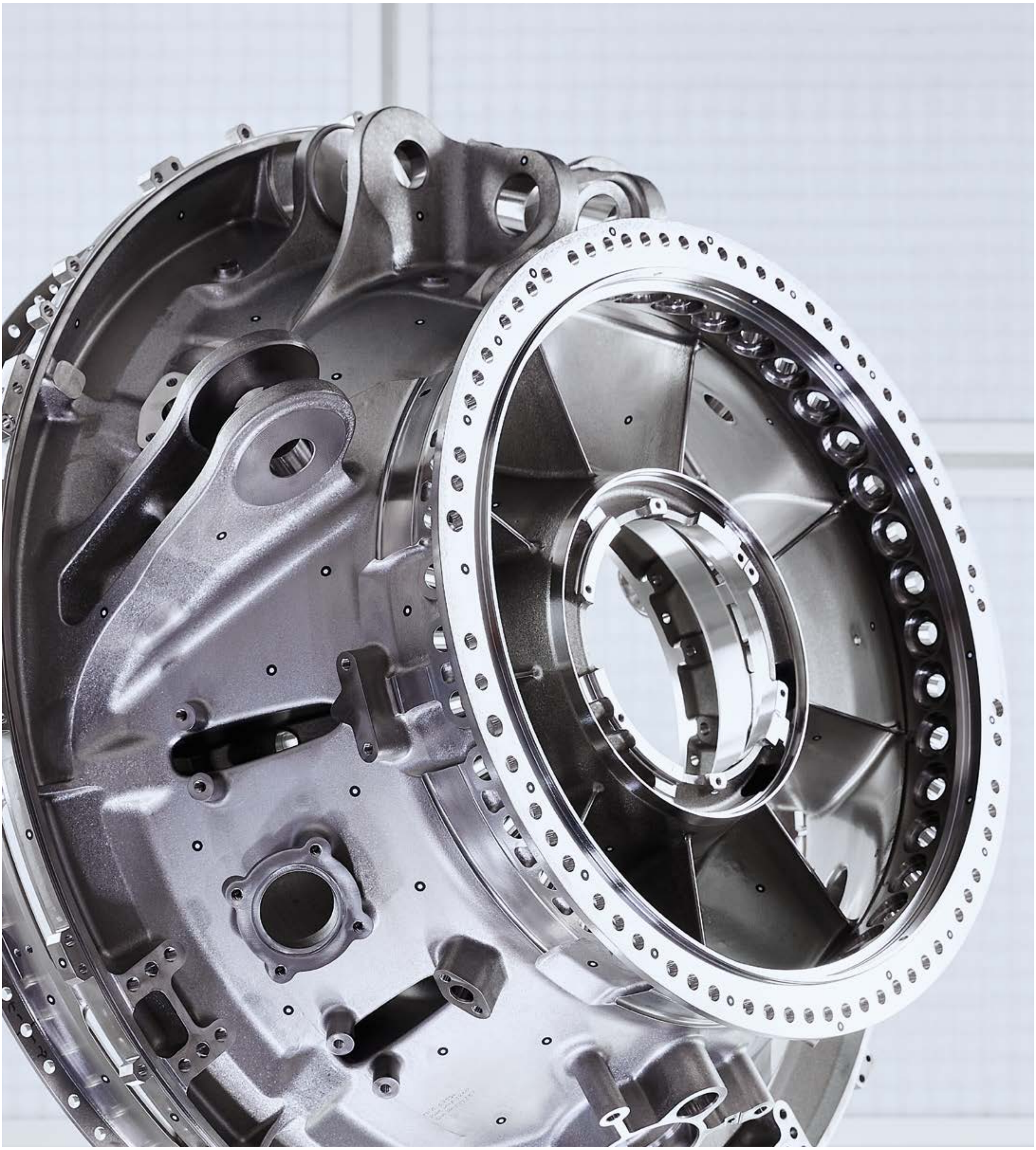
Buy
Improve
Sell
Melrose

Melrose Industries PLC
Annual Report

2022



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.

For more information visit
melroseplc.net

Cautionary statement

The Strategic Report and certain other sections of this Annual Report and financial statements contain statements that are, or may be deemed to be "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "potential", "predicts", "expects", "intends", "may", "will", "can", "likely" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements reflect the Company's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the business, results of operations, financial position, liquidity, prospects, growth and strategies of the Group. Forward-looking statements speak only as of the date they are made.

In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur or the Company's or the Group's actual results, performance or achievements might be materially different from the expected results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements contained in this Annual Report speak only as at the date of this Annual Report. The Company expressly disclaims any obligation or undertaking to update these forward-looking statements contained in this Annual Report to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Listing Rules or the Disclosure Guidance and Transparency Rules of the FCA or Regulation (EU) 596/2014 as it forms part of the domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018.

Some financial and other numerical data in this Annual Report and financial statements has 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.

Strategic Report

2022 Highlights 2
Our strategy and business model 4
Our strong track record 6
Long-term value creation 8
Chairman's statement 10
Chief Executive's review 12
Divisional review 14
Aerospace 14
Automotive 20
Powder Metallurgy 24
Other Industrial 27
Key performance indicators 28
Finance Director's review 30
Longer-term viability statement 37
Risk management 38
Risks and uncertainties 40
Section 172 statement 49
Sustainability review 55
Non-financial information statement 92

Governance

Governance overview 94
Board of Directors 98
Directors' report 100
Corporate Governance report 104
Audit Committee report 110
Nomination Committee report 116
Directors' Remuneration report 119
Statement of Directors' responsibilities 145

Financial statements

Independent auditor's report to the members of Melrose Industries PLC 146
Consolidated Income Statement 156
Consolidated Statement of Comprehensive Income 157
Consolidated Statement of Cash Flows 158
Consolidated Balance Sheet 159
Consolidated Statement of Changes in Equity 160
Notes to the Financial Statements 161
Company Balance Sheet for Melrose Industries PLC 214
Company Statement of Changes in Equity 215
Notes to the Company Balance Sheet 216
Glossary 227

Shareholder information

Notice of Annual General Meeting 235
Company and shareholder information 242

2022 Highlights

Adjusted[1] revenue

£8.2bn

Adjusted[1] operating profit

£480m

Statutory revenue

£7.5bn

Statutory operating loss

£236m

Divisional performance summary results

(for the year ended 31 December 2022)

	Adjusted[1] revenue £m	Adjusted[1] operating profit/(loss) £m	Statutory revenue £m	Statutory operating profit/(loss) £m
Aerospace	2,957	186	2,954	(134)
Automotive	4,211	250	3,586	11
Powder Metallurgy	1,022	96	996	36
Other Industrial	1	(14)	1	(14)
Corporate	–	(38)	–	(135)

> The Group enjoyed another strong year in 2022, ahead of expectations on sales, profit and cash."

Justin Dowley
Non-executive Chairman

Ahead of expectations

Melrose is ahead of expectations for the year on sales, profit and cash generation

Demerger on track

The timetable for the demerger of the Dowlais Group[2] is on track, with completion expected on 20 April 2023, subject to shareholder approval on 30 March 2023

£539m cash generated[5]

Cash generation exceeded expectations, with a particularly strong second half performance, and therefore Group net debt[1] of £1.14 billion was lower than expected

(1) Described in the glossary to the financial statements on pages 227 to 234.
(2) Comprising the Automotive, Powder Metallurgy and Hydrogen group of businesses.
(3) Like-for-like growth is calculated at constant currency against 2021 results.
(4) Pre central costs and at constant currency.
(5) Operating cash flow (pre-capex).
(6) After the date of approval of the Annual Report and financial statements, the second interim dividend payment date was changed to 11 April 2023 in order to effect the Dividend Reinvestment Plan prior to completion of the proposed Demerger.

126% higher EPS

The Group recorded an adjusted[1] diluted earnings per share of 7.0 pence (2021: 3.1 pence), 126% higher than last year. The statutory loss per share was 5.4 pence per share (2021: 10.3 pence)

11%[3] Aerospace sales increase

Aerospace is experiencing continued strong momentum and market recovery with 11%[3] sales increase to £2,957 million in 2022 and an increasingly positive outlook into 2023 and beyond with another double digit revenue growth year expected

51% Aerospace profit increase

Aerospace's adjusted[1] operating profit of £186 million was up 51%[4] year-on-year from volume and business improvement actions; extensive restructuring is underway to deliver further gains. Statutory operating loss was £134 million (2021: £196 million)

Doubling shareholders' equity

over the Nortek acquisition, which concluded in 2022

c.£340m climate-related R&D investment

c.£340 million invested in climate-related research and development in our businesses over the past three years

50% dividend increase

A second interim dividend of 1.5 pence (50% increase on last year's final dividend) will be paid on 18 April 2023[6] just prior to the proposed demerger. This will replace the final dividend which would normally be approved at the 2023 AGM. The total full year dividend for 2022 is 2.325 pence (33% increase on last year)

Melrose Industries PLC Annual Report 2022

Our strategy and business model

Our purpose:

Melrose was founded in 2003 to empower businesses to unlock their full potential for the collective benefit of stakeholders, and to provide 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

Industry expertise

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

Long-term value creation
Pages 8 and 9

Highly experienced management team

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.

Long-term value creation
Pages 8 and 9

Strong track record

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 having returned over £6.0 billion of cash to shareholders.

Our strong track record
Pages 6 and 7

Operational efficiency

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.

Long-term value creation
Pages 8 and 9

Effective governance

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.

Governance Report
Page 94

Value creation

How has Melrose created value?[1]

1. Margin growth
Good but underperforming manufacturing businesses whose potential is unrealised.

46%

2. Cash generation
A key focus is to make significant improvement to cash flows in the businesses we acquire.

27%

3. Multiple expansion
Multiple expansion is never assumed, but has been achieved on all previous deals as the businesses have been improved.

26%

4. Sales
Margin growth and cash generation prioritised and delivered ahead of sales growth.

1%

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

Follow-on investment during Melrose ownership for businesses sold

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

100%
Equity raised to acquire businesses

+

36%
Further investment in the businesses to improve operations[1]

Reinvestment

Sustainable business improvement

The Melrose "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 the highest standards of integrity, honesty, and transparency. Guided by our four overarching sustainability principles, we buy good manufacturing businesses whose performance can be improved, including by contributing to the decarbonisation of their sectors and social value creation in their communities.

We drive long-term success and prosperity within our businesses with unrelenting focus on integrating our sustainability targets and commitments into our businesses' strategic agendas, and providing the investment they need to deliver significant financial returns and sustainability improvements. We recognise that 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 review on pages 55 to 91:

i. Respect and protect the environment
ii. Continue to invest in and support our businesses as they develop products and services aligned with a net zero future
iii. Promote diversity, prioritise and nurture the wellbeing and skills development of employees, and support the communities that we are part of
iv. Exercise robust governance, risk management and compliance

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

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 review
Pages 55 to 91

Outputs

Shareholder investment and gain

(figures up to 31 December 2022):

Average return on equity across all businesses sold.

2.5x

Cash return to shareholders since establishment.

£6.0bn

Read more
Pages 6 and 7

Reinvestment

Spent on research and development for Elster, Nortek and GKN acquisitions.

c.£1.4bn

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

c.£340m

Melrose Industries PLC Annual Report 2022

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 17%, with an increase in adjusted 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.

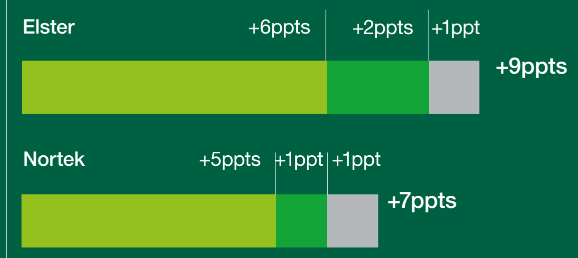
Shareholder investment and gain
(figures up to 31 December 2022)

£6.0bn
Cash return to shareholders since establishment

2.5x
Average return on equity across all businesses sold

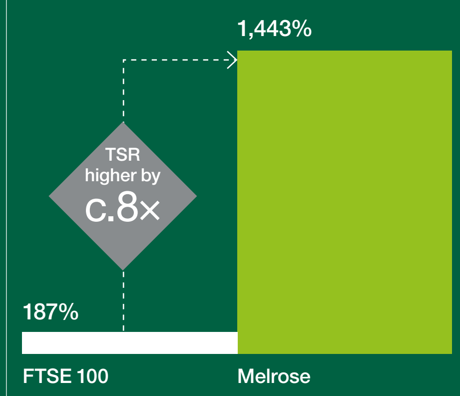
17%
Average annual return on equity investment since the first acquisition[1][2]

How Elster and Nortek operating margin improved[3]



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

Total shareholder return (TSR)[1][2]

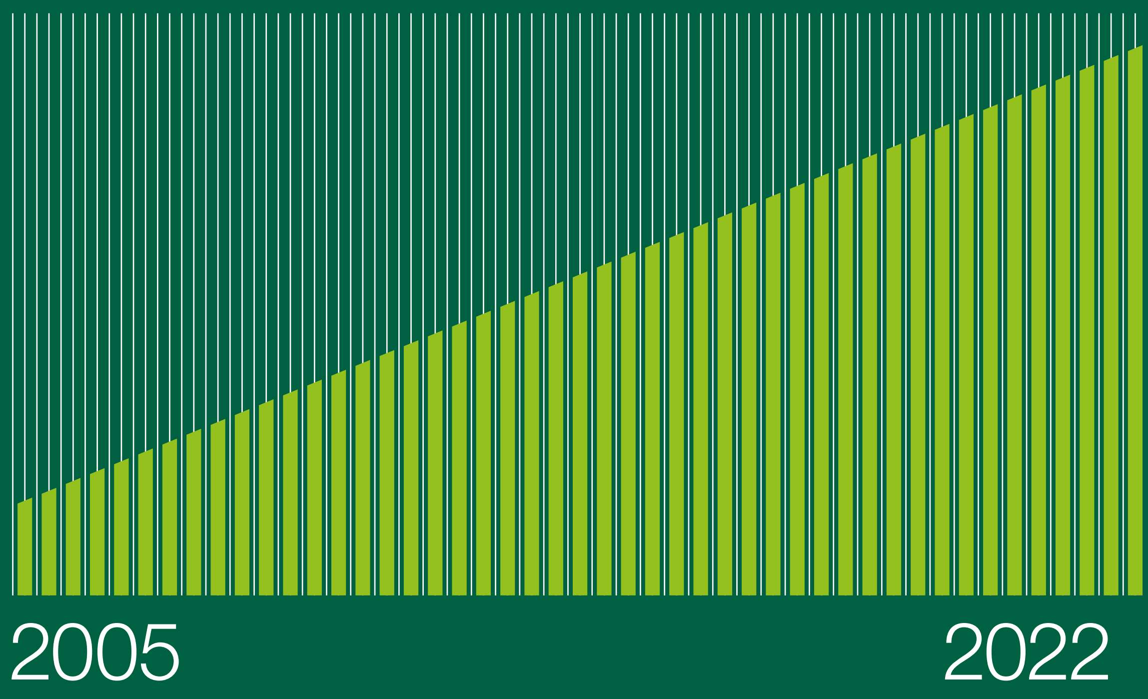


Track record for £1 invested in Melrose
– as at 31 December 2022

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

£1.00
Original investment in May 2005

£15.43
Gross return on original £1 investment



(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.

Responsible approach to investing

Maintaining the substantial improvements made to all UK pension schemes under ownership

Responsible stewardship (figures up to 31 December 2022)

£366m

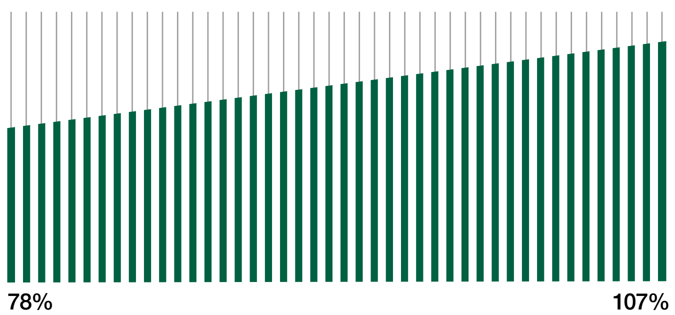
In aggregate, the GKN UK pension schemes are now in surplus helped by £366 million cash contributions made to GKN UK defined benefit pension schemes from the Group so far during Melrose ownership, reducing the funding deficit on acquisition of c.£1 billion, making them now fully funded.

