	10

30. Contingent liabilities

As a result of acquisitions made by the Group, certain contingent legal and warranty liabilities have been identified as part of the fair value review of these acquisition balance sheets. Whilst it is difficult to reasonably estimate the timing and ultimate outcome of these claims, the Directors' best estimate has been included in the Balance Sheet where they existed at the time of acquisition and hence were recognised in accordance with IFRS 3: Business combinations. Where a provision has been recognised, information regarding the different categories of such liabilities and the amount and timing of outflows is included within note 21.

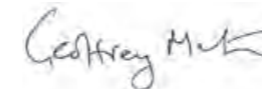
Given the nature of the Group's business many of the Group's products have a large installed base, and any recalls or reworks related to such products could be particularly costly. The costs of product recalls or reworks are not always covered by insurance. Recalls or reworks may have a material adverse 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 on behalf of trading subsidiaries. No losses are anticipated to arise on these contingent liabilities. The Group does not have any other significant contingent liabilities.

	Notes	31 December 2021 £m	31 December 2020 £m
Fixed assets			
Investment in subsidiaries	3	10,585	10,579
Debtors:			
Amounts falling due within one year	4	–	425
Amounts falling due after one year	4	477	29
Creditors:			
Amounts falling due within one year	5	(2,842)	(2,041)
Net current liabilities		(2,365)	(1,587)
Total assets less current liabilities		8,220	8,992
Provisions	6	(3)	(1)
Net assets		8,217	8,991
Capital and reserves			
Issued share capital	7	333	333
Share premium account		3,271	8,138
Merger reserve		109	109
Capital redemption reserve		729	–
Retained earnings		3,775	411
Shareholders' funds		8,217	8,991

The Company reported a profit for the financial year ended 31 December 2021 of £8 million (2020: loss of £15 million).

The financial statements were approved by the Board of Directors on 3 March 2022 and were signed on its behalf by:



Geoffrey Martin
Group Finance Director
3 March 2022



Simon Peckham
Chief Executive
3 March 2022

Registered number: 09800044

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Retained earnings £m	Shareholders' funds £m
At 1 January 2020	333	8,138	109	–	412	8,992
Loss for the year (note 2)	–	–	–	–	(15)	(15)
Total comprehensive expense	–	–	–	–	(15)	(15)
Equity-settled share-based payments	–	–	–	–	14	14
At 31 December 2020	333	8,138	109	–	411	8,991
Profit for the year (note 2)	–	–	–	–	8	8
Total comprehensive income	–	–	–	–	8	8
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	3,775	8,217

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 Distribution Policy.

1. Significant accounting policies

Basis of accounting

Melrose Industries PLC ("the Company") is a public company limited by shares. The Company is incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on the back cover. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 77.

The Financial Statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Melrose Industries PLC is considered to be pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

In line with the Group's strategy, following the disposals of Nortek Air Management and Brush by the Group, a return of capital of £729 million, equivalent to 15 pence per existing ordinary share, was approved by shareholders on 9 July 2021. On 10 August 2021, a court approved a capital reduction of the Company's share premium account by £4,138 million, taking the Company's share premium account from £8,138 million to £4,000 million. Subsequently, the 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 reduced the number of ordinary shares by 10%, from 4,858 million to 4,372 million. Further details are contained in note 7.

Melrose Industries PLC meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate Financial Statements. Melrose Industries PLC is consolidated in its Group Financial Statements. Exemptions have been taken in these separate Company Financial Statements in relation to share-based payments, presentation of a cash flow statement, the remuneration of key management personnel and financial instruments.

The principal accounting policies are consistent with the prior year and are summarised below.

Going concern

The Financial Statements have been prepared on a going concern basis as the Directors consider that adequate resources exist for the Company to continue in operational existence for the foreseeable future.

The Group's liquidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity headroom of £3 billion at 31 December 2021 and sufficient headroom throughout the going concern forecast period. Forecast covenant compliance is considered further below.

Covenants

The Group's banking facility was extended in the year, from its original maturity in January 2023 to June 2024. The facility 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 financial covenants during the period of assessment for going concern are as follows:

	31 December 2021	30 June 2022	31 December 2022
Net debt to adjusted EBITDA	4.25x	4.0x	3.75x
Interest cover	3.0x	3.25x	4.0x

Testing

The Group has modelled two scenarios in its assessment of going concern; a base case and a reasonably possible sensitised case.

The base case takes into account the estimated impact of a continued recovery from the COVID-19 pandemic as well as other end market and operational factors, including supply chain challenges, throughout the going concern period and has been monitored against the actual results and cash generation in the year.

The reasonably possible sensitised case models more conservative sales assumptions for 2022 and the first half of 2023. Given that there is liquidity headroom of £3 billion and the Group's leverage was 1.3x, comfortably below the covenant test at 31 December 2021, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, even with significant reductions, no covenant is breached at any of the forecast testing dates being 30 June 2022 and 31 December 2022, with the testing at 30 June 2023 also favourable, and the Group will not require any additional sources of finance, even following repayment of the £450 million bond in September 2022.

Investments

Investments in subsidiaries are measured at cost less impairment.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

Impairment of assets

Assets are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

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 recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less 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 impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount 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 provisions of the 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 enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when, and only when, a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Share-based payments

The Company issues equity-settled share-based payments to certain employees. The required disclosures are included in the Group Consolidated Financial Statements.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on 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 treated as increases in equity over the vesting period of the award with a corresponding increase in the Company's investment in subsidiaries.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred. Timing differences are differences between the Company's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

Provisions

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

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 Parent Company Financial Statements or key sources of estimation uncertainty at the balance sheet date that would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2. Result for the year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own Profit and Loss Account for the year. Melrose Industries PLC reported a profit for the financial year ended 31 December 2021 of £8 million (2020: loss of £15 million).

The auditor's remuneration for audit services to the Company is disclosed in note 7 to the Group Consolidated Financial Statements.

Directors' remuneration is disclosed in the Directors' Remuneration Report on pages 102 to 116. There were no other employees of the Company in the year.

3. Investment in subsidiaries

	£m
At 1 January 2021	10,579
Additions	6
At 31 December 2021	10,585

A £6 million investment from equity-settled share-based payments for subsidiaries is included as an addition to investments in subsidiaries at 31 December 2021. Further details on the Group's share-based payment schemes are included in note 23 to the Group Consolidated Financial Statements.

The Company evaluates its investments in subsidiary undertakings annually for any indicators of impairment. The Company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 31 December 2021, the market capitalisation of the Company of £6,991 million was below the carrying value of its investment (£10,585 million) net of intercompany positions (£2,407 million) indicating a potential impairment.