Schemes for current businesses

The Melrose funding commitment made on the acquisition of GKN has been fulfilled ahead of time. Ongoing annual payments remain at £30 million and there is no funding requirement from future disposal proceeds or potential demerger activities.

Surplus as at 31 December 2022	£0.1 billion
Improved investment strategy and other	£0.7 billion
Significantly increased contributions in Melrose ownership	£0.4 billion
Acquisition commitment	'Up to £1 billion'

GKN 2012 schemes 1-4



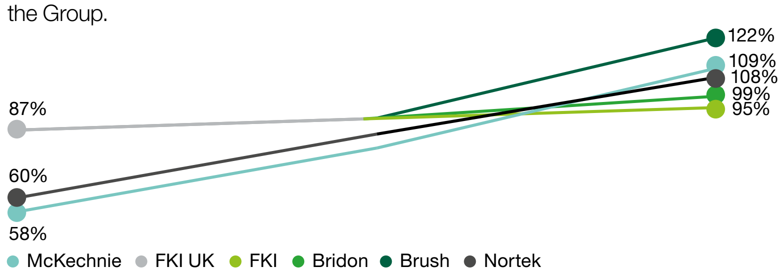
For the GKN schemes, we were proactive, transparent and constructive in agreeing commitments with pension trustees during the acquisition of GKN. We committed to providing up to £1 billion of funding contributions; to doubling annual contributions to £60 million; to making £150 million upfront contributions;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

So far we have:

- Eliminated the GKN UK defined benefit pension schemes' net accounting deficit.
- Set 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.
- Achieved a successful buyout of the GKN 2016 pension plan in 2021.
- Rebalanced the GKN schemes across the GKN divisions, to avoid overburdening any one business and to provide stability and better security for members.

Schemes for businesses sold

Whilst under Melrose ownership, we improve contributions and provide better security to our businesses' pension schemes in every case improving their percentage funding in advance of departure from the Group.



Promoting strong sustainability principles

Our Sustainability review (see pages 55 to 91) highlights the investment, support and encouragement we provide to our businesses, and the Group sustainability targets and commitments we have set, to enable and drive them to pursue relevant improvements in relation to environmental, social and governance ("ESG") matters. We are publishing a standalone Sustainability Report alongside this Annual Report to provide a full overview.

Long-term value creation

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

Melrose continues to build on its 19-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
Dynacast	11%	16%	>40%	+5ppts
FKI	10%	15%	>50%	+5ppts
Elster	13%	22%	>70%	+9ppts
Nortek	9%	16%	>70%	+7ppts

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

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

Elster

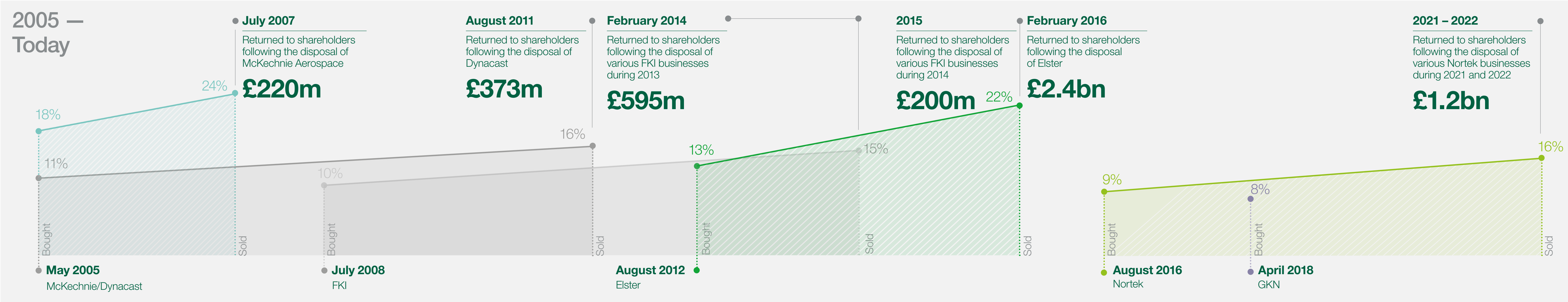
Bought for	£1.8bn
Equity raised on acquisition	£1.2bn
Follow-on investment	£287m
Sold for	£3.3bn
Investment in business	25%
Equity rate of return	33%
Cash generated during ownership	£3.3bn

Nortek

Bought for	£2.2bn
Equity raised on acquisition	£1.6bn
Follow-on investment[2]	£0.35bn
Sold for	£3.1bn
Investment in businesses	22%
Equity rate of return	17%
Cash generated during ownership	£3.9bn

GKN

Bought for	£8.3bn
Equity raised on acquisition	£6.8bn
Follow-on investment[2]	£2.6bn
Investment[2] as % of initial equity	38%
Cash generated during ownership	£0.8bn



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.

Shareholder return on original equity

3.0x

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.

Shareholder return on original equity

2.6x

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.

Shareholder return on original equity

2.3x

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 Ergotron, being the last of the businesses remaining from the Nortek Inc acquisition. Melrose more than doubled shareholders' initial investment whilst transforming the Nortek businesses. Refocusing them away from unprofitable work, Melrose made the significant investment necessary to implement operational best practices, increase R&D, develop new products and build stronger customer relationships. These actions resulted in an almost doubling of adjusted operating margins and ensured each business remained highly cash generative, with over US$1 billion generated during Melrose ownership. This strong support and appropriate investment under Melrose ownership unlocked the potential of all the Nortek businesses and set them on the path for further success under new owners for the next stage of their development.

Shareholder return on original equity

2.1x

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 make up three distinct divisions within Melrose: GKN Aerospace, GKN Automotive and GKN Powder Metallurgy, in addition to the early-stage growth business GKN Hydrogen which forms our Other Industrial division. 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, including by way of the proposed separation of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses by way of a demerger of shares of their new holding company, Dowlais Group plc, to Melrose shareholders (the “Demerger”).

See pages 14 to 27 to find out more about our progress in improving the GKN businesses so far, and our plans for 2023.

Further information about the Demerger can be found in the Chairman's statement on pages 10 to 11.

(1) Described in the glossary to the financial statements on pages 227 to 234.
(2) Up to 31 December 2022.

Melrose Industries PLC Annual Report 2022

Justin Dowley
Non-executive Chairman

2022 — A year in review

I am pleased to report our 20th set of annual results since flotation in 2003.

Calendar year 2022

The Group enjoyed another strong year in 2022, ahead of expectations on sales, profit and cash. We achieved statutory revenue for the Melrose Group of £7,537 million (2021: £6,650 million), with an adjusted operating profit of £480 million (2021: £317 million) based on a statutory operating loss of £236 million (2021: £493 million).

Within these results, the key businesses that are intended to be demerged under Dowlais Group plc (see below for further details), GKN Automotive and GKN Powder Metallurgy, enter into the Demerger having collectively delivered good performances in the year, with sales up 7% and adjusted operating profit up 24%. In the continuing Melrose Group, GKN Aerospace has been executing its improvement strategy together with increasing momentum in line with the market recovery, resulting in sales up 11% and adjusted operating profit up 51%.

We saw continued strong cash generation from all businesses, particularly in the second half, which funded all required restructuring projects. As a result, net debt was lower than expectations at £1.14 billion. This will enable each of Melrose and Dowlais to exit the Demerger with prudent levels of leverage of approximately 1.7x and 1.5x 2022 EBITDA respectively. New standalone bank facilities for Melrose and Dowlais, conditional on the Demerger, have been signed with our supportive banking syndicate and will be used to repay existing facilities in full on completion of the Demerger.

Melrose ran two successful tender exercises during the year. Following the sale of Ergotron, we conducted a £500 million share buyback programme, which completed on 1 August 2022 and resulted in the buyback of 318 million ordinary shares, equating to 7.3% of shares in issue. Then in November 2022, we conducted a tender in respect of the last remaining listed bonds inherited with the GKN acquisition, with 57% of outstanding bonds being repurchased at the tender price of 87 pence.

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.

Demerger proposal

Melrose previously announced its intention to separate its GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses by way of a demerger of shares of Dowlais Group plc to Melrose shareholders. This will result in two independent and separately listed companies on the London Stock Exchange, Dowlais and Melrose, each with its own distinct strategy and acquisition currency.

To enable both Melrose and Dowlais to initiate at sensible levels, we intend to conduct a 1:3 share consolidation the night before completion of the Demerger, scheduled for 20 April 2023. Shareholders will then receive one Dowlais share for every post-consolidation Melrose share they hold. In addition, as a result of splitting the Group through the Demerger, there are necessary adjustments required to appropriately reflect the Demerger on the Melrose long-term incentive arrangements, which seek to incentivise the creation of shareholder value.

Preparations for the proposed Demerger have progressed well. The Demerger, the Share Consolidation and the adjustments to long-term incentives make up the Demerger Proposal that will be presented to shareholders for approval at a general meeting to be held at 10.00 am on 30 March 2023. We intend to post a circular to shareholders on 3 March 2023, which will contain the full details of the Demerger Proposal together with the notice of meeting. In parallel, the board of Dowlais will issue a prospectus in respect of the Dowlais shares proposed to be issued to Melrose shareholders.

Melrose commitments and delivery

Completion of the Demerger will also coincide with the expiry of our undertakings and commitments in connection with the acquisition of GKN plc in 2018, including those given to the Takeover Panel and the Department for Business and Trade[1]. We continue to invest heavily in research and development, much of it in sustainable technology, at well above the levels promised. We have also invested in the UK's industrial future through the Melrose Skills Fund, which is focused on the next generation of engineers and the UK skills base, whilst also solving the chronic underfunding in the GKN UK pension schemes and securing the future for its members. The latest example of this being a buyout of one of the UK pension schemes in GKN Aerospace (see opposite).

We have not only turned around the performance of one of the UK's longest standing industrial businesses, we are now seeking admission onto the London Stock Exchange for Dowlais which should make it the UK's premier listed automotive business. This is aligned with our intentions at the outset, that with our help, these businesses could unlock their potential for the benefit of all stakeholders. We are proud to have more than delivered on the undertakings we gave.

(1) The measurement period for the Takeover Panel undertaking relating to expensed R&D spend runs to the end of this year, but the Company is already ahead of requirements.
(2) After the date of approval of the Annual Report and financial statements, the second interim dividend payment date was changed to 11 April 2023 in order to effect the Dividend Reinvestment Plan prior to completion of the proposed Demerger.

> "We are delighted with these results, and everything is on track for the Demerger. We consider a restructured Aerospace business to be one of the best businesses Melrose has ever owned. We are confident that a combination of restructured and refocused high class Engines and Structures businesses, and overall aerospace market recovery, positions these businesses for a significantly better than expected performance in 2023 and beyond."

Sale of Ergotron

We completed the sale of Ergotron during the year, marking the end of our ownership of the businesses from the Nortek acquisition in 2016. That acquisition was highly successful both in terms of doubling the initial investment and transforming the businesses themselves, with adjusted operating margins almost doubled and strong cash generation. Together with the £0.8 billion of cash generated by the Nortek businesses under our ownership, their disposals over the past two years produced over £3.1 billion in cash proceeds. Part of these proceeds have enabled Melrose to prepare for the Demerger as well as benefit from a conservative capital structure in what has been a turbulent period for the world economy.

Pensions

As stated above, Melrose is 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 ahead of schedule, overcoming the large funding pension deficit we inherited of almost £1 billion to bring the UK schemes into being materially fully funded as at the end of last year, despite the challenges of COVID-19 and without detracting from our investment in the businesses. With the Demerger Proposal, the schemes attached to GKN Automotive will transfer to Dowlais, benefitting from their much improved position, leaving the continuing Melrose Group with the pension schemes attached to GKN Aerospace. As the next step in securing the future for members, we have now agreed a buyout of approximately half the remaining GKN Aerospace UK pension liabilities for £45 million. This further reduces the pension exposure for the Melrose Group, and gives certainty to the members of the scheme. This is a complete transformation from the situation inherited in 2018 and is testimony to the already strong Melrose track record in respect of pension schemes.

Dividend

Recognising the timetable for the proposed Demerger, the Board has decided to make a second interim dividend for 2022 of 1.5 pence per share instead of a final dividend (2021 final dividend: 1.0 pence), which enables a quicker payment to be made to all shareholders ahead of the intended date of Completion. Combined with the first 2022 interim dividend of 0.825 pence per share paid on 20 October 2022, this represents a total dividend for the year of 2.325 pence per share (2021: 1.75 pence), a 33% increase. The second interim dividend will be paid on 18 April 2023[2] to those shareholders on the register at 10 March 2023.

Board matters

As announced in September last year, recognising the material circumstances related to the Demerger, the Board proposed that I extend my tenure as Non-executive Chairman for two years to 2025, to provide further stability and leadership for the Company, subject to annual re-elections at the Company's AGM. This has been supported in consultations with shareholders since.

Accordingly, I have agreed to the Board's request and will be standing for re-election at the Company's Annual General Meeting, to be held on 8 June 2023, with full details as set out in the enclosed notice of meeting. There will be no further extensions proposed to my tenure.

Also, as previously announced, in addition to continuing their existing Melrose roles and backed by the wider Melrose senior management team pursuant to a transitional services agreement, Simon Peckham and Geoffrey Martin will take up executive director roles with Dowlais for a period post-completion of the Demerger to help drive further value creation for shareholders. The Board has discussed and agreed the arrangements, which it considers to be in the best interests of all shareholders.

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.

Melrose sees sustainability as a key part of improving a business during our ownership and environmental, social and governance priorities are an important part of our "Buy, Improve, Sell" strategy. We see no reason why these priorities cannot be achieved whilst improving financial returns for our shareholders. There remain plenty of opportunities for further progress, but it has been nonetheless pleasing to see our performance being recognised by several of the key benchmarking agencies, including Sustainalytics which now ranks Melrose in the top ten of our industrial peers. This year we are publishing our second standalone Sustainability Report alongside this Annual Report.

The proposed Demerger is also part of that improvement strategy, providing the separate platforms necessary for all businesses to unlock further value. We are confident that Dowlais is now in the best position to demonstrate the quality of its business for the benefit of shareholders. Our focus within Melrose for the next 12 months is to complete the transformation of GKN Aerospace and position it so as to demonstrate the significant shareholder value that will be created from this business in 2023 and beyond.

J Dowley

Justin Dowley
Non-executive Chairman
2 March 2023

Simon Peckham
Chief Executive

> With the Demerger reaching finalisation, much of the focus turns to the remaining business in the continuing Melrose Group, GKN Aerospace."

Continuing Melrose Group

With the Demerger reaching finalisation, much of the focus turns to the remaining business in the continuing Melrose Group, GKN Aerospace. We are very excited about the prospects of this business, which is centred around its Engines and Structures segments (consisting of civil and defence). The Engines segment is an outstanding business with a well-developed commercial strategy that has secured enviable positions on key leading engines platforms through risk and revenue sharing partnership ("RRSP") arrangements. These positions make GKN Aerospace a key partner in the success of each platform and, when considering the long lifetime of an engine, means that it continues to benefit from significant ongoing revenues for decades after delivery. Based on customer projections, these agreements are currently forecast to deliver cash flows of approximately £18.5 billion[1] over the years to come.

In addition to the RRSPs that are entering into their most profitable phase, Engines is focused on achieving further growth through other key strategic initiatives, including additive manufacturing and targeted, profitable aftermarket work that is aligned to its core capabilities and strong structural demand for engine maintenance. For Structures, a comprehensive overhaul of its commercial strategy is underway, with a focus on "design to build" and differentiated products that better reflect its technological expertise and delivers more appropriate margins. Importantly, the business is already on a number of key programmes, increasingly weighted towards single aisle aircraft in the civil market, that are benefitting from a significant ramp up in demand in response to the strong recovery in air travel. Both Engines and Structures are also major contributors to the next generation of aircraft, including advanced composites and alternative platforms such as electric, hydrogen and eVTOL.

All of the above has contributed to an 11% growth in revenues for GKN Aerospace in 2022 and a 51% increase in adjusted operating profit. With continuing management actions to address its cost base, we are confident GKN Aerospace will achieve its stated margin target of 14%+, which would result in approximately trebling adjusted operating profit at pre-pandemic volume levels. All restructuring projects required to achieve this result are underway and are expected to be substantially complete by the end of 2023. This includes significant footprint rationalisation in Europe and North America and headcount reductions, as well as enhanced customer quality, which was improved by 23% in 2022, and a reduction in arrears. There has been an ongoing focus on resolving the remaining inherited legacy issues, including non-core or unprofitable contracts.

(1) As presented at the previous GKN Aerospace Capital Market Event on 8 June 2022.

> We are confident GKN Aerospace will achieve its stated margin target of 14%+, which would result in approximately trebling adjusted operating profit at pre-pandemic volume levels."

Across the business, GKN Aerospace was very successful in fully offsetting inflationary pressures, aided by good contractual protections and customer provided material. Progress in managing inventory has been disappointing this year partly due to the need to mitigate supply chain challenges in the context of sector growth and platform ramp ups. Improvement in this area is a key focus for the coming year and beyond. Melrose is focused on ensuring that GKN Aerospace delivers to our increased expectations over the next 12 months and that, having unlocked this value, this is properly reflected in the value of the Group. We will be holding an Investor Event on 17 May 2023 in London to set out in detail the GKN Aerospace business and its strategy.

11%
growth in revenue for GKN Aerospace in 2022

51%
increase in adjusted operating profit for GKN Aerospace in 2022

Dowlais Businesses

The market-leading GKN Automotive and GKN Powder Metallurgy businesses that are due to be demerged have been transformed under Melrose ownership and are now well positioned to deliver shareholder value under Dowlais, an independent, automotive focused company. On acquisition in 2018, each business had well established engineering foundations and were market share leaders with long standing diverse customer relationships. GKN Automotive is the number one global drive system supplier, serving 90% of Global OEMs with content on approximately 50% of passenger vehicles, from 47 manufacturing facilities in 17 countries across the globe. GKN Powder Metallurgy is uniquely vertically integrated as the global leader in sintered metal products and the number two global supplier of powder metals, with 27 manufacturing sites in nine countries across the globe. Despite this, they were each underperforming their potential.

Under Melrose ownership these businesses have undergone a successful and comprehensive transformation. There has been an overhaul of their commercial strategies, which included resolving an approximate £300 million exposure to low margin or loss-making contracts. Despite some significant market volatility, we have also driven order intake growth with well over £20 billion of revenue booked under Melrose ownership and a book-to-bill ratio well over 100% each year. Importantly, this growth has been profitable, consistent with the stated operating margin targets. It has also aligned with the global transition to electric vehicles ("EV"), with a growing EV order book which accounted for over 40% of new orders in 2022.

Parallel to this commercial overhaul, we have reshaped the cost base of the businesses, with a focus on improving purchasing performance that has delivered material annual savings alongside robust and increasingly regionalised supply chains. Fixed costs have been reduced, with a productive utilisation of resources and reduced headcount. We also redefined the industrial strategy, with a focus on end to end manufacturing in single plants to better leverage their unique vertical integration, an increase in digitalisation of production, and footprint rationalisation. This has increased efficiency and productivity that has been further boosted through an emphasis on lean manufacturing technology.

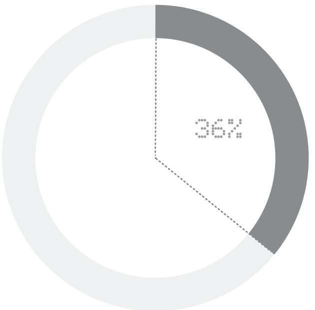
A disciplined approach to cash generation has driven rigour and visibility into each of the businesses, resulting in £1.8 billion of cash flow (before capital expenditure) under Melrose ownership, and a cash conversion rate before capital expenditure of 110%. This is a significant improvement from the inherited position, more so given the unique challenges of the global pandemic, and has enabled us to continue to invest heavily in the businesses, with the businesses self-funding their extensive restructuring programmes. Critically, this improvement has been a sustainable change, agreed with its value chain partners. Dowlais will further benefit from the conservative level of leverage of approximately 1.5 times 2022 EBITDA intended at Completion. It will also own the early growth business GKN Hydrogen, which is now successfully driving its commercialisation strategy. We believe Dowlais is now very well positioned to deliver value for shareholders in 2023 and beyond.

Please see the Divisional reviews for further information on each of the businesses.

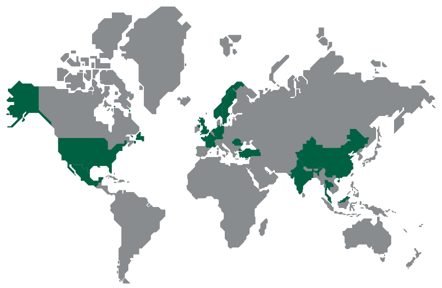
Simon Peckham
Chief Executive
2 March 2023

Aerospace

Proportion of Melrose(3)



Operational geographies



4
Global technology centres

12
Countries with GKN Aerospace manufacturing locations

(1) All growth metrics are collated at a constant currency.
(2) Described in the glossary to the financial statements on pages 227 to 234.
(3) Based on adjusted(2) 2022 revenue for continuing businesses.

GKN AEROSPACE

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

Adjusted(2) revenue
£3.0bn

Statutory revenue
£3.0bn

Adjusted(2) operating profit
£186m

Statutory operating loss
£134m

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 made great progress during 2022 in executing its strategic improvement initiatives, refocusing its resources, capabilities and operations on addressing its core markets with greater precision and moving towards achieving its adjusted operating margin target of 14%+, as volume returns. The business enjoys established positions and embedded technology on major civil and defence platforms, including excellent single aisle exposure.

During the year, there was a strong recovery in air travel, leading to an increase in like-for-like revenue by 11% compared to 2021. This was achieved in the face of challenging macroeconomic conditions, including global supply chain disruption and inflationary pressures. Airframe OEM build rates and global flight hours continued to improve over the year but nonetheless remain below pre-pandemic levels, giving further confidence of continued recovery.

Divisional highlights

Strong market positions

- Leading global tier 1 supplier on major civil airframe and defence airframe platforms.
- Attractive engine portfolio with strong long-term cash flows.

Continued growth

- Civil market recovery progressing well and production ramp-up underway, led by narrow body.
- Significant increase in defence budgets across GKN Aerospace's key markets.
- Strong and growing demand in attractive aftermarket and repair work.

Margins expanding

- Restructuring accelerated and nearing completion.
- Adjusted(2) operating margin:

2021:	4.4%
2022:	6.3%
Target	**14%+**

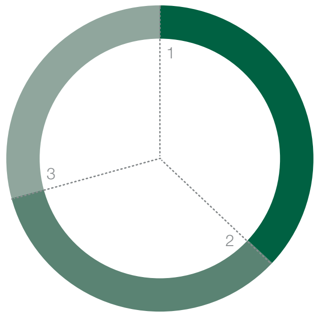
Sustainable technology

- Continued, focused improvements to achieve further efficiencies across existing fleet.
- Enabling the next generation of zero-emissions aircraft.
- Reducing Scope 1 manufacturing emissions.

The Engines and Civil Airframes businesses continued to benefit from the strong recovery in the narrow body market. Performance within the Engines business was particularly strong, driven by its outstanding risk and revenue sharing partnership model and the strength of its position on strategically important engines programmes which will deliver profit growth and cash generation beyond our original expectations. The Defence business continued to refocus its strategy toward positions on higher quality design-to-build platforms, with significant work still to do. These efforts were supplemented by ongoing strategic footprint rationalisation which is progressing and set to be substantially completed during 2023.

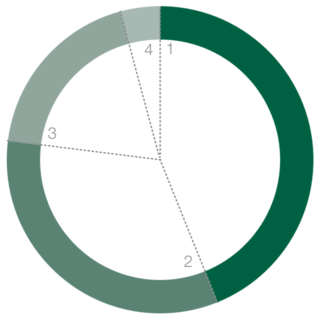
Across the business there were many notable commercial wins during 2022. Engines secured its position and technological advantage in the early development stage of the next generation of propulsion systems, looking to partner on the most advanced technology developments such as the CFM RISE and Pratt & Whitney's next generation GTF programmes. The business is also extending its partnership with the European Ariane space programme to deliver additively-enhanced turbines and nozzles for the next 14 rocket launchers, and is Tier 1 for the RM16 engine that will power the next-generation of Gripen fighters. Engines also launched an innovative new business based around its recent acquisition of Permanova, which designs, develops and delivers additively manufactured alternatives to conventional forgings and castings. This will offer significant reduction in manufacturing emissions on structural products for the benefit of both GKN Aerospace and its global customer base, with a number of agreements with key customers to introduce additive manufacturing solutions for major engine structures. The business is on track to commence deliveries in 2023 and will put sustainability at the heart of Engines' approach to manufacturing.

Revenue by business



1 Civil	37%
2 Engines	34%
3 Defence	29%

Revenue by region(2)



1 Europe (excl. UK)	44%
2 North America	33%
3 UK	19%
4 Asia	4%

(1) All growth metrics are collated at a constant currency.
(2) According to manufacturing country of origin.

In Civil, successes included securing a long term narrow body commercial agreement with Airbus and a new award for major structural components on all Gulfstream G800 and G400 business jets, deploying GKN Aerospace's industry-leading thermoplastic technology. Further developments were realised in China, with the construction of GKN Aerospace's new aerostructures joint venture facility with COMAC in Jingjiang progressing well. The Defence business built on its strong relationship with Lockheed Martin, securing further aerostructures work on the F-35 as well as signing a five-year extension to deliver composite structures to Sikorsky for the Black Hawk helicopter. These commercial successes will be delivered from GKN Aerospace sites across the UK, Sweden, the Netherlands, Mexico and the US in the years ahead.

Having commenced all restructuring projects to achieve its stated operating margin target, by the end of 2023 GKN Aerospace will have streamlined its operations reduced costs and increased productivity. These actions have already contributed to an increase in adjusted operating profit of 51% and a 2 percentage point improvement in adjusted operating margins. GKN Aerospace successfully managed its supply chain challenges during 2022, to secure customer deliveries and offset cost inflation. As part of its Lean Operating Model, the business continued to reduce its total suppliers, having cut its supplier roster by approximately 20% over the last four years to secure higher performance from a simpler, more responsive supply chain. This has helped minimise disruption from the ongoing macroeconomic headwinds impacting the industry.

In keeping with its core mission to be a leader in the transition to sustainable aviation, GKN Aerospace continued sustainable aviation technology development in 2022. The business supports some of the industry's leading programmes to enhance the aircraft of today, and develop the longer term zero-emissions solutions of the future including pioneering solutions in electric flight and hydrogen propulsion development. This includes global partnerships with five electric aircraft manufacturers, supporting a more sustainable future while unlocking a potential major new commercial market.

A new Additive Manufacturing ("AM") Centre of Excellence in Texas, USA was announced, and the business unveiled its largest AM aerostructure component ever produced. This investment targets significant reductions in cost, energy usage and waste from production, ultimately reducing the weight and emissions of the end product. Looking further ahead, GKN Aerospace continued to explore hydrogen combustion technology for longer-range aircraft through its H2JET programme in Sweden, while delivering innovative solutions for European Clean Sky2 programmes and passing several major milestones in its UK-led H2GEAR project.

Melrose Industries PLC Annual Report 2022

Divisional review[1]

Continued

Outlook

The recovery in the aerospace sector is well underway. GKN Aerospace's improved performance is expected to be significantly stronger than we anticipated for 2023 and beyond. Supported by pent up demand in civil aviation and increases in defence budgets, double digit revenue growth is expected again this year. GKN Aerospace remains well-placed to support near and medium-term volume ramp-ups, while continuing to execute on its longer term growth and productivity initiatives. GKN Aerospace is fully committed to offsetting inflationary pressures and managing supply chain issues. The coming years are expected to deliver significant profit and cash generation from its range of best in class Engines platforms.

Looking further ahead, GKN Aerospace's technology investment and expertise will enable it to become a leader in the sustainable transformation of civil aviation, creating market opportunities and profitable growth for years to come.

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

Market trends

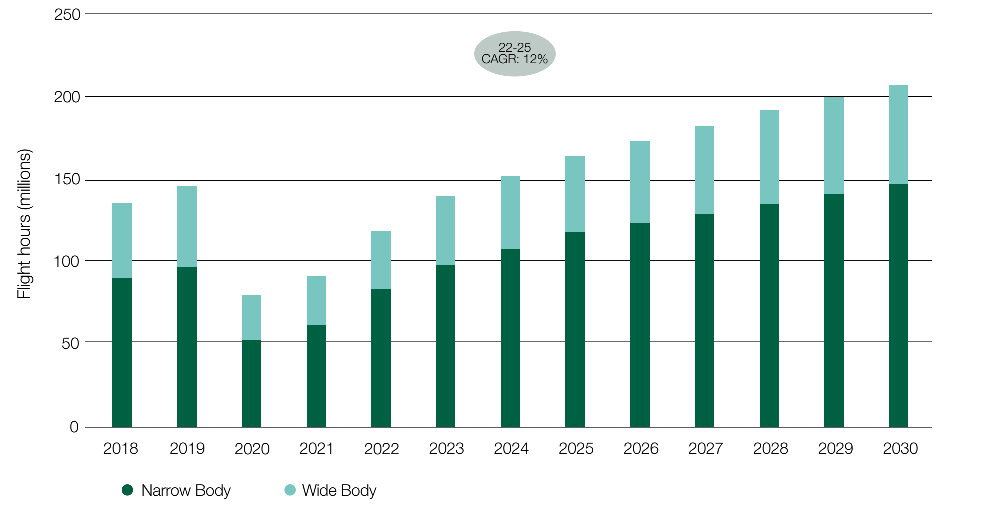
GKN Aerospace

- Flight hours steadily improved throughout the year and this recovery is set to continue in 2023. During 2022 the market saw further new orders for single-aisle aircraft, with the expected single-aisle ramp-up now well underway. With the progressive relief of COVID-19 travel restrictions, China will remain on course to become the largest aerospace market in the 2030s.
- Defence-related spending was stable in 2022 but is expected to increase in 2023 on the back of the US Department of Defence budget. New military programmes in the US, UK and EU are expected to offer significant opportunities for GKN Aerospace over the coming years.
- Tackling climate change continued as a priority for policy makers, investors and the aerospace industry, with renewed focus on how to reach net zero emissions by 2050.

GKN Aerospace has responded to these trends, by:

- Finalising its 'One Aerospace' transformation programme through a series of enterprise-level projects which will reduce its global manufacturing footprint from 38 to 33 sites. This will reduce its cost base, simplify the business, build capability within focused product centres of excellence, and contribute towards an overall reduction in emissions intensity. These changes will enable key sites to ensure they are ready to meet growing customer demand in the single-aisle market, as well as ensuring a more balanced global footprint to support the growth in Asia.
- Strengthening the Defence business by shifting its balance of work away from build-to-print towards more profitable "design-to-build" contracts. The Defence team will seek to enhance its position on key programmes, while continuing to develop leading technologies to secure positions on next generation platforms in Europe and the US.
- Investing for a more sustainable future, both in the technology it offers customers and the way it operates every day. GKN Aerospace has continued to push the boundaries of more sustainable technology for current aircraft, while pioneering zero-emissions solutions in electric flight and hydrogen propulsion development.