The recoverable amount of the investment has been determined using the information set out in note 11 to the Group Consolidated Financial Statements and is in excess of its carrying value, therefore no impairment has been recognised.

The following subsidiaries and significant holdings were owned by the Company as at 31 December 2021:

	Equity interest %	Class of Share held
Argentina Avenida Del Libertador 602, 4' Piso, Buenos Aires Transmisiones Homocineticas Argentinas SA (<i>in liquidation</i>)	49	Ordinary B ⁽¹⁾
Australia 45-49 McNaughton Road, Clayton Victoria, 3168 Unidrive Pty Ltd (<i>in liquidation</i>)	100	Ordinary
Suite 1, Level 11, 66 Goulburn Street, Sydney, NSW 2000 Ergotron Australia Pty Ltd	100	Ordinary
Brazil Av. Alfredo Ignácio Noqueira Penido, 335 – Sala 1103 – Edifício Madison Power, São José dos Campos, SP, 12246-000 GKN Aerospace Transparency Systems do Brasil Ltda	100	Quota capital
Rua Joaquim Silveira 557, Parque Sao Sebastiao, 91060-320 Porto Alegre, RS GKN do Brasil Ltda	100	Common
Av. da Emancipacao no. 4.500, CEP 13.184-542, Bairro Santa Esmeralda, Hortolandia, Sao Paulo GKN Sinter Metals Ltda	100	Common
Canada 600-1134 Grande Allée Ouest, Quebec, G1S 1E5 Fokker Elmo Canada Inc.	100	Ordinary
Queen's Marque 600-1741 Lower Water Street, Halifax, N.S. B3J 0J2 Ergotron Canada Corporation	100	Ordinary
7 Michigan Boulevard, St. Thomas, Ontario GKN Sinter Metals – St. Thomas, Ltd.	100	Common stock
China Room 1108, Binjiang International Building, No.88 Tonggang Road, Changshu Economic and Technological Development Zone, Jiangsu Province, 21550 Brush Electrical 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	Registered investment
Room 2913 and 2914, Taiwan Merchants Building, 11th Dongguan Avenue, Dongcheng, Dongguan, Guangdong Province Dongguan Ergotron Precision Technology Design Services Co., Limited	100	Registered investment
No 71 Xiangyun Road, Langfang Economic & Technical Development Zone, Langfang Fokker Elmo (Langfang) Electrical Systems Co. Ltd	100	Registered investment
Wuping East Road, Shengfang Town, Bazhou City, Hebei Province, 065701 GKN (Bazhou) Metal Powder Company Limited	40	Registered investment
Unit A, 6/F, Building A1#, No. 2555 Xiupu Road, Pudong New Area, Shanghai, 201315 GKN China Holding Co Ltd	100	Registered investment
18 North Shitan Road, North Industrial Park, Development Zone, Danyang, Jiangsu, 212310 GKN Danyang Industries Company Limited	100	Registered investment
No. 1 Cuigu, Northern New Zone, Chongqing, 401122 GKN HUAYU Driveline Systems (Chongqing) Co. Ltd	34.5	Ordinary ⁽²⁾
Factory No.1, No. 2188 Zhongxi Road, Pinghu, Jiaying, Zhejiang Province GKN HUAYU Driveline Systems (Pinghu) Co. Ltd	50	Registered investment ⁽³⁾
1 Xinwang Road, Jingjiang Economic and Technic Development Zone, Jingjiang, Jiangsu GKN Aerospace (Jingjiang) Co., Ltd	100	Registered investment
No.8 Kangmin Road, Industrial Automotive Park, Yizheng City, Jiangsu Province GKN Sinter Metals Yizheng Co Ltd	100	Registered investment
Xiguo Industrial Zone, Mengzhou City, Henan Province, 454750 GKN Zhongyuan Cylinder Liner Company Limited	59	Registered investment
Zijin Kechuang Center 4 Level, 416 Room, Economy Development Zone, Lishui, Nanjing Nanjing FAYN Piston Ring Company Limited	19.79	Registered investment
898 Kangshen Road, Pudong, Shanghai Shanghai GKN Driveline Sales Co Ltd	49	Ordinary
950 KangQiao Road, Pudong New Area, Shanghai Shanghai GKN HUAYU Driveline Systems Company Limited	50	Registered investment
Room 805, 8th floor, Building 2, No. 1859, Shibo Avenue, Shanghai GKN Aerospace (Shanghai) Co., Ltd	100	Ordinary
Colombia Calle 32 No. 15-23 Barrio Rincon de Girón, Girón Santander Transejes Transmisiones Homocineticas de Colombia SA	49	Ordinary
France Boulevard De L Europe, BP 177 91006 Evry-Courcouronnes CEDEX Arianespace Participation S.A.	1.6320	Ordinary
12 Quai du Commerce 69009 Lyon Ergotron France SARL	100	Ordinary
7 rue de la Briqueterie, 02240 Ribemont GKN Driveline Ribemont SARL	100	Ordinary
100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy GKN Automotive SAS	100	Ordinary
GKN Freight Services EURL	100	Ordinary
5-7 Rue Charles-Edouard Jeanneret 78300 Poissy GKN Driveline SA	100	Ordinary
765 rue Albert Einstein, CS 70402, 13591 Aix-en-Provence Cedex 3 NH Industries SAS	5.5	Ordinary
20 rue Lavoisier, 95300 Pontoise GKN Aerospace France SARL	100	Ordinary