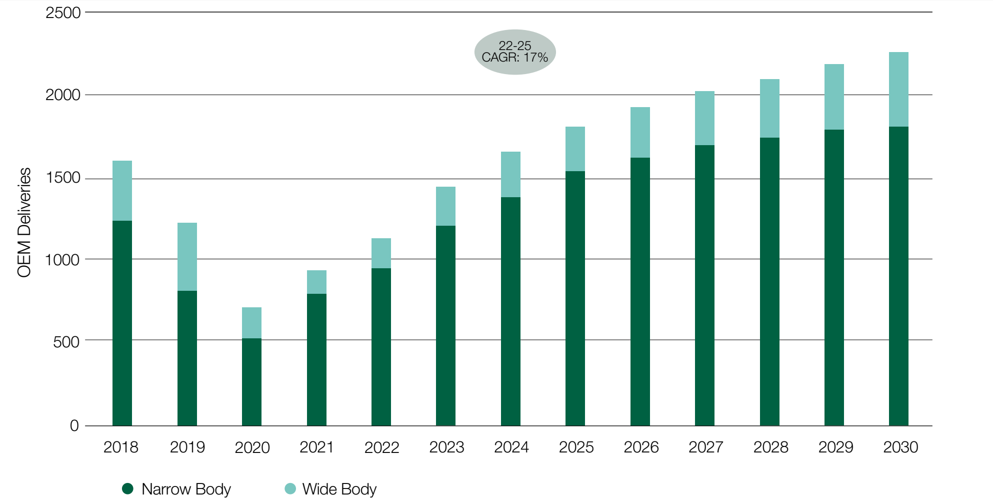
Flight hours returning strongly



Source: Cirium

- Strong 'bounce back' in passenger demand in 2021/22
- Global air traffic ramping up further as China reopens H1 2023
- Recovery to 2019 levels now expected in late 2023/early 2024
- Airlines broke revenue records in summer 2022, despite struggling to meet demand due to aircraft and staff shortages

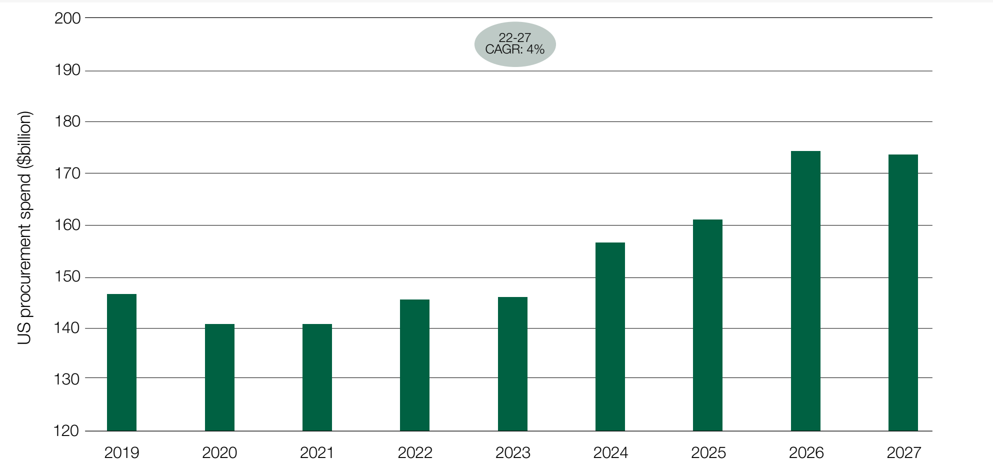
OEM deliveries ramping fast



Source: Teal

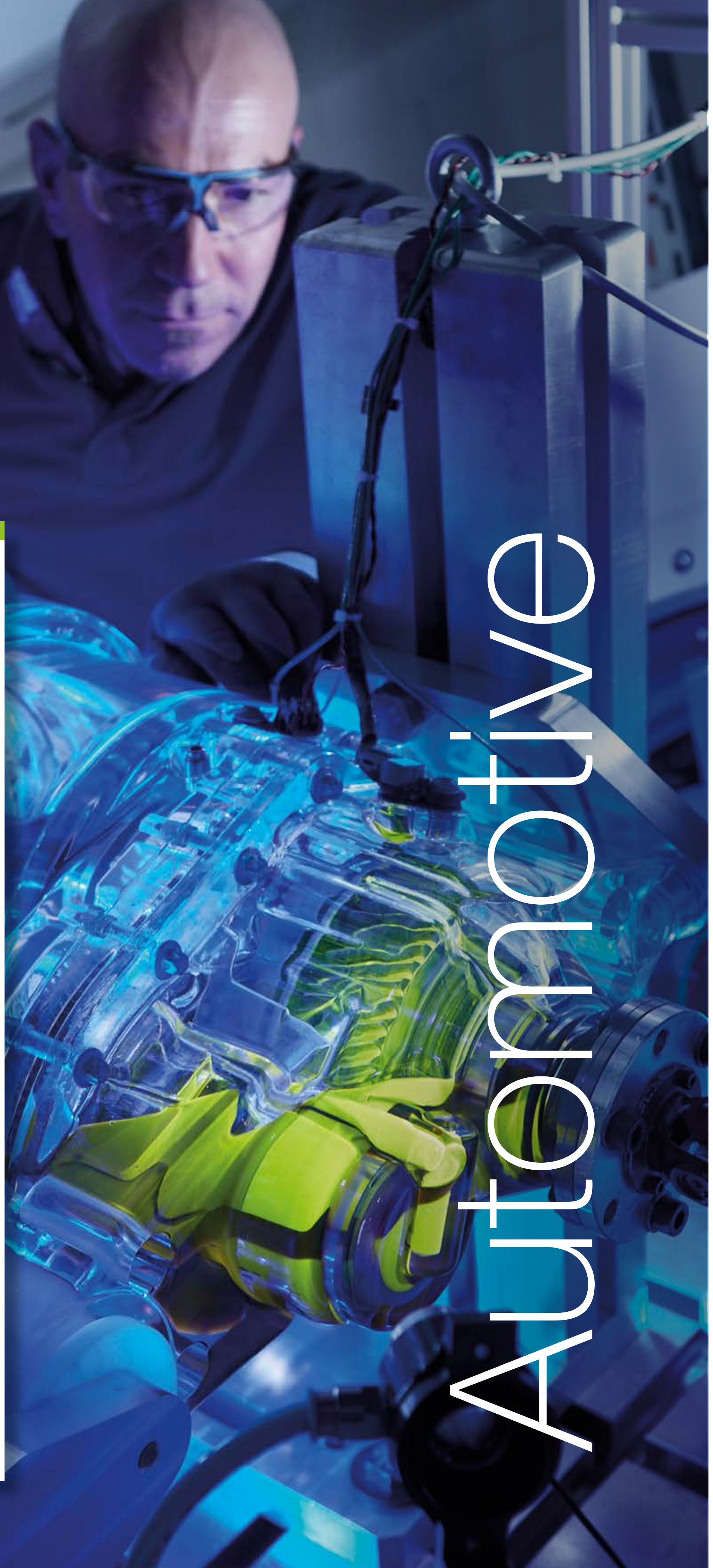
- Strong demand for new aircraft from airlines as travel ramps up on ageing fleet
- Combination of COVID and 737 MAX issues resulted in >2,500 fewer aircraft produced in last four years
- OEMs struggling to meet demand as supply chain and labour issues pace production ramp-up
- Backlogs range between five and eight years with narrow body now ~11,000 aircraft

Defence spending increasing



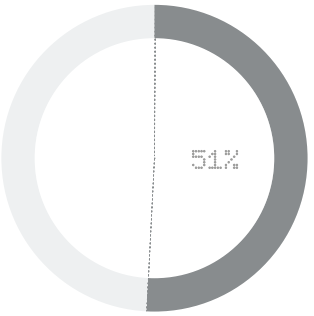
Source: US DoD, estimates only published until 2027

- Forecast sustained growth in Western government defence spending
- Underpinned by heightened geopolitical uncertainty and near peer threat
- Political focus on increased NATO budget after years of under investment v GDP
- Strong demand for established platforms e.g. F-35 booking slots beyond 2030, plus new technologies



Automotive

Proportion of Melrose[3]



Operational geographies

6
Global technology centres

17
Countries – Global production footprint

(1) All growth metrics are collated at a constant currency.
(2) Described in the glossary to the financial statements on pages 227 to 234.
(3) Based on adjusted[2] 2022 revenue for continuing businesses.

GKN AUTOMOTIVE

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

Adjusted[2] revenue
£4.2bn

Statutory revenue
£3.6bn

Adjusted[2] operating profit
£250m

Statutory operating profit
£11m

GKN Automotive is a global leader in drive systems. It is the trusted partner to over 90% of global automotive OEMs, specialising in developing and manufacturing innovative drive systems for both conventional and electric vehicles. Headquartered in the UK with operations in 17 countries, including 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 enjoyed another successful year, keeping pace with global industry sales trends, with adjusted revenues increasing by 9% compared to 2021. For the sector, whilst there was some regional variation in production growth, there remains significant opportunity as production rates return to pre-pandemic volume levels. Operationally, although the sector continued to experience challenges, the business delivered a strong performance in 2022, particularly in the second half, with adjusted operating profit increasing by 38% and fully offsetting inflationary pressures through commercial pricing, procurement productivity and disciplined operational efficiency measures.

2022 was an outstanding year for new business bookings. Lifetime revenue of programme wins were over £5 billion, of which over 40% related to pure electric vehicles or plug-in hybrid vehicles ("PHEV"). This makes total bookings approximately £20 billion over the last four years, at a book-to-bill ratio of over 100% each year, confirming that GKN Automotive is both securing future top-line growth and more than keeping pace with the accelerated market conversion to electric vehicles, as a result of its continuous portfolio development, product quality and production capabilities. Almost all business wins were achieved at terms consistent with GKN Automotive's margin target. The business is very well-positioned to deliver its stated margin expansion targets as the market continues its recovery to pre-pandemic production volume levels.

Divisional highlights

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 completed to achieve adjusted[2] operating margin target.
- Adjusted[2] operating margin:

2021:	4.6%
2022:	5.9%
Target	**10%+**

Sustainable technology
- Leading electric vehicle drive system technology.
- Significant investment into a range of eDrive capabilities.

In 2022, the business continued to expand its core sideshaft portfolio, with further innovations to match the changing demands of new EV platforms. The business completed 55 new programme launches and continued to secure a significant share of new business wins on electrified vehicle platforms, achieving the milestone of powering two million EVs with its eDrive technology. With over 100 joint types and sizes, 400 active patents, and a highly efficient global manufacturing footprint, the division is the clear industry leader in drive system technology for all propulsion systems.

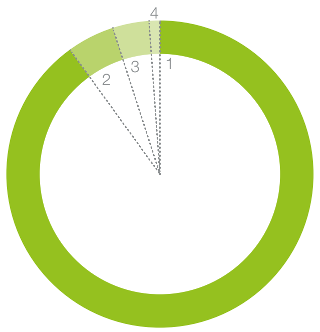
GKN Automotive also continued to deliver impressive cash returns, with further working capital improvements and strict cash management controls resulting in pre-capital expenditure cash generation of £336 million for the year (a conversion rate of 97%).

GKN Automotive's eDrive systems and components portfolio is also benefitting from light vehicle electrification and delivering consistent revenue growth. It is able to offer a full 3-in-1 system whilst maintaining the flexibility to deliver critical individual components building on its AWD expertise. In 2022, GKN Automotive continued to drive innovation of the portfolio, including through the design launch of its next-generation inverter.

Outlook

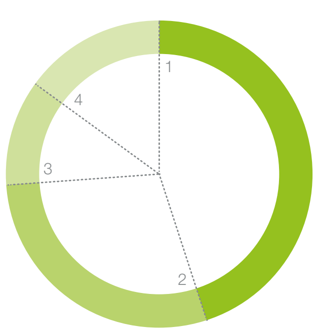
Supply chain headwinds are expected to continue to ease in 2023, with global light vehicle production forecast to increase by approximately 3%. The business will look to drive further margin expansion and will be focused on repeating its performance in fully offsetting inflationary pressure. The business enters the Demerger with significant momentum and is well-placed to benefit from both market recovery and transition to electric vehicles.

Propulsion mix 2019(6)



1	ICE	90%
2	Mild Hybrid	5%
3	Full Hybrid	4%
4	BEV	1%

Propulsion mix 2025(6)



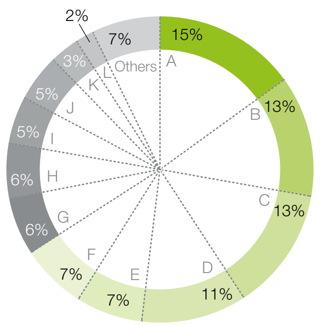
1	ICE	45%
2	Mild Hybrid	29%
3	Full Hybrid	11%
4	BEV	15%

+38%
Adjusted(7) operating margin increase in the year

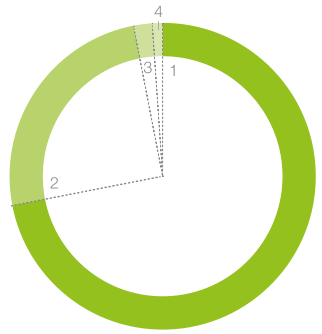
£5bn+
Lifetime revenue of programme wins in 2022

40%+
Of programme wins in 2022 related to pure EVs or PHEVs

Customer mix(2)(3)



Product mix(2)



1	Driveline(4)	72%
2	AWD(5)	25%
3	eDrive	2%
4	Other	1%

(1) All growth metrics are collated at a constant currency.
(2) Includes joint ventures at GKN share.
(3) Customers anonymised.
(4) Includes Niche, Motorsports, and Aftermarket.
(5) All-Wheel Drive.
(6) Internal combustion engine (ICE), battery electric vehicle (BEV).
(7) Described in the glossary of the financial statements on pages 227 to 234.
(8) S&P global light vehicle production forecast, February 2021 and December 2022.

Market trends

GKN Automotive

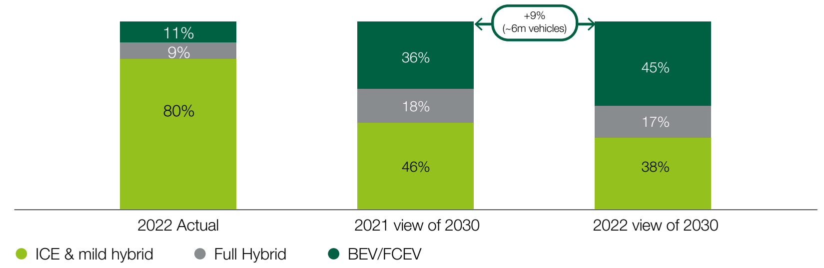
A combination of macroeconomic and technological factors has resulted in distinct shifts in the automotive industry over the course of 2022, impacting both OEMs and suppliers, which included:

- Unprecedented levels of production volatility resulting in the streamlining and regionalisation of supply chains by many OEMs.
- A combination of COVID-19 related industrial capacity reduction and ongoing supply chain disruption leading to a dramatic inflation of energy, labour, and raw material prices during the second half of 2021, that worsened throughout 2022 due to the geopolitical fallout from the conflict in Ukraine.
- Whilst the four "CASE" (connected, autonomous, shared mobility, electrification) trends remain the most relevant to the automotive industry, pressure on OEM profitability, especially related to the raw material costs of electric vehicles, contributed to a focus of resources towards the delivery and profitability of electrified platforms. Global electric vehicle penetration projections continued to accelerate during 2022, with BEV/PHEV share of production in 2030 now forecast to be 62% (versus a projection of 35% only two years prior)(8).

The business responded to these challenges in a number of ways, which included:

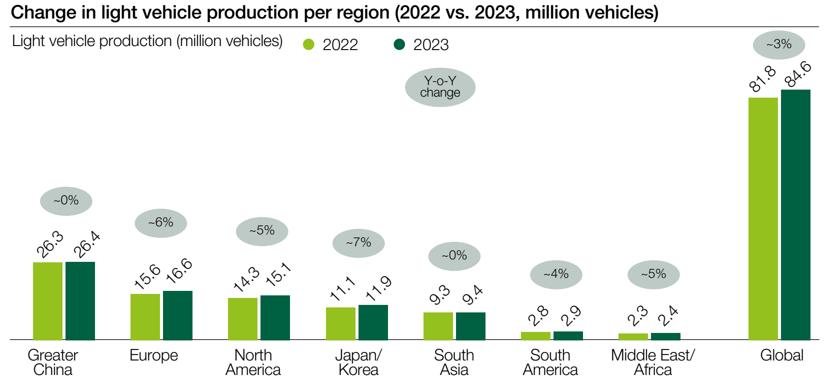
- Strengthening and regionalising its supply chain, maintaining close relationships with customers and suppliers, and its flexible global manufacturing footprint, making it well positioned to accommodate these shifts and minimise internal disruption.
- Through commercial negotiations, procurement productivity and strict operational efficiency measures, fully offsetting inflationary pressures and expanding operating profit margin by 1.3 percentage points compared to 2021.
- Further developing its portfolio towards products for electrified platforms. GKN Automotive has been supplying electric vehicle drive systems for over 20 years and continue to invest in both its core sideshaft portfolio and its innovative eDrive components and systems, enabling them to continue to support OEMs in progressing the industry's shift towards electrification.