3. Investment in subsidiaries continued

Germany c/o Meier & Collegen GmbH, Teichhorn 4-6, 24119, Kronshagen Ergotron Deutschland GmbH	100	Ordinary
Brunhamstr. 21, 81249, Munich GKN Aerospace Deutschland GmbH	100	Ordinary
Carl-Legien-Strasse 10, 63073 Offenbach am Main GKN Automotive Management GmbH GKN Driveline Deutschland GmbH	100 100	Ordinary Ordinary
Hauptstrasse 130, 53797 Lohmar GKN Driveline International GmbH	100	Ordinary
Hafenstrasse 41, 54293 Trier GKN Driveline Trier GmbH	100	Ordinary
Nussbaumweg 19-21 51503, Rosrath GKN Driveline Service GmbH	100	Ordinary
Krebsoege 10, 42477 Radevormwald GKN Sinter Metals Engineering GmbH	100	Ordinary
Pennfeldsweg 11-15, 53177, Bonn GKN Powder Metallurgy Holding GmbH GKN Sinter Metals Components GmbH	100 100	Ordinary Ordinary
Dahlienstrasse 43, 42477 Radevormwald GKN Sinter Metals Filters GmbH Radevormwald	100	Ordinary
Industriestr. 1, 97769 Bad Brückenau GKN Sinter Metals & Forge Operations GmbH	100	Ordinary
Am Fliegerhorst 9, 99947 Bad Langensalza GKN Sinter Metals GmbH, Bad Langensalza	100	Ordinary
Hungary 1085 Budapest, Kálvin tér 12-13. 4. Em. Rubin NewCo 2021 Korlátolt Felelősségű Társaság	100	Ordinary
India Block 2A No. 311, NPR Complex. Survey No 197, Hoody Village, K R Puram Hobli, Whitefield Road, Bangalore – 560048, Karnataka Fokker Elmo SASMOS Interconnection Systems Limited	49	Ordinary
270, Sector-24, Faridabad 121 005, Haryana GKN Driveline (India) Limited	97.03	Ordinary
146 Mumbai Pune Road, Pimpri, Pune 411 018 GKN Sinter Metals Private Limited	100	Ordinary
Shop No. 002, Lumkad Sky Vista, S. No. 230/AViman Naga/3/2, Viman Nagar, Pune, Maharashtra, 411014 GKN Fokker Elmo India Private Limited	100	Ordinary
135, 2nd Floor, RMZ Titanium, Old Airport Road, Bengaluru, 560 017 GKN Aerospace Engine Systems India Private Limited	100	Ordinary
No. 1 Techno Industrial Complex, 1st Stage, Peenya Industrial Area, Bengaluru GKN Automotive Bengaluru Private Limited	100	Ordinary
Italy Via dei Campi della Rienza 8, 39031 Brunico, BZ GKN Driveline Brunico SpA	100	Ordinary
Via Delle Fabbriche 5, 39031 Brunico, BZ GKN Sinter Metals SpA	100	Ordinary
Japan Tokyo Club Building 11F, 3-2-6 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013 Ergotron Japan 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	Ordinary
GKN Driveline Tochigi Holdings KK	100	Ordinary
Senri Life Science Centre Building, 12F, 1-4-2 Shin Senri Higashi-machi, Toyonaka-shi, Osaka GKN Powder Metallurgy Japan K.K.	100	Ordinary
Jersey JTC House, 28 The Esplanade, St. Helier, JE2 3QA GKN Finance Limited	100	Ordinary
Malaysia 10th Floor, Menara Hap Seng, No.1 & 3, Jalan P. Ramless, 50250 Kuala Lumpur GKN Engine Systems Component Repair Sdn Bhd	100	Ordinary
Suite A, Level 9, Wawasan Open University, 54, Jalan Sultan Ahmad Shah, Georgetown, Pulau, 10050, Penang GKN Driveline Malaysia Sdn Bhd	68.42	Ordinary
Mexico Calle Washinton 3701, interior 18, Complejo Industrial Las Americas, Chihuahua, Chihuahua, C.P. 31114 FAE Aerostructures SA de CV	100	Ordinary
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. (<i>in liquidation</i>)	100	Fixed equity
Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110 GKN Driveline Celaya SA de CV	100	Ordinary
GKN Driveline Mexico Trading SA de CV	100	Ordinary
104, San Jose Agua Azul, Apaseo El Grande, Guanajuato GKN Sinter Metals Mexico S. De. R.L. De. C.V.	100	Membership interest
GKN Sinter Metals Mexico (Services) S. De. R.L. De. C.V.	100	Membership interest
The Netherlands Beeldschermweg 3, 3821 AH Amersfoort Ergotron Nederland BV	100	Ordinary
Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam Ridderkerk Property 1 BV	100	Ordinary
Aviollandalaan 37, 4631 RP, Hoogerheide Business Park Aviollanda B.V.	20	Ordinary
Markt 22, 3351 PB, Papendrecht Fabriek Slobbengors Beheer B.V.	49	Ordinary
Fabriek Slobbengors C.V.	49	Ordinary ⁽⁴⁾
Hoofdkantoor Slobbengors Beheer B.V.	49	Ordinary
Kantoor Industrieweg C.V.	49	Ordinary
Aviollandalaan 33, Hoogerheide, 4631 RP Fokker Elmo B.V.	100	Ordinary
Fokker Elmo Holding BV	100	Ordinary
Grasbeemd 28, 5705 DG, Helmond Fokker Landing Gear B.V.	100	A Ordinary
Industrieweg 4, 3351 LB, Papendrecht Cooperative Delivery of Retrokits (CDR) V.O.F.	50	Ordinary
Fokker Procurement Combination B.V.	100	Ordinary
Structural Laminates Industries B.V.	100	Ordinary
Fokker Technologies Group B.V.	100	Ordinary
Fokker Technologies Holding B.V.	100	Ordinary
Fokker Technology B.V.	100	Ordinary
GKN Aerospace Netherlands B.V.	100	Ordinary
Fokker Engineers & Contractors B.V.	100	Ordinary
Fokker Aerospace B.V.	100	Ordinary
Fokker Aerostructures B.V.	100	Ordinary
Fokker (CDR) B.V.	100	Ordinary

3. Investment in subsidiaries continued

11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT GKN UK Holdings BV	100	Ordinary
Norway Kirkegårdsveien 45, 3616 Kongsberg GKN Aerospace Norway AS	100	Ordinary
Kongsberg Technology Training Centre AS	33.33	Ordinary
Kongsberg Terotech AS	50	Ordinary
Poland Ul. B. Krzywoustego 31 G, 56-400 Oleśnica, GKN Driveline Polska Sp z o o	100	Ordinary
Aleje Ujazdowskie 41, 00-540 Warsaw Eljas sp. z o. o.	100	Ordinary
Portugal Avenida Marechal Gomes da Costa, 1131, 4150-360, Porto GKN Automotive Portugal, Limitada	100	Quota
Romania Str. Condorilor 9, 600302, Bacau FOAR S.R.L.	49	Ordinary
Hermes Business Campus, Dimitrie Pompeiu Blvd 5-7, Building 2, 3rd floor Bucharest 020337 RO, Bucures,ti 077190 Fokker Engineering Romania S.R.L.	100	Ordinary
33 Urziceni Street, Buzau 120226 Hoeganaes Corporation Europe SA	100	Ordinary
Slovenia Rudniska cesta 20, Zrece 3214 GKN Driveline Slovenija d o o	100	Ordinary
Spain Pol. Ind. Can Salvatella, Avenida Arrahona 54-56, 08210 Barbera del Valles, Barcelona GKN Ayra Servicio, SA	100	Ordinary
Avenida de Citroen s/n, 36210 Vigo GKN Driveline Vigo, SA	100	Ordinary
Sagarbidea 2, 20750 Zumaia GKN Driveline Zumaia, SA	100	Ordinary
Polígono Industrial s/n, Maçanet de la Selva, 17412 Girona Stork Prints Iberia SA	100	Ordinary
Sweden SE – 461 81, Trollhättan GKN Aerospace Sweden AB	100	Ordinary
GKN Sweden Holdings AB	100	Ordinary
SE – 731 36, Köping GKN Driveline Köping AB	100	Ordinary
BRÖDERNA UGGLAS GATA, SE – 58254 Linköping Industrigruppen JAS AB	20	Ordinary
Taiwan 14 Kwang Fu Road, Hsin-Chu Industrial Park, Hukou, Hsin Chu 30351 Taiway Limited	36.25	Common stock
Thailand 9/21 Moo 5, Phaholyothin Road Klong 1, Klong Luang, Patumthanee, 12120 GKN Aerospace Transparency Systems (Thailand) Limited	100	Ordinary
Eastern Seaboard Industrial Estate, 64/9 Moo 4, Tambon Pluakdaeng, Amphur Pluakdaeng, Rayong 21140 GKN Driveline (Thailand) Limited	100	Ordinary
GKN Driveline Manufacturing Ltd (<i>in liquidation</i>)	100	Ordinary

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	Ordinary
Organize Sanayi Bolgesi 20, Cadde No: 17, 26110, Eskisehir		
GKN Eskisehir Automotive Products Manufacture and Sales A.S.	100	Ordinary
Yakuplu Mah. Haramidere Sanayi Sitesi, J Blok, No. 106-107-108, Beylikdüzü, Istanbul		
GKN Sinter Istanbul Metal Sanayi Ve Ticaret Anonim Şirketi	100	Ordinary
United Kingdom		
11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT		
Alcester Capricorn	100	Ordinary
Alcester EP1 Limited	100	Ordinary
Alcester Number 1 Limited	100	Ordinary
Alder Miles Druce Limited	100	Ordinary
Ball Components Limited	100	Ordinary
Birfield Limited	100	Ordinary
British Hovercraft Corporation Limited	100	Ordinary
Brush Holdings Limited	100	Ordinary
Colmore Lifting Limited	100	Ordinary
Colmore Overseas Holdings Limited	100	Ordinary
Eachairn Aerospace Holdings Limited	100	Ordinary
Ergotron (UK) Limited	100	Ordinary
FAD (UK) Limited	100	Ordinary
Falcon Works Property Limited	100	Ordinary
Firth Cleveland Limited	100	Ordinary
F.P.T Industries Limited	100	Ordinary
GKN Aerospace Holdings Limited	100	Ordinary
GKN Aerospace Transparency Systems (Kings Norton) Limited	100	Ordinary
GKN Aerospace Transparency Systems (Luton) Limited	100	Ordinary
GKN Automotive Holdings Limited	100	Ordinary
GKN Birfield Extrusions Limited	100	Ordinary
GKN Bound Brook Limited	100	Ordinary
GKN Building Services Europe Limited	100	Ordinary
GKN CEDU Limited	100	Ordinary
GKN Composites Limited	100	Ordinary
GKN Computer Services Limited	100	Ordinary
GKN Countertrade Limited	100	Ordinary
GKN Defence Holdings Limited	100	Ordinary
GKN Defence Limited	100	Ordinary
GKN Enterprise Limited	100	Ordinary
GKN Euro Investments Limited	100	Ordinary
GKN Export Services Limited	100	Ordinary
GKN Fasteners Limited	100	Ordinary
GKN Finance (UK) Limited	100	Ordinary
GKN Firth Cleveland Limited	100	Ordinary
GKN Group Pension Trustee (No.2) Limited	100	Ordinary
GKN Group Pension Trustee Limited	100	Ordinary
GKN Group Services Limited	100	Ordinary and redeemable preference
GKN Hardy Spicer Limited	100	Ordinary
GKN Holdings Limited	100	Ordinary and deferred
GKN Hydrogen Limited	100	Ordinary
G.K.N. Industries Limited	100	Ordinary
G.K.N. International Trading (Holdings) Limited	100	Ordinary
GKN Limited	100	Ordinary
GKN Marks Limited	100	Ordinary
GKN Overseas Holdings Limited	100	Ordinary
GKN Pistons Limited	100	Ordinary
G.K.N. Powder Met. Limited	100	Ordinary
GKN Quest Trustee Limited	100	Ordinary
GKN Sankey Finance Limited	100	Ordinary and deferred
GKN SEK Investments Limited	100	Ordinary
GKN Service UK Limited	100	Ordinary
GKN Sheepbridge Limited	100	Ordinary
GKN Sheepbridge Stokes Limited	100	Ordinary
GKN Sinter Metals Limited	100	Ordinary
GKN Technology Limited	100	Ordinary

3. Investment in subsidiaries continued

GKN Trading Limited	100	Ordinary
GKN UK Investments Limited	100	Ordinary
GKN U.S. Investments Limited	100	Ordinary
GKN USD Investments Limited	100	Ordinary
GKN Ventures Limited	100	Ordinary
GKN Westland Aerospace (Avonmouth) Limited	100	Ordinary
GKN Westland Aerospace Advanced Materials Limited	100	Ordinary
GKN Westland Aerospace Aviation Support Limited	100	Ordinary and convertible preference
GKN Westland Aerospace Holdings Limited	100	Ordinary
GKN Westland Design Services Limited	100	Ordinary
GKN Westland Limited	100	Ordinary
GKN Westland Overseas Holdings Limited	100	Ordinary
GKN Westland Services Limited	100	Ordinary
GKN 1 Trustee 2018 Limited	100	Ordinary
GKN 2 Trustee 2018 Limited	100	Ordinary
GKN 3 Trustee 2018 Limited	100	Ordinary
GKN 4 Trustee 2018 Limited	100	Ordinary
Guest, Keen and Nettlefolds, Limited	100	Ordinary
Laycock Engineering Limited	100	Ordinary
McKechnie 2005 Pension Scheme Trustee Limited	100	Ordinary
Melrose Holdings Limited	100	Ordinary
Melrose Intermediate Limited	100	Ordinary
Melrose PLC	100	Ordinary
Melrose USD 1 Limited	100	Ordinary
Nevada UK Holding Limited	100	Ordinary
P.F.D. Limited	100	Ordinary
Raingear Limited	100	Ordinary and redeemable preference
Rzeppa Limited	100	Ordinary
Rigby Metal Components Limited	100	Ordinary
Sageford UK Limited	100	Ordinary
Sheepbridge Stokes Limited	100	Ordinary
Westland Group PLC	100	Ordinary
Westland Group Services Limited	100	Ordinary
Westland System Assessment Limited	100	Ordinary
15 Atholl Crescent, Edinburgh, Scotland, EH3 8HA		
A. P. Newall & Company Limited	100	Ordinary
GKN Investments II GP Limited	100	Ordinary
GKN Investments II LP	100	Membership interest
GKN Investments III GP Limited	100	Ordinary
GKN Investments III LP	100	Membership interest
Chester Road, Erdington, Birmingham, B24 0RB		
GKN Driveline Birmingham Limited	100	Ordinary
Unit 5, Kingsbury Business Park, Kingsbury Road, Minworth, Sutton Coldfield, B76 9DL		
GKN Driveline Service Limited	100	Ordinary
30 Milbank, London, SW1P 4WY		
Hadfields Holding Limited	37.5	Ordinary
2nd Floor, One Central Boulevard Blythe Valley Park, Shirley, Solihull, B90 8BG		
GKN Aerospace Civil Services Holdings Limited	100	Ordinary
GKN Aerospace Civil Services Limited	100	Ordinary
GKN Aerospace Services Limited	100	Ordinary
2100 The Crescent, Birmingham Business Park, Birmingham, West Midlands, B37 7YE		
GKN Automotive Limited	100	Ordinary and preference
GKN Driveline UK Limited	100	Ordinary
GKN Driveline Mexico (UK) Limited	100	Ordinary
GKN EVO eDrive Systems Limited	100	Ordinary
GKN Freight Services Limited	100	Ordinary and cumulative preference
GKN Hybrid Power Limited	100	Ordinary
Unit 7 Chestnut Court, Jill Lane, Sambourne, Redditch, B96 6EW		
GKN Powder Metallurgy Holdings Limited	100	Ordinary