Global share of 2030 light vehicle propulsion types (% share of total light vehicle production)



Source: S&P Global Mobility light vehicle production forecasts

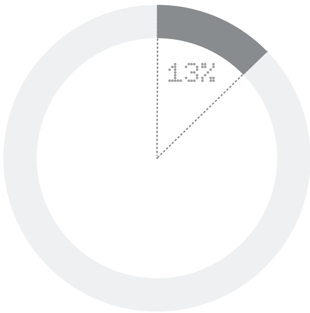
Change in light vehicle production per region (2022 vs. 2023, million vehicles)



Source: S&P Global Mobility 2022 light vehicle production forecast

Powder Metallurgy

Proportion of Melrose(3)



Operational geographies

2
Global technology centres

9
Countries – Global production footprint

(1) All growth metrics are collated at a constant currency.
(2) Described in the glossary to the financial statements on pages 227 to 234.
(3) Based on adjusted(2) 2022 revenue for continuing businesses.

GKN POWDER METALLURGY

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

Adjusted(2) revenue
£1.0bn

Statutory revenue
£1.0bn

Adjusted(2) operating profit
£96m

Statutory operating profit
£36m

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 started strongly for GKN Powder Metallurgy with high activity levels driven by global vehicle order books and backlogs. This was impacted by the war in Ukraine, ongoing supply chain disruptions and inflationary headwinds, which tempered results for the rest of the year. Trading in the second half was softer, mainly in the US and largely due to enforcing strict pricing discipline to offset inflationary pressures and underperformance at one site, which is being addressed. This led to a reduction in annual volumes, although sales were flat at constant currency, aided by inflation recovery and material surcharges.

Commodity prices for essential production materials such as scrap steel, copper, nickel and molybdenum increased significantly in the first half of the year before dropping back towards the end of the year, albeit remaining higher than pre-pandemic levels. These price variations were substantially recovered by GKN Powder Metallurgy through surcharge mechanisms with over 90% of its customers during the year. In addition, 2022 saw unprecedented increases in energy costs across Europe driven by the ongoing situation in Ukraine.

Despite these challenges, adjusted operating profits for GKN Powder Metallurgy increased by £5 million to £96 million, with adjusted operating margins up slightly year-on-year at 9.4% despite the reduction in volume, demonstrating the resilience of the business. During the period, we undertook the closure of facilities in Canada and Germany, with manufacturing transferred to alternative plants. The business continued to invest in operational efficiency projects to improve automation and productivity.

Divisional highlights

Strong market positions

- #1 in supply of precision powder metal parts.
- #2 in global powder metal production.
- Innovative leader in the supply of additive manufacturing parts.

Continued growth

- Conquest wins continue to deliver growth to offset the impact of electrification.
- Electric vehicle systems bring opportunities with some important business wins.

Margins expanding

- Restructuring largely complete and improving business mix.
- Adjusted(2) operating margin:

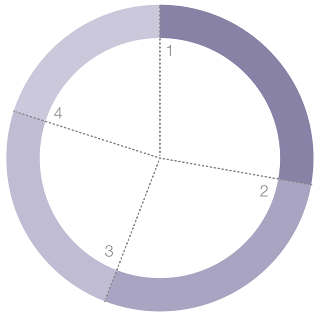
2021:	9.3%
2022:	9.4%
Target	**14%**

Sustainable technology

- Low waste manufacturing process using recycled materials.
- Supporting electric vehicle expansion with innovative new components.
- Commercialising additive manufacturing through use of new materials.

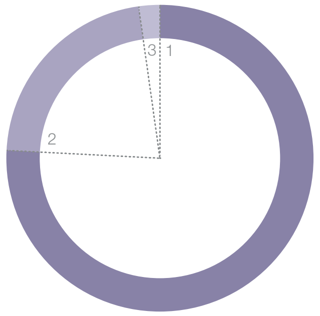
Divisional review[(1)]
Continued

Revenue by end market



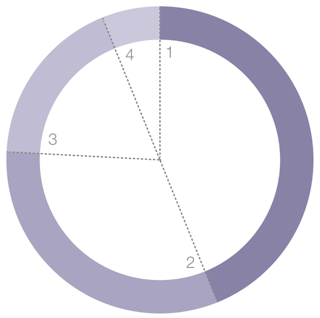
1 Automotive components	28%
2 Transmission	28%
3 Engine	24%
4 Industrial	20%

Revenue by segment



1 OneSinter	76%
2 Powder	22%
3 Additive	2%

Revenue by destination



1 North America	44%
2 Europe	32%
3 Asia	18%
4 RoW	6%

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

In parallel, as part of its ambitious strategy to be a global leader in the sector's transition to electric vehicles, the business announced that it would enter the market for permanent magnets. The process to manufacture these magnets from rare earth materials builds on what is already a core powder metallurgy process, and forms the established foundations on which GKN Powder Metallurgy intends to become a resilient and dependable supplier of permanent magnets for the European and North American markets, supported by establishing a pilot manufacturing plant, and the business is making good progress with customer trials.

Outlook

The automotive market is expected to grow moderately during 2023 with a significant proportion of the growth coming from electric vehicles. Growth is also expected in the industrial sector supporting new market and product development in the Additive Manufacturing segment. Inflationary pressures are expected to continue throughout 2023 and the business continues to take a proactive approach in recovering increased costs through a mixture of price increases, operational efficiencies and commodity or energy surcharges.

Market trends

GKN Powder Metallurgy

GKN Powder Metallurgy maintains its strong share in the automotive sector and grew its industrial market share primarily driven by additive manufacturing. 2022 saw the continued global industry shift into electric vehicles, particularly in the core European market, driven by legislation and consumer environmental concerns.

Key trends for GKN Powder Metallurgy are:

- Customers requiring increasing flexibility in terms of lead times and volumes.
- Commercial agility to offset volatile commodity prices achieved through surcharge mechanisms.
- European and North American volumes continuing to lag and not yet recovered back to pre-pandemic levels.

The electrification of the global automotive industry is driving requirements for new materials and products to support the transition. GKN Powder Metallurgy won a number of EV-related systems during the year in both the Sinter and Additive businesses.

GKN HYDROGEN

GKN Hydrogen is an early-stage growth business focused on commercialising proprietary metal hydride technology to store and secure hydrogen in a safe, compact and green manner.

gknhydrogen.com

Other Industrial

With the sale of Ergotron during the year, the Other Industrial division consists solely of the GKN Hydrogen business, which will transfer with Dowlais Group plc as part of the Demerger. 2022 was another important year in its development, with the performance of pilot programmes demonstrating the viability of its metal hydride technology.

The focus has been on commercialising the GKN Hydrogen storage solution, including refining the value proposition for target markets, such as standalone and backup power supply and energy rebalancing. The modular systems provide safe, green energy to these markets and a growing funnel of potential opportunities has been developed, particularly in North America. In parallel, key milestones have been achieved on the path to industrialisation, with full series production expected to occur in 2024.

Outlook

The business remains on track to deliver increased revenue in 2023 with an expanding pipeline of customers, and it provides an opportunity for Dowlais post-Demerger.

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
Adjusted[1] operating profit margin[2] 5.9% '22 5.9% '21 4.4% '20 1.2%	Adjusted[1] operating profit as a percentage of adjusted[1] revenue, for the continuing businesses in existence during the year ended 31 December 2022.	To improve profitability of Group operations.
Net debt to adjusted[1] EBITDA[3] 1.4x '22 1.4x '21 1.3x '20 4.1x	Net debt to adjusted[1] EBITDA[3] – net debt at average exchange rates divided by adjusted[1] EBITDA[3] 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.
Interest cover 11.6x '22 11.6x '21 5.9x '20 5.1x	Adjusted[1] EBITDA[3] 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.
Final dividend per share[4] 1.5p '22 1.5p '21 1.0p '20 0.75p	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 10 to 11.
Net debt[1] reduction / (increase) (20)% '22 (20)% '21 67% '20 13%	Reduction or increase 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.
Adjusted[1] diluted earnings per share[2] 7.0p '22 7.0p '21 3.1p '20 (1.4)p	Group adjusted[1] profit after tax of continuing businesses, attributable to owners of the parent, for the year ended 31 December 2022, divided by the weighted average number of diluted ordinary shares in issue.	To create consistent and long-term value for shareholders.
Adjusted[1] free cash generation £128m '22 £128m '21 £323m '20 £628m	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.
Adjusted[1] profit conversion (pre-capex) to cash percentage[2] 75% '22 75% '21 113% '20 204%	Percentage of adjusted[1] EBITDA[3] conversion to cash, as shown in the glossary to the financial statements, for continuing businesses in existence during the year ended 31 December 2022 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.
Adjusted[1] operating profit[2] £480m '22 £480m '21 £317m '20 £89m	Adjusted[1] operating profit for the continuing businesses in existence during the year ended 31 December 2022.	To improve profitability of Group operations.

(1) Described in the glossary to the financial statements on pages 227 to 234.
(2) Data has been restated for discontinued operations in 2020 and 2021.
(3) Operating profit before depreciation of property, plant and equipment and amortisation of computer software and development costs.
(4) A second interim dividend for 2022 of 1.5 pence per share will be paid on 18 April 2023 in place of the final dividend, which will not be made[5].
(5) After the date of approval of the Annual Report and financial statements, the second interim dividend payment date was changed to 11 April 2023 in order to effect the Dividend Reinvestment Plan prior to completion of the proposed Demerger.

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 and presented to the Board on a quarterly basis 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, and supplemented with qualitative analysis of any key incidents or drivers behind each business's performance, and any material improvement programmes that are taking place. 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 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

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

Major Accident Frequency Rate 0.06

'22	0.06
'21	0.04
'20	0.19

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 0.07

'22	0.07
'21	0.06
'20	0.30

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

Accident Severity Rate 16.04

'22	16.04
'21	30.17
'20	20.39

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

Since the tragic fatality that occurred in 2021, GKN Aerospace continued to receive particular focus from a health and safety perspective from the Melrose senior management team and the Board during 2022. A comprehensive Health and Safety programme has been rolled out across all GKN Aerospace sites, led by a refreshed multi-layered, business-wide awareness and training campaign around GKN Aerospace's Golden Safety Rules. The Golden Safety Rules cover the key red-line standards that all employees must be aware of and abide by, and are bolstered by appropriate disciplinary rules and consequences to ensure best practices are robustly implemented.

The GKN Aerospace health and safety function has been upskilled and reorganised along business lines, and continues to elevate health and safety awareness and accelerate improvement actions across the business. This is being approached both (a) from the top-down including via an active rolling programme of in-person executive-led site inspections and integration of health and safety in executive management discussions and enterprise projects, and (b) from the bottom-up with a focus on improving shop floor behaviours, standards, and local management awareness and accountability for health and safety risks.

The Group's Major Accident Frequency rate and Lost Time Accident Frequency rate has increased year-on-year for the GKN businesses. Specific lost time incidents at GKN Automotive and GKN Powder Metallurgy drove increases compared to 2021, which has led to significantly increased focus from each of the businesses in order to drive physical safety improvements on the shop floor and to redouble communications around safety measures and risk assessments. However, the Group's Accident Severity rate has decreased considerably compared to 2021.

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.

Environment and energy usage

Method of calculation

Due to the decentralised nature of the Group and differing operations of businesses which the Company may acquire, there are no standardised environmental KPIs used throughout the Group. Businesses provide data for relevant environmental indicators, including energy consumption, CO_2 emissions, water withdrawal, waste disposal, solid waste generation, and recycling. We have used the UK Government Environmental Reporting Guidelines including the UK's Streamlined Energy and Carbon Reporting requirements and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), and data has been gathered in accordance with our Greenhouse gas 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 Melrose businesses during 2022 can be found within the Sustainability review on pages 55 to 91. The Group is required to disclose its Greenhouse gas emissions and certain energy use data for the year ended 31 December 2022. Such data can be found within the Sustainability review on page 65.

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 review on pages 55 to 91.

Geoffrey Martin
Group Finance Director

The Melrose Group now consists of four continuing businesses, following the disposal of the Ergotron business on 6 July 2022. Ergotron has been classified as a discontinued operation in these Consolidated Financial Statements and the comparative results have been restated to reflect the disposal.

The intention is for three of the remaining businesses: GKN Automotive, GKN Powder Metallurgy and the early growth business GKN Hydrogen Technology, to be demerged in April 2023 and listed as a separate public company, Dowlais Group plc ("Dowlais"). Following the proposed demerger this will leave one operating business, Aerospace, remaining within the Melrose Group.

Melrose Group results – continuing operations

Statutory results:
The statutory IFRS results for continuing operations are shown on the face of the Income Statement and show revenue of £7,537 million (2021: £6,650 million), an operating loss of £236 million (2021: £493 million) and a loss before tax of £307 million (2021: £660 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the year of 4,218 million (2021: 4,695 million), were a loss of 5.4 pence (2021: loss of 10.3 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 control, namely equity accounted investments ("EAIs"), 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 2022 show revenue of £8,191 million (2021: £7,263 million), an operating profit of £480 million (2021: £317 million) and a profit before tax of £384 million (2021: £194 million). Adjusted diluted EPS, calculated using the weighted average number of shares in issue in the year of 4,218 million (2021: 4,695 million), were 7.0 pence (2021: 3.1 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:

Continuing operations:	2022 £m	2021 £m
Statutory revenue	**7,537**	**6,650**
Adjusting item:		
Revenue from equity accounted investments ("EAIs")	654	613
Adjusted revenue	**8,191**	**7,263**

Adjusting item:
Adjusted revenue includes the Group's share of revenue from EAIs, 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 2022, the Group generated £654 million of revenue from EAIs (2021: £613 million), which is not included in statutory revenue but is shown within adjusted revenue so as not to distort the adjusted operating margins reported in the businesses when the Group's share of adjusted operating profit from these EAIs is included.

Continuing operations:	2022 £m	2021 £m
Statutory operating loss	**(236)**	**(493)**
Adjusting items:		
Amortisation of intangible assets acquired in business combinations	458	436
Restructuring costs	144	269
Currency movements in derivatives and movements in associated financial assets and liabilities	87	114
Write down of assets	20	–
Net release of fair value items	(26)	(49)
Other	33	40
Adjustments to statutory operating loss	**716**	**810**
Adjusted operating profit	**480**	**317**

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 £458 million (2021: £436 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 £144 million (2021: £269 million). These are shown as adjusting items due to their size and non-trading nature and these included:
  – A charge of £90 million (2021: £104 million) within the Aerospace business and the central cost centre, both of which will remain within the Melrose Group following the proposed demerger. These costs primarily related to the continuation of significant restructuring projects, necessary for the Aerospace business to achieve its full potential target operating margins. These included further progress on European footprint consolidations in both the Civil and Engines businesses, which commenced in 2021 and are expected to materially conclude in 2023. In addition, further progress has been made in North America on multi-site restructuring programmes across all three Aerospace sub-segments.
  – A charge of £54 million (2021: £165 million) relating to Dowlais. These costs related to multiple restructuring projects which concluded during the year, including two significant Automotive footprint consolidation actions in Europe, which commenced in 2021. In addition, restructuring costs were incurred in Automotive in North America, continuing the movement of production from high to low cost countries, along with the costs associated with the closure of a factory in Canada in the Powder Metallurgy business.
- Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts), where hedge accounting is not applied, 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 £87 million (2021: £114 million) in the year and is shown as an adjusting item because of its volatility and size.
- A write down of assets of £20 million (2021: £nil), recognised in the first half, as a result of exiting any direct trading links with Russian operations as a consequence of the conflict in Ukraine. The asset write downs are predominantly within the Automotive division and are shown as an adjusting item because of their non-trading nature and size.
- The net release of fair value items in the year of £26 million (2021: £49 million) where items have been resolved for more favourable amounts than first anticipated at acquisition. During the year this included a release of £11 million (2021: £22 million) in respect of loss-making contract provisions, 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 from items booked on acquisition.
- Other adjusting items of £33 million (2021: £40 million), which included items consistent with prior years, the largest of which is an adjustment of £29 million (2021: £28 million) to gross up the Group's share of post-tax profits of EAIs to be consistent with the adjusted operating profits of subsidiaries within the Group.