Continued

3. Investment in subsidiaries continued

Unit 1, Cobnar Wood Close, Chesterfield Trading Estate, Chesterfield, Derbyshire, S41 9RQ		
GKN Cylinder Liners UK Limited	100	Ordinary
Number 22 Mount Ephraim, Tunbridge Wells, England, TN4 8AS		
HiiROC Limited	10.21	Ordinary
USA		
2 Sun Court, Suite 400, Peachtree Corners, GA, 30092		
Fokker Elmo Inc.	100	Common stock
2345 Rice Street, Suite 230, Roseville MN, 55113		
Ergotron, Inc.	100	Common
1209 Orange Street, Wilmington, Delaware, 19801		
Melrose North America, Inc	100	Common
PW1100G-JM Engine Leasing, LLC	4	Class C Unit
2710 Gateway Oaks Drive, Suite 150 N, Sacramento, CA, 95833		
GENIL, Inc.	100	Ordinary
GKN Aerospace Camarillo, Inc.	100	Ordinary
GKN Aerospace Chem-tronics Inc.	100	Ordinary
GKN Aerospace Transparency Systems, Inc	100	Common
Product Slingshot, Inc.	100	Common Stock
251 Little Falls Drive, Wilmington Delaware, 19808		
GKN Driveline Newton LLC	100	Membership interest
GKN Sinter Metals, LLC	100	Membership interest
GKN Aerospace Aerostructures, Inc	100	Common
GKN Aerospace Florida LLC	100	Membership interest
GKN Aerospace, Inc.	100	Common stock
GKN Aerospace New England, Inc.	100	Ordinary
GKN Aerospace Newington LLC	100	Membership interest
GKN Aerospace St. Louis LLC	100	Membership interest
GKN Aerospace Precision Machining, Inc.	100	Ordinary
GKN Aerospace Services Structures LLC	100	Membership interest
GKN Aerospace South Carolina, Inc.	100	Common Stock
GKN Aerospace US Holdings LLC	100	Membership interest
GKN America Corp.	100	Common stock
GKN Cylinder Liners, LLC	100	Membership interest
GKN Driveline North America, Inc.	100	Common stock
GKN Freight Services, Inc.	100	Common stock
GKN Hydrogen Corp.	100	Common stock
GKN North America Investments, Inc.	100	Ordinary
GKN North America Services, Inc.	100	Common
GKN Powder Metallurgy Holdings, Inc.	100	Common stock
GKN Specialty Products Americas Corp.	100	Common stock
GKN Westland Aerospace, Inc.	100	Common stock
Hoeganaes Corporation	100	Common stock
Hoeganaes Specialty Metal Powders LLC	70	Membership interest
XIK, LLC	100	Membership interest
50 West Broad Street, Suite 1330, Columbus, Ohio, 43215		
GKN Driveline Bowling Green, Inc.	100	Common stock
80 State Street, Albany New York, 12207		
GKN Aerospace Monitor, Inc.	100	Common
135 North Pennsylvania Street, Suite 1610, Indianapolis, Indiana, 46204		
GKN Aerospace Muncie, Inc.	100	Common

Each of the subsidiaries and significant holdings listed are included in the Consolidated Financial Statements of the Company and are held in each case by a subsidiary undertaking, except for Melrose Holdings Limited and GKN Limited which are held directly by 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.

4. Debtors

	31 December 2021 £m	31 December 2020 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	–	425
Amounts falling due after one year:		
Amounts owed by Group undertakings	434	–
Deferred tax	43	29
	477	454

Amounts owed by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the receivable relationship. At 31 December 2021, the amount receivable of £434 million has been classified as a non-current asset in accordance with the expectations of management that it will not be settled within the next year. The comparative amount of £425 million at 31 December 2020, was classified as a current asset based on the expectations of management that during 2021 there would be material disposals of businesses within the Group with significant cash proceeds, as well as a refinancing of the Group's revolving credit facility. These anticipated events during 2021 were expected to lead to settlement of intercompany loan positions within the Company.

The Directors consider that amounts owed by Group undertakings approximate to their fair value.

The deferred tax included in the Balance Sheet is as follows:

	31 December 2021 £m	31 December 2020 £m
Tax losses available for carry forward	36	29
Other timing differences	7	–
	43	29

The tax losses may be carried forward indefinitely.

5. Creditors

	31 December 2021 £m	31 December 2020 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	2,841	2,041
Accruals and other creditors	1	–
	2,842	2,041

Amounts owed to Group undertakings are repayable on demand and are either interest-bearing or non interest-bearing depending on the type and duration of the payable relationship.

The Directors consider that amounts owed to Group undertakings approximate to their fair value.

6. Provisions

	Incentive plan related £m
At 1 January 2021	1
Charge to profit and loss account	2
At 31 December 2021	3

The provision for incentive plan related costs relates to employer national insurance costs which are expected to be incurred when the 2020 Employee Share Plan matures. Further details of this plan are set out in the Directors' Remuneration Report. The costs are expected to be incurred within two years.

7. Issued share capital

Share Capital	31 December 2021 £m	31 December 2020 £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	333
Nil (31 December 2020: 12,831) 2017 Incentive Plan Shares of £1 each ⁽²⁾	–	–
	333	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 reduced the 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 by the Company in 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 balances and transactions in the year with fully owned subsidiary undertakings.

Glossary

Alternative Performance Measures ("APMs")

In accordance with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA"), additional information is provided on the APMs used by the Group below.

In the reporting of financial information, the Group uses certain measures that are not required under IFRS. These additional measures (commonly referred to as APMs) provide additional information on the performance of the business and trends to stakeholders. These measures are consistent with those used internally, and are considered important to understanding the financial performance and financial health of the Group. APMs are considered to be an important measure to monitor how the businesses are performing because this provides a meaningful comparison of how the business is managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.

These APMs may not be directly comparable with similarly titled measures reported by other companies and they are not intended to be a substitute for, or superior to, IFRS measures. All Income Statement and cash flow measures are provided for continuing operations unless otherwise stated.

Income Statement Measures

APM
Adjusted revenue

Closest equivalent statutory measure
Revenue

Reconciling items to statutory measure
Share of revenue of equity accounted investments (note 5)

Definition and purpose
Adjusted revenue includes the Group's share of revenue of equity accounted investments ("EAls"). This enables comparability between reporting periods.

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Adjusted revenue		
Revenue	6,883	7,132
Share of revenue of equity accounted investments (note 5)	613	591
Adjusted revenue	7,496	7,723

APM
Adjusting items

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Adjusting items (note 6)

Definition and purpose
Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance.

These include items which are significant in size or volatility or by nature are non-trading or non-recurring, any item released to the Income Statement that was previously a fair value item booked on an acquisition, and includes adjusted profit from EAls.

This provides a meaningful comparison of how the business is managed and measured on a day-to-day basis and provides consistency and comparability between reporting periods.

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 performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 6.

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Adjusted operating profit		
Operating loss	(451)	(487)
Adjusting items to operating loss (note 6)	826	628
Adjusted operating profit	375	141

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 adjusted profit 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 useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 6.

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Adjusted profit/(loss) before tax		
Loss before tax	(618)	(679)
Adjusting items to loss before tax (note 6)	870	638
Adjusted profit/(loss) before tax	252	(41)

APM
Adjusted profit after tax

Closest equivalent statutory measure
Loss after tax

Reconciling items to statutory measure
Adjusting items (note 6)

Definition and purpose
Profit after tax but before the impact of the adjusting items. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 6.

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Adjusted profit/(loss) after tax		
Loss after tax	(446)	(565)
Adjusting items to loss after tax (note 6)	643	538
Adjusted profit/(loss) after tax	197	(27)

APM
Constant currency

Closest equivalent statutory measure
Income Statement, which is reported using actual average foreign exchange rates

Reconciling items to statutory measure
Constant currency foreign exchange rates

Definition and purpose
The Group uses GBP based constant currency models to measure performance. These are calculated by applying 2021 average exchange rates to local currency reported results for the current and prior year. This gives a GBP denominated Income Statement which excludes any variances attributable to foreign exchange rate movements.

APM
Adjusted EBITDA for leverage covenant purposes

Closest equivalent statutory measure
Operating loss⁽²⁾

Reconciling items to statutory measure
Adjusting items (note 6), depreciation of property, plant and equipment and amortisation of computer software and development costs, imputed lease charge, share of non-controlling interests and other adjustments required for covenant purposes⁽⁴⁾

Definition and purpose
Adjusted operating profit for 12 months prior to the reporting date, before depreciation of property, plant and equipment and before the amortisation of computer software and development costs.

Adjusted EBITDA for covenant purposes is a measure used by external stakeholders to measure performance.

	Year ended 31 December 2021 £m	Year ended ⁽⁵⁾ 31 December 2020 £m
Adjusted EBITDA for leverage covenant purposes		
Adjusted operating profit	375	340
Depreciation of property, plant and equipment and amortisation of computer software and development costs	425	492
Imputed lease charge	(68)	(97)
Non-controlling interests	(4)	(3)
Other adjustments required for covenant purposes ⁽⁴⁾	(14)	(8)
Adjusted EBITDA for leverage covenant purposes	714	724

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 adjusted profit before tax.

This measure is a useful indicator of the ongoing tax rate for the Group.

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Adjusted tax rate		
Tax credit per Income Statement	172	114
Adjusted for:		
Tax impact of adjusting items	(180)	(99)
Tax impact of significant legislative changes	(70)	–
Tax impact of significant restructuring	32	7
Tax impact of EAls	(9)	(8)
Adjusted tax (charge)/credit	(55)	14
Adjusted profit/(loss) before tax	252	(41)
Adjusted tax rate	21.8%	34.1%

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 average number 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 average number 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 period.

APM
Interest cover

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

Definition and purpose
Adjusted EBITDA calculated for covenant purposes (including EBITDA of businesses disposed) as a multiple of net interest payable on bank loans and overdrafts.

This measure is used for bank covenant testing.

	Year ended 31 December 2021 £m	Year ended ⁽⁵⁾ 31 December 2020 £m
Interest cover		
Adjusted EBITDA for leverage covenant purposes	714	724
Adjusted EBITDA from businesses disposed in the year	127	2
Adjusted EBITDA for interest cover	841	726
Interest on bank loans and overdrafts (note 7)	(138)	(136)
Finance income (note 7)	2	3
Other interest for covenant purposes ⁽⁶⁾	(6)	(9)
Net finance charges for covenant purposes	(142)	(142)
Interest cover	5.9x	5.1x

Balance Sheet Measures

APM
Working capital

Closest equivalent statutory measure
Inventories, trade and other receivables less trade and other payables

Reconciling items to statutory measure
Not applicable

Definition and purpose
Working capital comprises inventories, current trade and other receivables, non-current other receivables (excluding retirement benefit surpluses), current trade and other payables and non-current other payables. This measure provides additional information in respect of working capital management.

APM
Net debt

Closest equivalent statutory measure
Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments

Reconciling items to statutory measure
Reconciliation of net debt (note 27)

Definition and purpose
Net debt comprises cash and cash equivalents, interest-bearing loans and borrowings and cross-currency swaps but excludes non-cash acquisition fair value adjustments.

Net debt is one measure that could be used to indicate the strength of the Group's Balance Sheet position and is a useful measure of the indebtedness of the Group.

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 purposes.

This measure is used for bank covenant testing.

	31 December 2021 £m	31 December ⁽⁵⁾ 2020 £m
Net debt		
Net debt at closing rates (note 27)	950	2,847
Impact of foreign exchange	(3)	106
Bank covenant definition of net debt at average rates	947	2,953
Leverage	1.3x	4.1x

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 amortisation attributable to subsidiaries, repayment of principal under lease obligations, the positive non-cash utilisation from loss-making contracts and movements in working capital.