Melrose Industries PLC Annual Report 2022

Finance Director's review

Continued

Statutory and adjusted results by reporting segment

The following tables show continuing revenue and 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	Total £m
Statutory revenue	**2,954**	**3,586**	**996**	**1**	**7,537**
Reconciling item: Revenue from EAIs	3	625	26	–	654
Adjusted revenue	**2,957**	**4,211**	**1,022**	**1**	**8,191**

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate £m	Total £m
Statutory operating (loss)/profit	**(134)**	**11**	**36**	**(14)**	**(135)**	**(236)**
Reconciling item: Adjusting items	320	239	60	–	97	716
Adjusted operating profit/(loss)	**186**	**250**	**96**	**(14)**	**(38)**	**480**

The adjusted operating loss in the central cost centre of £38 million (2021: £51 million) included £35 million (2021: £34 million) of operating costs and £3 million (2021: £17 million) of costs relating to divisional cash-based long-term incentive plans.

Had the Demerger already occurred, the adjusted results of the continuing businesses for the year ended 31 December 2022, shown above, would be split between the remaining Melrose Group and Dowlais as follows:

Adjusted results	Total Melrose/ Aerospace pre-central costs £m	Automotive £m	Powder Metallurgy £m	Hydrogen £m	Total Dowlais pre-central costs £m
Revenue	2,957	4,211	1,022	1	5,234
Operating profit/(loss)	186	250	96	(14)	332
Operating margin	6.3%	5.9%	9.4%	n/a	6.3%

The performances of each of the reporting segments are discussed in the Chief Executive's Review.

Finance costs and income – continuing operations

Statutory results:

Total net finance costs shown in the statutory IFRS results in the year ended 31 December 2022 were £71 million (2021: £167 million), of which £98 million (2021: £125 million) are shown within the adjusted results, with a credit of £27 million (2021: charge of £42 million) being treated as adjusting items.

Adjusted results:

Net interest on external bank loans, bonds, overdrafts and cash balances was £72 million (2021: £91 million).

Net finance costs in adjusted results also included: a £10 million (2021: £10 million) amortisation charge relating to the arrangement costs of raising the Group's current bank facility; an interest charge on net pension liabilities of £5 million (2021: £8 million); a charge on lease liabilities of £9 million (2021: £14 million); and a charge for the unwind of discounting on long-term provisions of £2 million (2021: £2 million).

In addition, a credit of £2 million (2021: £2 million), not included in the statutory net finance costs, is included in adjusted results, relating to the gross up of post-tax profits of EAIs to be consistent with the finance costs and income of other subsidiaries within the Group. This results in net adjusted finance costs for the year of £96 million (2021: £123 million).

Adjusting items:

Adjusting items, within finance costs and income, include a £24 million gain (2021: £nil) made on the settlement of a portion of the 2032 bond, acquired with GKN, and a credit of £3 million (2021: £3 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 £45 million, 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.

Discontinued operations

In the year ended 31 December 2022, discontinued operations include the result of the Ergotron business, previously shown within the Other Industrial division, up until 6 July 2022, when it was disposed to funds managed by The Sterling Group for total proceeds of £519 million. Discontinued operations in the prior year include the results of Ergotron, Nortek Air Management, Nortek Control and Brush for their period of Melrose ownership.

Discontinued businesses generated £132 million of revenue and incurred a statutory operating loss of £59 million for the period of the year under ownership (2021: revenue of £1,117 million and statutory operating profit of £47 million).

Share buyback and number of shares in issue

The Group commenced a share buyback programme on 9 June 2022, and made market purchases of existing ordinary shares in issue in the capital of the Company. In line with the Group's strategy, the purpose of the programme was to distribute £500 million of capital to shareholders in the most suitable way following the agreed disposal of Ergotron.

The buyback programme completed on 1 August 2022, with 318 million ordinary shares purchased at an average price per share of 157 pence. These ordinary shares were cancelled and the number of ordinary shares in issue reduced by 7.3%, from 4,372 million to 4,054 million. The weighted average number of shares used for earnings per share in calculations in the year ended 31 December 2022 was 4,218 million.

Tax – continuing operations

The statutory results show a tax credit of £84 million (2021: £180 million) which arises on a statutory loss before tax on continuing operations of £307 million (2021: £660 million), a statutory tax rate of 27% (2021: 27%).

The effective rate on the adjusted profit before tax for the year ended 31 December 2022 was 22% (2021: 22%).

The statutory tax rate is higher than the adjusted tax rate because the intangible asset amortisation and certain other adjusting items generate adjusting tax credits at rates higher than 22%.

The Group has £856 million (31 December 2021: £792 million) of deferred tax assets on tax losses, retirement benefit obligations and other temporary differences. These are offset by deferred tax liabilities on intangible assets of £923 million (31 December 2021: £993 million) and £179 million (31 December 2021: £163 million) of other deferred tax liabilities. Where they arise in the same territory, deferred tax assets and liabilities must be offset, resulting in deferred tax assets of £373 million (31 December 2021: £250 million) and deferred tax liabilities of £619 million (31 December 2021: £614 million) being shown on the Balance Sheet at 31 December 2022. 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 2022 was £80 million (2021: £57 million), 21% (2021: 29%) of adjusted profit before tax.

Cash generation and management

Robust cash management initiatives continue to be run in each of the businesses within the Group.

Adjusted free cash flow for the Group, in the year ended 31 December 2022, was an inflow of £128 million (2021: £323 million), before restructuring spend of £136 million (2021: £193 million in continuing operations and £5 million in discontinued operations), resulting in a free cash outflow of £8 million (2021: inflow of £125 million).

Both the remaining Melrose Group and Dowlais fully funded all operating costs in the year, including all capital expenditure and restructuring spend.

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

Continuing operations (unless stated otherwise)	Melrose[(1)] £m	Dowlais[(1)] £m	2022 £m	2021 £m
Adjusted operating profit	148	332	480	317
Adjusted operating profit from EAIs	–	(78)	(78)	(66)
Depreciation and amortisation	145	261	406	421
Lease obligation payments	(29)	(22)	(51)	(53)
Positive non-cash impact from loss-making contracts	(24)	(16)	(40)	(48)
Working capital movements	(147)	(31)	(178)	75
Adjusted operating cash flow (pre-capex)	**93**	**446**	**539**	**646**
Net capital expenditure	(72)	(222)	(294)	(223)
Defined benefit pension contributions ongoing	(23)	(36)	(59)	(54)
Restructuring	(53)	(83)	(136)	(193)
Dividend income from equity accounted investments	–	59	59	52
Net other	58	(15)	43	3
Cash generated before interest and tax	**3**	**149**	**152**	**231**
Net interest and net tax paid			(175)	(197)
Cash flows from operations discontinued in the year[(2)]			15	91
Free cash flow			**(8)**	**125**
Adjusted free cash flow			**128**	**323**

(1) Melrose includes Aerospace and the continuing central cost centre; Dowlais includes the Automotive, Powder Metallurgy and Hydrogen Technology businesses.
(2) Includes £nil (2021: £5 million) of restructuring spend.

The working capital performance of the Group was, as expected, stronger in the second half of the year as supply constraints partially unwound, resulting in a £17 million inflow in the second half despite stronger revenue growth seen in the businesses, compared to an outflow of £195 million in the first half.

Working capital movements in Aerospace of £147 million included a £106 million increase in the unbilled work done contract asset debtor, as a result of the continued growth of certain engine programmes. In addition, £41 million was invested in working capital in the year in the remaining Melrose Group, and £31 million in Dowlais, to fund the year-on-year revenue growth in the businesses.

Net capital expenditure in the Melrose Group in the year ended 31 December 2022 was £294 million (2021: £223 million), split £72 million in Aerospace and £222 million in Dowlais. This capital expenditure represented 0.6x depreciation of owned assets in remaining Melrose and 0.9x in Dowlais. These amounts exclude proceeds on disposal of three disused properties of £62 million, which are shown in the net other category in the table above.

Restructuring spend within the businesses was £136 million (2021: £193 million), split £53 million in Aerospace and £83 million in Dowlais.

In the continuing Group, net interest paid in the year was £95 million (2021: £140 million), net tax payments were £80 million (2021: £57 million) and ongoing contributions to defined benefit pension schemes were £59 million (2021: £54 million). These included £30 million (2021: £30 million) paid into the GKN UK pension plans.

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

	£m
Opening net debt	**(950)**
Adverse foreign exchange movement	(76)
Opening net debt at 31 December 2022 closing exchange rates	**(1,026)**
Free cash flow	(8)
Net cash flow from acquisition and disposal related activities	461
Buy back of own shares	(504)
Dividends paid to shareholders	(77)
Other non-cash movements	15
Net debt at 31 December 2022 at closing exchange rates	**(1,139)**
Net debt at 31 December 2022 at twelve month average exchange rates	**(1,112)**

Group net debt at 31 December 2022, translated at closing exchange rates (being US$1.21 and €1.13), was £1,139 million (31 December 2021: £950 million, translated at closing exchange rates at 31 December 2021).

The movement in net debt during the year included a free cash outflow of £8 million, dividends paid to shareholders of £77 million, £504 million spent buying back shares in the market, a net cash inflow on acquisition and disposal related activities, predominantly being the disposal of Ergotron, of £461 million and other non-cash movements mostly relating to a gain on the part settlement of the £300 million capital market bond acquired with GKN, discussed later in this review.

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 £1,112 million.

The Group net debt leverage on this basis at 31 December 2022 was 1.4x EBITDA (31 December 2021: 1.3x EBITDA).

Finance Director's review

Continued

Assets and liabilities and impairment review

The summarised Melrose Group assets and liabilities are shown below:

	2022 £m	2021 £m
Goodwill and intangible assets acquired with business combinations	6,508	7,043
Tangible fixed assets, computer software and development costs	2,937	2,875
Equity accounted investments	435	429
Net working capital	343	159
Net retirement benefit obligations	(488)	(461)
Provisions	(611)	(701)
Deferred tax and current tax	(358)	(495)
Lease obligations	(366)	(376)
Net other	(93)	17
Total	**8,307**	**8,490**

The net assets and liabilities shown in the table above will be split £4,247 million in respect of the remaining Melrose Group business and £4,060 million held within the businesses intended to be demerged into Dowlais. The recoverable amounts of these net assets have been tested in the Group's goodwill impairment review.

The Group's goodwill has 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.

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 groups 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 in its businesses as at 31 December 2022.

The assets and liabilities shown above are funded by:

	2022 £m	2021 £m
Net debt	(1,139)	(950)
Equity	(7,168)	(7,540)
Total	**(8,307)**	**(8,490)**

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.

Provisions

Total provisions at 31 December 2022 were £611 million (31 December 2021: £701 million), which included: £200 million for warranty (31 December 2021: £222 million); £108 million for loss-making contracts (31 December 2021: £167 million); £119 million for environmental and litigation issues (31 December 2021: £135 million); £83 million for restructuring (31 December 2021: £81 million); and other provisions of £101 million (31 December 2021: £96 million).

The following table details the movement in provisions in the year:

	Total £m
At 1 January 2022	**701**
Spend against provisions	(168)
Charge to operating profit[1]	206
Release to operating profit[2]	(99)
Utilisation of loss-making contract provision	(40)
Disposal of businesses	(18)
Other (including foreign exchange)	29
At 31 December 2022	**611**

(1) Includes £130 million of adjusting items and £76 million recognised in adjusted operating profit.
(2) Includes £30 million of adjusting items and £69 million recognised in adjusted operating profit.

Spend against provisions in the year, of £168 million, included £121 million of cash spent on restructuring activities.

The net charge to operating profit in the Income Statement of £107 million primarily includes net costs associated with restructuring actions of £119 million, discussed within the adjusting items section of this review, net of releases, mainly relating to fair value items settled for an amount more favourable than first anticipated.

The utilisation of the loss-making contract provision was £40 million in the year (31 December 2021: £48 million). Furthermore, £11 million, approximately 9%, 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 2022 the loss-making contract provision was £108 million, approximately 80% lower than when GKN was acquired in 2018.

Movement in provisions in the year also included foreign exchange movements of £36 million, £5 million relating to the Ergotron business transferred to held for sale at 30 June 2022 and discounting on certain provisions of £2 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 2022 by independent actuaries to reflect the latest key assumptions and are summarised as follows:

	Assets £m	Liabilities £m	Accounting surplus/ (deficit) £m
Melrose[1]			
GKN UK Group pension schemes (Numbers 1 & 4)	1,113	(1,100)	**13**
Other Group pension schemes	49	(89)	**(40)**
Total Melrose[1] pension schemes	1,162	(1,189)	**(27)**
Dowlais[1]			
GKN UK Group pension schemes (Numbers 2 & 3)	666	(649)	**17**
Other Group pension schemes	113	(591)	**(478)**
Total Dowlais[1] pension schemes	779	(1,240)	**(461)**
Total Group pension schemes	1,941	(2,429)	**(488)**

(1) Melrose includes Aerospace and the continuing central cost centre; Dowlais includes the Automotive, Powder Metallurgy and Hydrogen Technology businesses.

At 31 December 2022, the two Aerospace UK pension plans had aggregate gross assets of £1,113 million (31 December 2021: £1,734 million), gross liabilities of £1,100 million (31 December 2021: £1,627 million) and an aggregate net surplus of £13 million (31 December 2021: £107 million).

At 31 December 2022, the two Automotive UK pension plans had aggregate gross assets of £666 million (31 December 2021: £1,020 million), gross liabilities of £649 million (31 December 2021: £948 million) and an aggregate net surplus of £17 million (31 December 2021: £72 million).

These UK pension plans are closed to new members and to accrual of future benefits for current members.

The largest deficits within the other pension schemes in the Group are held within the Automotive business and 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 2022, these plans had a net deficit of £414 million (31 December 2021: £530 million).

The Group's funding commitment to the GKN UK Group Pension Schemes, made when GKN was acquired in 2018, was delivered ahead of schedule. The ongoing contributions to these defined benefit pension schemes is £30 million per annum, split equally between the Aerospace and Automotive businesses, 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 2022 were £59 million and are expected to be £51 million in 2023, split £33 million in Dowlais and £18 million in the Aerospace business.

Subsequent to the year end, on 9 February 2023, the Trustees of one of the two UK pension plans in the Aerospace division, GKN Group Pension Scheme Number 4, signed a contract with a pension annuity provider to fully secure benefits for all members of the pension plan for a cash settlement by the Company of £45 million. This will result in a full buy-out of the plan. At 31 December 2022, this plan had total liabilities of £433 million (31 December 2021: £628 million) and an accounting surplus of £52 million (31 December 2021: £87 million).

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 2022 was £1,139 million (31 December 2021: £950 million).

The Group's committed bank facilities include a multi-currency denominated term loan and a multi-currency denominated revolving credit facility that mature in June 2024:

	Local currency			£m
Facility:	Size	Drawn	Headroom	Headroom
Term loan:				
USD	788	788	–	–
GBP	30	30	–	–
Revolving credit facility:				
USD	2,000	130	1,870	1,546
GBP	1,100	152	948	948
Euro	500	410	90	80
Bank facility headroom				**2,574**
Net cash in hand				292
Total headroom				**2,866**

At 31 December 2022, the term loan was fully drawn and there were drawings of US$130 million, £152 million and €410 million on the multi-currency revolving credit facility. Applying the exchange rates at 31 December 2022, the headroom on the bank facilities equated to £2.6 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 £292 million at 31 December 2022 (31 December 2021: £468 million).