Adjusted operating cash flow (pre-capex) conversion is adjusted operating cash flow (pre-capex) divided by adjusted profit before depreciation and amortisation attributable to subsidiaries, less repayment of principal under lease obligations and the positive non-cash utilisation from loss-making contracts.

This measure provides additional useful information in respect of cash generation and is consistent with how business performance is measured internally.

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Adjusted operating cash flow (pre-capex)		
Adjusted operating profit	375	141
Share of adjusted operating profit of equity accounted investments	(66)	(62)
Depreciation of owned property, plant and equipment and amortisation of computer software and development costs	375	385
Depreciation of leased property, plant and equipment and amortisation of leased computer software and development costs	50	57
Repayment of principal under lease obligations	(54)	(63)
Positive non-cash utilisation from loss-making contracts	(48)	(58)
	632	400
Change in inventories	(31)	173
Change in receivables	79	269
Change in payables	14	(71)
Adjusted operating cash flow (pre-capex)	694	771
Adjusted operating cash flow (pre-capex) conversion	110%	193%

APM
Free cash flow

Closest equivalent statutory measure

Net increase/decrease in cash and cash equivalents

Reconciling items to statutory measure

Acquisition related cash flows, dividends paid to owners of the parent, foreign exchange and other non-cash movements

Definition and purpose

Free cash flow represents cash generated from trading after all costs including restructuring, pension contributions, tax and interest payments.

	Year ended 31 December 2021 £m	Restated ⁽¹⁾ Year ended 31 December 2020 £m
Free cash flow		
Adjusted operating cash flow (pre-capex)	694	771
Net capital expenditure	(225)	(265)
Net interest and tax paid	(205)	(171)
Defined benefit pension contributions paid – ongoing	(54)	(107)
Restructuring costs paid	(193)	(161)
Dividends received from EAls	52	54
Trading net other cash flows ⁽⁷⁾	3	83
Operations discontinued in the year	53	252
Free cash flow	125	456

APM
Adjusted free cash flow

Closest equivalent statutory measure

Net increase/decrease in cash and cash equivalents

Reconciling items to statutory measure

Free cash flow, as defined above, adjusted for restructuring cash flows

Definition and purpose

Adjusted free cash flow represents free cash flow adjusted for restructuring cash flows.

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Adjusted free cash flow		
Free cash flow	125	456
Restructuring costs paid ⁽⁸⁾	198	172
Adjusted free cash flow	323	628

APM
Capital expenditure (capex)

Closest equivalent statutory measure

None

Reconciling items to statutory measure

Not applicable

Definition and purpose

Calculated as the purchase of owned property, plant and equipment and computer software and expenditure on capitalised development costs during the year, excluding any assets acquired as part of a business combination.

Net capital expenditure is capital expenditure net of proceeds from disposal of property, plant and equipment.

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 software and 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 profit of equity 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 discontinued 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 included in finance 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 dividends paid to non-controlling interests.

(8) Includes restructuring costs of £5 million (2020: £11 million) relating to operations discontinued in the year.

The Annual General Meeting of Melrose Industries PLC (the "Company") will be held at 11.00 am on Thursday 5 May 2022 at Butchers' Hall, 87 Bartholomew Close, London EC1A 7EB.

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank, solicitor, accountant, fund manager or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred or sell or otherwise transfer all of your shares in the Company, please send this document, together with the accompanying form of proxy, as soon as possible to the purchaser or transferee or to the agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

Notice is given that the Annual General Meeting of the Company will be held at Butchers' Hall, 87 Bartholomew Close, London EC1A 7EB at 11.00 am on Thursday 5 May 2022 for the purposes set out below. Resolutions 1 to 16 (inclusive) will be proposed as ordinary resolutions and resolutions 17 to 20 (inclusive) as special resolutions.

Ordinary resolutions

- To receive the Company's audited financial statements for the financial year ended 31 December 2021, together with the Directors' Report, the Strategic Report and the Auditor's Report on those financial statements.
- To approve the Directors' Remuneration Report for the year ended 31 December 2021, as set out on pages 102 to 116 of the Company's 2021 Annual Report.
- To declare a final dividend of 1 pence per ordinary share for the year ended 31 December 2021.
- To re-elect Christopher Miller as a Director of the Company.
- To re-elect Simon Peckham as a Director of the Company.
- To re-elect Geoffrey Martin as a Director of the Company.
- To re-elect Peter Dilnot as a Director of the Company.
- To re-elect Justin Dowley as a Director of the Company.
- To re-elect David Lis as a Director of the Company.
- To re-elect Charlotte Twynning as a Director of the Company.
- To re-elect Funmi Adegoke as a Director of the Company.
- To elect Heather Lawrence as a Director of the Company.
- To elect Victoria Jarman as a Director of the Company.
- To re-appoint Deloitte LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at which accounts are laid.
- To authorise the Audit Committee to determine the remuneration of the auditor of the Company.
- That, in accordance with section 551 of the Companies Act 2006 (the "Act"), the directors of the Company (the "Directors") be and are generally and unconditionally authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company ("Rights"):
 - up to an aggregate nominal amount of £111,045,827; and
 - comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £222,091,655 (such amount to be reduced by the aggregate nominal amount of any allotments or grants made under paragraph (A) of this resolution) in connection with an offer by way of a rights issue:
 - to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

- 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

- 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:
 - 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):
 - to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - 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
 - 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.
- 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:

- (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:
- 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
 - 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 proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole. Accordingly, the Directors unanimously recommend that ordinary shareholders vote in favour of all of the resolutions proposed, as the Directors intend to do in respect of their 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

Explanatory notes to the proposed resolutions

Resolutions 1 to 16 (inclusive) are proposed as ordinary resolutions, which means that for each of those resolutions to be passed, more than half the votes cast must be cast in favour of the resolution. Resolutions 17 to 20 (inclusive) are proposed as special resolutions, which means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be cast in favour of the resolution.

Resolution 1 – Receipt of 2021 Annual Report and Financial Statements

The Directors are required to lay the Company's financial statements, the Strategic Report and the Directors' and auditor's reports on those financial statements (collectively, the "2021 Annual Report") before shareholders each year at the Annual General Meeting ("AGM").

Resolution 2 – Approval of Directors' remuneration report

The Directors' remuneration report (the "Directors' Remuneration Report") is presented in two sections:

- the annual statement from the Chairman of the Remuneration Committee; and
- the annual report on remuneration.

The annual statement from the Chairman of the Remuneration Committee, set out on page 102 of the 2021 Annual Report, summarises, for the year ended 31 December 2021, the major decisions taken on Directors' remuneration, any substantial changes relating to Directors' remuneration made during the year, and the context in which those changes occurred and decisions have been taken.

The annual report on remuneration, set out on page 103 to 116 of the 2021 Annual Report, provides details of the remuneration paid to Directors in respect of the year ended 31 December 2021, including base salary, taxable benefits, short-term incentives, long-term incentives vested in the year, pension-related benefits, any other items in the nature of remuneration and any sum(s) recovered or withheld during the year in respect of amounts paid in earlier years.

The Directors' Remuneration Report is subject to an annual advisory shareholder vote by way of an ordinary resolution. Resolution 2 is to approve the Directors' Remuneration Report.

Resolution 3 – Declaration of final dividend

The Board is recommending, and shareholders are being asked to approve, the declaration of a final dividend of 1 pence per ordinary share for the year ended 31 December 2021. The final dividend will, subject to shareholder approval, be paid on 20 May 2022 to the holders of ordinary shares whose names are recorded on the register of members of the Company at the close of business on 8 April 2022.

Resolutions 4 to 11 (inclusive) – Re-election of Directors

In accordance with the UK Corporate Governance Code (the "Code") and the Company's Articles of Association (the "Articles"), every Director will stand for re-election at the AGM, with the exception of Liz Hewitt, who will retire at the conclusion of the Annual General Meeting, and Heather Lawrence and Victoria Jarman, who are standing for election for the first time.

The Board considers that the contribution of each Director who is standing for re-election is, and continues to be, important to the sustainable success of the Company for the following reasons:

- 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. Justin 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, meaning he has served on the Board for over nine years. 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, to (amongst other things), help oversee the succession planning arrangements for the Board and the development of a diverse Board. Justin Dowley was considered independent 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 Twynning, 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.

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 Company's issued ordinary share capital in a rolling three-year period,

in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

If approved, the Section 570 and 573 power shall apply until the end of the Company's next AGM after the resolutions are passed or, if earlier, until the close of business on 30 June 2023. The exception to this is that the Directors may allot equity securities after the power has expired in connection with an offer or agreement made or entered into before the power expired. The Directors have no present intention to exercise the Section 570 and 573 power.

Resolution 19 – Authority to purchase own shares

This resolution seeks shareholder approval to grant the Company the authority to purchase its own shares pursuant to sections 693 and 701 of the Act.

This authority is limited to an aggregate maximum number of 437,242,947 ordinary shares, representing 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 maximum price which may be paid for an ordinary share will be an amount which is not more than the higher of: (i) 5% above 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).

If approved, the authority shall, unless varied, revoked or renewed, 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 Directors will only exercise their authority if it is in the interests of shareholders generally.

Resolution 20 – Notice period for general meetings other than AGMs

This resolution seeks shareholder approval to allow the Company to continue to call general meetings (other than AGMs) on 14 clear days' notice. In accordance with the Act, as amended by the Companies (Shareholders' Rights) Regulations 2009, the notice period required for general meetings of the Company is 21 clear days unless shareholders approve a shorter notice period (subject to a minimum period of 14 clear days). In accordance with the Act, the Company must make a means of electronic voting available to all shareholders for that meeting in order to be able to call a general meeting on less than 21 clear days' notice.

The Company intends to only use the shorter notice period where this flexibility is merited by the purpose of the meeting and is considered to be in the interests of shareholders generally, and not as a matter of routine. AGMs will continue to be held on at least 21 clear days' notice.

The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

Explanatory notes as to the proxy, voting and attendance procedures at the Annual General Meeting ("AGM")

1. The holders of ordinary shares in the Company are entitled to attend the AGM and are entitled to vote. A member entitled to attend, speak and vote at the AGM is also entitled to appoint a proxy to exercise all or any of his/her rights to attend, speak and vote at the AGM in his/her place. Such a member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. A form of proxy which may be used to appoint and give proxy instructions for use at the AGM is enclosed with this notice. To be effective, a form of proxy must be completed and returned, together with any power of attorney or authority under which it is completed or a certified copy of such power or authority, so that it is received by the Company's registrar at the address specified on the form of proxy not less than 48 hours (excluding any part of a day that is not a working day) before the stated time for holding the meeting (or, in the event of an adjournment, not less than 48 hours before the stated time of the adjourned meeting (excluding any part of a day which is not a working day)). Returning a completed form of proxy will not preclude a member from attending the meeting and voting in person.
3. Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in notes 1 and 2 above does not apply to Nominated Persons. The rights described in notes 1 and 2 can only be exercised by the holders of ordinary shares in the Company.
4. To be entitled to attend and vote at the AGM (and for the purposes of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members by 6.30 pm (BST) on 3 May 2022 (or, in the event of an adjournment, on the date which is two days, excluding any day which is not a working day, before the time of the adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. As at 30 March 2022 (being the last business day prior to the publication of this notice), the Company's issued ordinary share capital consists of 4,372,429,473 ordinary shares of 160/21 pence each, carrying one vote each.
6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available at www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 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.

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.

As at 31 December 2021, there were 18,132 holders of ordinary shares of 160/21 pence each in the Company. An analysis of these shareholdings as at 31 December 2021 is set out in the table below.

Shareholder analysis

Balance Ranges	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
1-5,000	14,308	78.91%	17,467,058	0.40%
5,001-50,000	2,900	15.99%	37,765,633	0.86%
50,001-500,000	514	2.84%	90,916,818	2.08%
Over 500,000	410	2.26%	4,226,279,964	96.66%
Total	18,132	100.00%	4,372,429,473	100.00%

Held by	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
Individuals	15,655	86.34%	48,373,035	1.11%
Institutions	2,477	13.66%	4,324,056,438	98.89%
Total	18,132	100.00%	4,372,429,473	100.00%

Financial calendar 2022

Ex-dividend date for final dividend	7 April 2022
Record date for final dividend	8 April 2022
Annual General Meeting	5 May 2022
Payment date of final dividend	20 May 2022
Announcement of interim results	September 2022
Intended payment of interim dividend	October 2022
Preliminary announcement of 2022 results	March 2023

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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

A range of shareholder information is available at Equiniti's online portfolio service www.shareview.co.uk, where you can register for a Shareview Portfolio to access information about your holding and undertake a number of activities, including appointing a proxy, changing a dividend mandate and updating your address. To register, you will need your 11-digit Shareholder Reference Number ("SRN"), which can be found on your proxy form or dividend voucher.

Gifting your shares

If you have a small number of shares and the dealing costs or minimum fee make it uneconomical to sell them, you may like to donate them to benefit charities through ShareGift, a registered charity. Further information is available on the ShareGift website at www.sharegift.org or call +44 (0) 20 7930 3737.

Share fraud warning

Many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. For more detailed information on this kind of activity or to report a scam, please call the Financial Conduct Authority's Consumer Helpline on +44 (0) 800 111 6768 or visit www.fca.org.uk/consumers/scams.



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