The Group also holds capital market borrowings. In September 2022, a £450 million bond was repaid and associated cross-currency swaps with aggregate notional values of US$373 million and €284 million were settled. Subsequent to this, in November 2022 a tender offer was launched on the remaining £300 million bond, due to mature in May 2032, that resulted in £170 million of the outstanding value being bought back and cancelled for a total cash cost of £148 million (excluding accrued interest). This represented a gain of £22 million and, together with a £2 million release of the fair value adjustment on the bond recognised on the acquisition of GKN in April 2018, resulted in a total gain of £24 million. This has been reported as an adjusting item within finance income in the Income Statement, discussed earlier in this review.

As at 31 December 2022 the capital market borrowings held by the Group consisted of £130 million outstanding of the original £300 million bond due to mature in May 2032, with a current coupon rate of 4.625%.

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 3.75x at 31 December 2022, reducing to 3.5x at 30 June 2023 and onwards. At 31 December 2022, the Group net debt leverage was 1.4x, affording comfortable headroom.

The interest cover test is set at 4.0x for the remaining term of the bank facility. At 31 December 2022, the Group interest cover was 11.6x, 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 2022, these amounted to £325 million (31 December 2021: £310 million) and as a result there was a net cash increase in the year of £15 million (2021: net cash reduction of £4 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 2022, suppliers had drawn £200 million (31 December 2021: £102 million) on these facilities. 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 £94 million (31 December 2021: approximately £60 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 long-term policy of the Board is to fix up to 70% of the interest rate exposure of the Group to align with the maturity of its debt facilities. Following the announcement of the intended demerger, negotiations with lender banks commenced for the two new facilities that would be required post demerger: one for the remaining Melrose Group and one for Dowlais.

The bank margin on the current bank facility depends on the Group leverage. Following the extension of the bank facility in December 2021, the bank margins were set as follows:

	31 Dec 2022		31 Dec 2021	
Facility:	Margin	Range	Margin	Range
Term Loan	1.20%	0.75% – 2.0%	0.75%	0.75% – 2.0%
Revolving Credit Facility	1.20%	0.75% – 2.0%	0.75%	0.75% – 2.0%

All cross-currency interest rate swaps held by the Group matured during the year ended 31 December 2022.

The Group's cost of drawn debt for the next 12 months is currently expected to be approximately 5.5%.

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. 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. For GKN Aerospace, the Group hedges beyond 24 months due to the longer-term nature of some of its contracts, with the percentage of the expected exposure hedged reducing for each subsequent year. This policy does not eliminate the cash risk but does bring some certainty to it.

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

Lastly, exchange rate risk arises when a business that is predominantly based in a foreign currency is sold. The 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		
2022	1.24	1.21
2021	1.38	1.35
Euro		
2022	1.17	1.13
2021	1.16	1.19

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:

	USD	EUR	CNY	Other
Melrose(1)				
Increase in adjusted operating profit (£m)	29	7	–	–
% impact on adjusted operating profit	10%	3%	–	–
Dowlais(1)				
Increase in adjusted operating profit (£m)	18	3	8	12
% impact on adjusted operating profit	5%	1%	2%	3%
Group				
Increase in adjusted operating profit (£m)	47	10	8	12
% impact on adjusted operating profit	7%	1%	1%	2%

(1) Melrose includes Aerospace and the continuing central cost centre; Dowlais includes the Automotive, Powder Metallurgy and Hydrogen Technology businesses.

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 2022:

	USD	EUR
Increase in debt – £ million	77	36
Increase in debt	5%	2%

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 projections, which are based on both market and internal data and recent past experience.

The Directors recognise the challenges in the current economic environment, including escalating inflation, energy costs and challenges in supply chains and the Group is actively managing the associated impacts on trading through a sharp focus on pricing, productivity and costs. In addition, the Group's cash flow forecasts consider any impacts from further economic factors such as rising interest rates.

In making the going concern assessment, the Directors have considered the current compilation of the Group, and the circumstance that the proposed demerger occurs in April 2023. A base case model and a reasonably possible downside scenario against future cash flows has been considered for both circumstances.

In all scenarios, when considering a reasonably possible downside scenario for the businesses, there remains sufficient headroom to avoid breaching any of the Group's financial covenants and the Group would not require any additional sources of financing throughout the financial period tested.

The macroeconomic environment remains uncertain and volatile and the impacts of the economic factors discussed above could be more prolonged or severe than that which the Directors have considered in the Group's reasonably possible downside scenario.

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

Geoffrey Martin

Geoffrey Martin
Group Finance Director
2 March 2023

Longer-term viability statement

In accordance with provision 30 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the "Going Concern" provision. A period of three years is believed to be appropriate for this assessment since this is consistent with the Group's financing cycle, whereby on average the Group has refinanced debt in line with this timescale, usually as a result of acquisition or disposal activity. The Group uses a period of five years for impairment testing of certain groups of cash generating units due to the long-term nature of cash flows within certain industries, but this is not 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 2025.

The Directors' assessment has been made by reference to the Group's financial position as at 31 December 2022, 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 continued implications on supply chains resulting from the COVID-19 pandemic and ongoing inflationary pressures on input costs.

As a result of the Group's announced intention to demerger its GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (the "Demerger") the Directors have also considered the circumstance that the Demerger occurs in April 2023. Modelling of both a base case and a reasonably possible sensitised case have also been prepared for the remaining Group, acknowledging the potential that shareholders approve the Demerger. The Directors' assessment of the remaining Group's viability, should the Demerger occur in April 2023, is also underpinned by modelling and a paper prepared by management which focuses on the growing GKN Aerospace business.

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 statement, 2 March 2023, with no consideration of any further acquisitions or future disposals of continuing businesses, other than the Demerger as described above. 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 2021, and bank covenant testing, are committed for much of the period under review and have sufficient headroom for liquidity and covenant compliance to continue in operation.

Risk management

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

Risk management responsibilities

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

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

Top-down
At the Group level, risk oversight and assessment

Bottom-up
Risk exposure identification and assessment at the business unit level

The Board's view of the Group's principal risks and uncertainties is detailed in the table on page 40.

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 111.

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

Risk management framework

Identification	Evaluation	Mitigation	Analysis	Review and monitoring
Financial and non-financial risks recorded in controlled risk registers	Risk exposure reviewed and risks prioritised	Risk owners identified and action plans implemented	Risks analysed for impact and probability to determine gross exposure	Robust mitigation strategy subject to regular and rigorous review

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.

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. The dashboard's reporting output was also 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. This exercise was enhanced during the year, with the Board assessing their current and optimal level of risk appetite for each of the Group's principal risks. 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 results of the risk appetite review demonstrated that the Board has a higher risk appetite towards its strategic risks, with a balanced appetite towards operational and commercial risk, and macroeconomic, climate change and political risk. The Board seeks to minimise all health and safety risks and has a low risk appetite in relation to information security and cyber threats risk and legal, compliance and regulatory risk. Similarly, a conservative appetite is indicated by the Board with respect to pensions and finance-related risks.

The results of the risk appetite review will support the Board's decision-making processes during 2023. The Board undertakes a review of its risk appetite at least annually.

Risk management actions
During 2022, the Board continued to deliver on the key management priorities identified in the 2021 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:

- enhancing the Board's risk appetite review process to consider both the optimal and current risk appetite of the Board for each principal Group risk, and reviewing and reaffirming the Board's risk appetite;
- 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 the 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
- preparing the Group's second Task Force on Climate-related Financial Disclosures ("TCFD") report, which involved developing linkages between the identified climate-related transition risks and their potential impact (including operational and financial), to drive appropriate mitigation and remedial actions. This was supported by the development of the Group's first Net Zero Transition Plan which is available at www.melroseplc.net. The TCFD disclosure is contained on pages 66 to 77.

Assessment of principal risks
During the year, the Board undertook a 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 concluded that the Group's risk categories would remain unchanged in 2022 following on from the categories having been realigned in 2021. The Board also enhanced its risk appetite review process and undertook a robust and in-depth review into their optimal and current risk appetite for each principal risk.

A summary of the principal risks and uncertainties that could impact on the Group's performance is shown on pages 40 to 48. Further information detailing the internal control and risk management policies and procedures operated within the Group is shown on pages 104 to 109 of the Corporate Governance report.

Risk management priorities for 2023

Continual improvements were made during 2022 in respect of the Group's risk management processes. However, the Board recognises that Melrose cannot be complacent. In 2023, 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

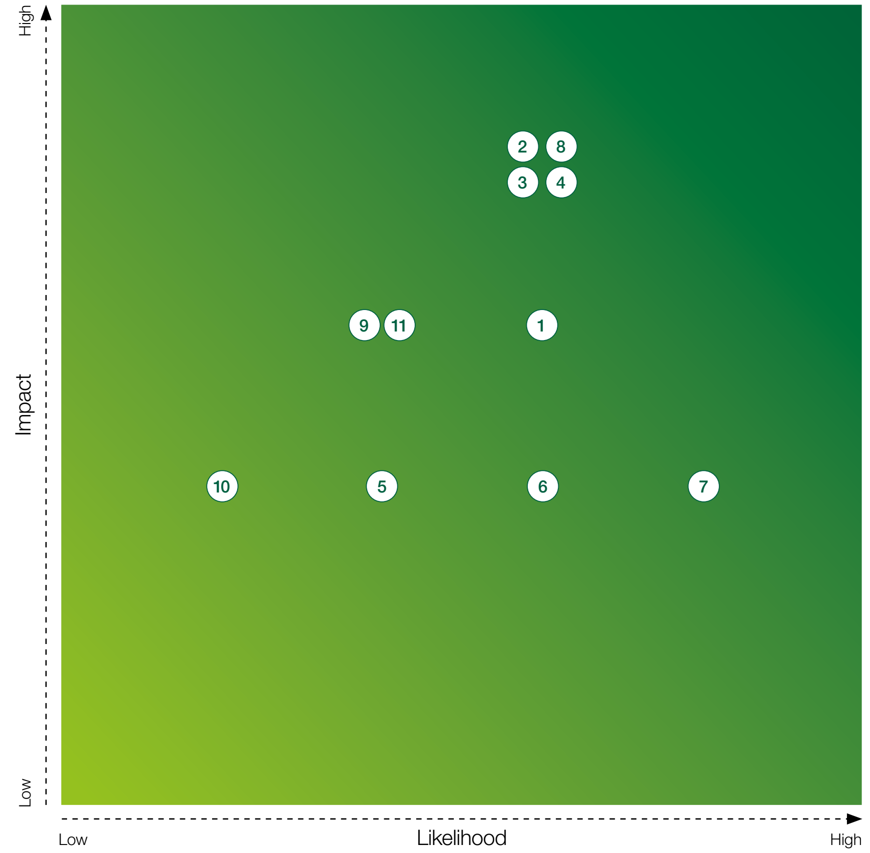
A risk management and internal controls framework is in place within the Group, which is continually reviewed and adapted where necessary to reflect the risk profile of the Group and to continue to ensure that such risks and uncertainties can be identified and, where possible, managed suitably.

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 trend

- Increasing
- No change
- Decreasing
- Realigned risk

No.	Risk title	Risk trend since last Annual Report		2018	2019	2020	2021	2022
1	Mergers and acquisitions	Increase	Increasing	n/a	n/a	n/a	Realigned risk	Increasing
2	Operations	Increase	Increasing	n/a	n/a	n/a	Realigned risk	Increasing
3	Commercial	Increase	Increasing	Realigned risk	No change	Increasing	Increasing	Increasing
4	Economic and political	Increase	Increasing	Increasing	Increasing	Increasing	Increasing	Increasing
5	Loss of key management and capabilities	No change	No change	No change	No change	No change	Decreasing	No change
6	Legal and regulatory	Increase	Increasing	Increasing	No change	No change	No change	Increasing
7	Climate change	No change	No change	n/a	n/a	n/a	Realigned risk	No change
8	Information security and cyber threats	Increase	Increasing	Increasing	Increasing	Increasing	No change	Increasing
9	Foreign exchange	No change	No change	Increasing	No change	No change	No change	No change
10	Pensions	No change	No change	Increasing	Decreasing	Decreasing	Decreasing	No change
11	Liquidity	No change	No change	Increasing	No change	No change	Decreasing	No change

Strategic risks

Risk 1
Mergers and acquisitions

Responsibility
Executive management[1]

Risk trend

Strategic priorities
Buy Improve Sell

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 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 macroeconomic 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 or other exit opportunities to realise maximum value for shareholders.
- Each disposal/exit is assessed on its merits, with a key focus on a clean disposal/exit.
- Flexibility with timing of disposals and exits to match market sectors and business maturity.

Trend commentary

Global M&A markets continued to experience increased uncertainty due to the knock-on effects of fluctuations in commodity pricing as well as rising levels of inflation that, for example, impacted the ability to obtain external financing for transactions. Further, the growing trend by national governments to implement and strengthen foreign direct investment regimes has increased uncertainty in respect of transaction timetables and mandatory conditions which may be applied by national governments to such transactions.

Whilst there was an increase in M&A risk during the year, Melrose achieved strong value realisation with the sale of Ergotron, the last of the businesses remaining from the Nortek acquisition in 2016, as demonstrated on page 9 of this report. During the year, Melrose also announced its proposed demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger"), which, subject to shareholder approval, is due to complete in April 2023. Whilst no large acquisitions were made in 2022, the Group remains open to potential new opportunities.

Operational risks

Risk 2
Operations

Responsibility
Executive management[1]

Risk trend

Strategic priorities
Buy Improve Sell

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, continued supply constraints as a result of geopolitical events, together with the rising challenge of inflationary pressures on costs of materials and 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.

(1) Comprises executive Directors and Melrose senior management.

Risks and uncertainties
Continued

Operational risks continued

Risk 2
Operations (cont.)

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.
- The business unit executive teams have developed contingency plans with respect to gas shortages and other key materials or production input shortages which may arise as a result of geopolitical events.
- Health and safety awareness initiatives and performance enhancements continued to be implemented in alignment with regulations, market practice and site-based risk assessments and requirements.
- 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 that they have identified.
- Proper incentivisation of operational management teams to align with Melrose strategy.

Trend commentary
During the year, particular focus had 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. Geopolitical events naturally had an impact on the businesses as well as the wider markets in which they operate, which in turn increased operational risks. Specifically, the conflict in Ukraine disrupted the global supply of neon gas and other components necessary to the production of semiconductor chips, whilst tensions between the US and China over the status of Taiwan (a dominant producer of semiconductors) led to uncertainty as to future supply chain disruption.

Furthermore, the various sanctions imposed on Russia halted the supply of Russian natural gas to Europe and also threatened the global supply of certain precious metals widely used in the automotive and aerospace industry, notably titanium and palladium, which are produced in significant proportion in Russia.

Geopolitical events have shone a light on the risks associated with lengthy global supply chains and there has been an increasing trend towards regionalisation. The business unit executive teams have developed contingency plans to prepare for, and mitigate against, the operational risks which have arisen from such geopolitical events, and these operational risks are expected to continue in 2023.

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.

Risk 3
Commercial

Responsibility
Executive management(1)

Risk trend
↑

Strategic priorities
Buy ● Improve Sell

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 the geopolitical events noted under operations risk 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 as well as the shift to new technologies, such as shifts towards electric vehicle technologies, which changes the customer demand profile. 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, 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 direct and indirect 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").

(1) Comprises executive Directors and Melrose senior management.

Operational risks continued

Risk 3
Commercial (cont.)

Mitigation
- The Group continued to actively invest in research and development activities 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 14 to 27 and in the Sustainability review on pages 55 to 91.
- The Melrose senior management team keeps track of the Group's Common Commercial Risks through a number of mediums including by conducting reviews of the Group's reporting dashboard, which is an externally hosted dashboard that all divisions report into. The dashboard aggregates and highlights the Common Commercial Risks and relevant trends across each of the Group's divisions.
- To combat against the fluctuations in commodity pricing experienced during the year as well as the rapid rise in inflation, the divisional executive management teams reviewed and, where relevant, renegotiated the terms of, customer and supplier contracts.
- The Group maintains a diversified customer base and geographical spread, thereby allowing Melrose and its businesses to remain nimble in order to react quickly to external pressures.

Trend commentary
During the year, macro events such as continued fluctuations in commodity pricing as well as rapidly rising levels of inflation resulted in heightened commercial risk for the Group. Further, the fast-paced technological evolution in the markets within which the Group operates, coupled with the impact of geopolitical events, has also heightened commercial risk for the Group. The Melrose senior management team actively engaged 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 was 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 reported material updates directly to members of the Melrose senior management team, and they maintain a number of contact points throughout the Group to increase awareness.

Risk 4
Economic and political

Responsibility
Executive management(1)

Risk trend
↑

Strategic priorities
● Buy ● Improve ● Sell

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. As noted under operations risk, 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 which in particular have been caused by the conflict in Ukraine and China's 'zero-COVID' policy.

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.

Whilst the conflict in Ukraine, increasing tensions between the US and China, and rising inflation, 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 and commodity prices, 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.
- Strong customer relationships built on long-term partnerships often with plants in close proximity, technical excellence and quality.
- The Group remains agile and well positioned to deal with any short-term uncertainties.

Risks and uncertainties
Continued

Operational risks continued

Risk 4
Economic and political (cont.)

Trend commentary
Significant geopolitical and economic uncertainty continued during the year. The conflict in Ukraine, coupled with the resulting sanctions imposed upon Russia, were a key factor in such uncertainty. Melrose promptly assessed the risks associated with these geopolitical events by conducting an analysis into any direct or indirect trade occurring between Russia and the Group. Such trade was found to be very limited and Melrose in any case prohibited each of the businesses from conducting trade with Russia. Further, the Group's diversified business model has meant that, whilst GKN Automotive has felt the pressure resulting from the conflict in Ukraine through certain customer relationships, other parts of the Group have been relatively unaffected.

The Melrose senior management team actively engaged with those who work on the relevant impact assessments and mitigation actions, and they reported the material findings to the Board. The Melrose senior management team monitored 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 that the Group and each of its businesses could respond appropriately to adverse trading conditions. Tactics for mitigating the potential impact of geopolitical uncertainty included 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.

Risk 5
Loss of key management and capabilities

Responsibility
Executive management[1]

Risk trend

Strategic priorities
Buy Improve Sell

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.

Trend commentary
Succession planning remained a core focus for the Nomination Committee and the Board. Reviewing the succession planning arrangements of the Board will remain an area of particular focus in 2023, as will maintaining awareness of succession planning for Melrose senior management and key individuals within the business units.

Compliance and ethical risks

Risk 6
Legal and regulatory

Responsibility
Executive management[1]

Risk trend

Strategic priorities
Buy Improve Sell

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.

(1) Comprises executive Directors and Melrose senior management.

Compliance and ethical risks continued

Risk 6
Legal and regulatory (cont.)

The Group operates in highly regulated sectors, having been accentuated by the acquisition of GKN in 2018. 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 2022, 76%[2] 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.
- 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 policies and procedures at both a Group and business unit level, including utilisation of third-party verification providers, training of applicable employees on policies and procedures, 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.

Trend commentary
During the year, each business continued to have a fully developed legal function, headed by their respective General Counsel reporting to their executive management team. The legal function was properly staffed and supported by external advisors where necessary or helpful to ensure ongoing compliance in the jurisdictions in which the businesses operate across the globe. This was augmented by central oversight from the Melrose legal team and robust annual reviews. As noted under M&A risk, the growing trend by national governments to implement and strengthen foreign direct investment regimes has led to increased legislation in this area. The Group's internal and external legal support meant that Melrose was able to keep track of, and pre-empt issues which may have arisen from, such legislative changes.

Risk 7
Climate change

Responsibility
Executive management[1]

Risk trend

Strategic priorities
Buy Improve Sell

Description and impact
Increased frequency in 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 in their management of climate-related risks and their pursuit of 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. In addition, obtaining insurance for natural disasters is more difficult, with higher premiums and excesses going forward.

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

Compliance and ethical risks continued

Risk 7
Climate change
(cont.)

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 progress.
- The Melrose senior management team, through the Group sustainability function, is responsible for overseeing the aggregation of environmental data by the businesses, and for 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.
- As part of the Group's assessment of its overall climate change risk, during the year, the Melrose senior management team has been working on the Group's second Task Force on Climate-related Financial Disclosures ("TCFD") report, building on the largely qualitative assessment of climate-related transition risks towards developing operational and financial impact linkages and analysis. This ongoing analysis helps to drive the Group and its businesses to explore appropriate mitigation and remedial actions towards achieving the Group sustainability targets including in respect of reducing Scope 1 and 2 emissions. Further details can be found in the Sustainability review on pages 55 to 91.
- During the year, the Group also developed and published its first Net Zero Transition Plan, with the aim of providing stakeholders with clarity around the actions we intend to take in the transition to a net zero economy, and how we plan to execute on our interim and long-term emissions reduction targets and achieve Net Zero across the Group by 2050. The Group Net Zero Transition Plan was prepared in line with the TCFD recommendations and the UK Transition Plan Taskforce's guidance and is available on our website at www.melroseplc.net/sustainability.
- The Group also bolstered its engagement with the businesses' key suppliers to drive more sustainable practices within their supply chains through participating in the Carbon Disclosure Project ("CDP") Supply Chain engagement initiative. The long-term aim is to build a more comprehensive understanding of Scope 3 indirect emissions, to improve performance towards achieving our Group sustainability goals, and informing our businesses' risk mitigation efforts.
- 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 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 management 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.
- 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. The Melrose senior management team has been reviewing climate-related risks associated with water usage as part of the Group's inaugural CDP Water Security submission. This deeper analysis of water management practices across the businesses, coupled with external stakeholder expectations, has led to the development of a Group water target, a Group Water policy and the roll-out of a Group Water Stewardship Programme to guide engagement with the divisions and thus seek to improve their water management practices across operations and with their suppliers going forward.

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 continued to be an area of significant focus for the Group in 2022. 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 2023, the Group will continue to look to balance where possible the risks associated with climate change against potential opportunities for the Group and its businesses.

Compliance and ethical risks continued

Risk 8
Information security and cyber threats

Responsibility
Executive management[1]

Risk trend
↑

Strategic priorities
Buy ● Improve Sell

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 which 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 the year, 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 on a quarterly basis by Ernst & Young, our security partner. Ernst & Young continued to conduct cyber assurance site reviews covering key locations across the Group.

Trend commentary

Information security and cyber threats are an increasing priority across all industries, particularly given rising geopolitical tensions as a result of the conflict in Ukraine and deteriorating relations between the US and China. The lasting impact of the COVID-19 pandemic continued to drive increased online traffic, reduced physical contact, and has created additional new threats across the Group, which in turn has required 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.

Financial risks

Risk 9
Foreign exchange

Responsibility
Executive management[1]

Risk trend
—

Strategic priorities
● Buy ● Improve ● Sell

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 rates change.

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.
- Melrose utilises a multi-currency banking facility to maintain an appropriate mix of debt in US dollars, Euros and Sterling.
- Protection against specific transaction risks is taken by the Board on a case-by-case basis.

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 mitigation methods utilised by the Group helped to combat against foreign exchange risk during the year. This has been particularly important due to the increased volatility in the foreign exchange market, including the surge in the value of the US dollar against most major currencies, and the falling value of Sterling during the year. Sensitivity to the key currency pairs is shown in the Finance Director's review on pages 30 to 37.

(1) Comprises executive Directors and Melrose senior management.

Financial risks continued

Risk 10
Pensions

Responsibility
Executive management[1]

Risk trend

Strategic priorities
● Buy ● Improve ● Sell

Description and impact
Any shortfall in the Group's defined benefit pension schemes may require additional funding. As at 31 December 2022, the Group's pension schemes had an aggregate deficit, on an accounting basis, of £488 million (2021: £461 million). Changes in discount rates, inflation, asset values or mortality assumptions could lead to a materially higher deficit. For example, the cost of a buyout 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.

Trend commentary
Although the accounting deficit in the year was only slightly higher than the previous year, gross liabilities and assets have each reduced by just over £1 billion, primarily as a result of the increase in interest rates and therefore discount rates. The policy of hedging changes in inflation and interest rates continues to be effective in respect of UK liabilities. Investment returns and mortality changes are not hedged and so some element of risk remained in those regards. This risk was proportionately smaller than in 2021, given the reduced liabilities.

Risk 11
Liquidity

Responsibility
Executive management[1]

Risk trend

Strategic priorities
● Buy ● Improve Sell

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 30 to 37, as at 31 December 2022, the Group had term loans of US$788 million and £30 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 which totalled £1.1 billion. One of these bonds remains outstanding as at 31 December 2022 and further detail is provided in the mitigation measures below and in the Finance Director's review on pages 30 to 37.

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 and certain uncommitted overdrafts to mitigate the risk of any liquidity issues.
- In September 2022, a £450 million bond was repaid and associated cross-currency swaps with aggregate notional values of US$373 million and €284 million were settled. Subsequent to this, in November 2022 a tender offer was launched on the remaining £300 million bond, due to mature in May 2032, which resulted in £170 million of the outstanding value being bought back and cancelled for a total cash cost of £148 million (excluding accrued interest). Further details can be found in the Finance Director's review on pages 30 to 37.
- The Group operates a conservative level of headroom across its finance covenants which is designed to avoid the need for any unplanned refinancing.

Trend commentary
The Group has maintained its strong cash controls and forecasting processes and Melrose senior 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 the bond tender offer process which was undertaken during Q4 2022 as the bonds were redeemed below par. Going into 2023, the refinancing package that Melrose has agreed with its supportive banking syndicate means that the Group is satisfied that it has adequate resources available to meet its liabilities following on from the Demerger. Further details of this are contained in the Finance Director's review on pages 30 to 37.

(1) Comprises executive Directors and Melrose senior management.

Board stakeholder engagement and decision-making

The Board is responsible for the long-term success of the Company, for setting and overseeing its culture, and for the Company's purpose, strategy and values. The Board's understanding of the Company's stakeholders and their respective interests is central to these responsibilities, and informs key aspects of its decision-making.

Section 172 statement
In accordance with the Companies Act 2006, the Directors provide this statement describing how they have had regard to the matters set out in section 172(1) of the Companies Act 2006 when performing their duty to promote the success of the Company under section 172.

Melrose's purpose, strategy and values
Melrose was founded in 2003 with a strategy 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 good 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 ownership. 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. We act as responsible stewards of the businesses that we own, investing as if we are going to own them forever, and managing their balance sheets and pension funds prudently, and we see this as an important step on their pathway to long-term sustainable success. We provide the focus and investment to improve the businesses' financial performance, through operational improvements, by driving growth and profitability, and by investing in research and development to make the businesses and their impact on the environment and society beneficial. We also recognise that the building of stronger businesses encompasses a wide range of non-financial areas including risk management, ethics and compliance, and sustainability, and we have worked with the businesses to identify material issues and set meaningful ESG targets alongside financial metrics. These actions benefit their long-term future, and that of their stakeholders.

The Board is ultimately accountable to the Company's shareholders for setting the Group's strategy, for overseeing the Group's financial and operational performance in line with Melrose's strategic objectives, and for taking into account the principal risks facing the Group. Implementation of the Group's strategic objectives, as determined and overseen by the Board, is delegated to the Melrose senior management team, 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 38 and in line with the Group's governance framework, which the Board reviews regularly to ensure it continues to align with applicable legal requirements and corporate governance best practice.

The Board recognises that culture, values and standards are key contributors to how a company creates and sustains value over the long-term. High standards of business conduct guide and assist 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 and compliance with 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, with compliance with this framework being 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. The Board considers it to be of the utmost importance that our businesses continue to uphold high standards of business conduct, and that they continue to strive for improvements in this area. Further detail on the Group's compliance policies and framework, and reporting to the Board, can be found on pages 55 to 91 of the Sustainability review.

Key stakeholder engagement in 2022

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 under section 172 and to pursue the Company's strategic objectives. Stakeholder engagement is on the Board's agenda to assess whether the Company's principal stakeholders and their priorities have changed, and whether the Board has sufficient engagement with each key stakeholder group. Our annual programme of key information publications and engagement initiatives during 2022 included the annual general meeting, publication of full and half year results, the publication of this Annual Report and Financial Statements, investor roadshows, trading updates and capital markets presentation events.

Set out below and on the following pages is a table of our key stakeholders, how we engaged with them during the year, and the outcomes of these processes. Acknowledging the decentralised structure of the Group, and the breadth of our stakeholders, engagement takes place at a number of different levels across the Group.

Our key stakeholders

Shareholders

Given that we often need to move quickly to secure the opportunities that we feel will be (and have been) critical to Melrose's success, we rely on the in-depth understanding amongst our investors of our business model and our "Buy, Improve, Sell" strategy, in order to execute our strategy successfully. Melrose provides a consistent and transparent flow of information and management insight to shareholders and to the wider investment community, taking an honest, transparent and open approach to investor relations and communications. We recognise that analysts require robust information in order to inform the information that they provide to investors, and investors benefit from disclosure in line with regulatory requirements, as well as enhanced disclosure on topics that are material to the Company, to inform their independent investment decisions. As a result, Melrose has attracted long-term support from key shareholders since it was founded in 2003.

In addition to our annual programme of key information publications and engagement activities listed above, the Board and 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 twice a year, regular trading updates, open agenda meetings for key shareholders attended by the Chairman, where requested, and capital markets presentation events as appropriate in order to allow key shareholders, analysts and their representatives to directly access the Board and engage directly with the executive management teams of our largest businesses during key points in their improvement cycle.

In 2022, the Board hosted a capital markets event for institutional investors and financial analysts, which included a presentation from the CEO of GKN Aerospace on key updates relating to the business's recent performance, and in early 2023, a capital markets event was held ahead of the proposed demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger"). The executive Directors undertook an additional roadshow immediately following the announcement of the Demerger in September 2022, to hear key shareholder views on the proposal as a whole, and to discuss any questions or potential concerns, all of which were resolved satisfactorily. The executive management team of the new holding company for the demerged businesses, Dowlais Group plc, undertook roadshows in late 2022 and early 2023, with the support of Melrose.

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.

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 2022, these wider interactive engagement processes particularly focused on sustainability, including discussions with multiple sustainability benchmarking agencies in relation to topics including supply chain and water.

Employees

We recognise that a capable, engaged and passionate workforce is central to the Group's performance and ultimately its success. Employees are an important stakeholder group and the Board requires our businesses to promote effective engagement with their respective workforces and maintain an open dialogue with them.

The decentralised nature of the Melrose model is reflected in the structure of the Workforce Advisory Panel (the "WAP"), which ensures that 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 2022 can be found in the Sustainability review on pages 55 to 91.

Employees have an opportunity to raise concerns confidentially and anonymously through the 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 review on pages 55 to 91.

The Group's holistic approach to employee management recognises the importance of protecting employees' physical health, and mental and social wellbeing. It rests upon three key areas of diversity and inclusion, effective employee engagement and ensuring health and safety conditions in the workplace. In line with the wider Group health and safety framework, employee wellbeing programmes are implemented at a divisional level to ensure that they are most impactful and relevant to each business.

We understand that some of the decisions we take in improving our businesses for the long-term benefit of all stakeholders, such as restructurings and the introduction of new technology, can have a material impact on employees. We do not take these difficult decisions lightly, and where appropriate we seek to undertake thorough event-driven consultation and engagement activities with relevant stakeholders to ensure that the decisions we take are based on a well informed view of the potential impact on those stakeholders, and we always endeavour to achieve positive outcomes for the workforce in such circumstances.

Lenders

As mentioned opposite, we often need to move quickly to secure the opportunities that we feel will be critical to Melrose's success. In doing this, we also rely on the in-depth understanding amongst our supportive banking syndicate of our business model and our "Buy, Improve, Sell" strategy, in order to execute our strategy successfully. We regularly engage with our banking syndicate and maintaining these relationships has proven to be vital at times where we have needed to act quickly and decisively – for example, agreeing amended financial covenants with our banking syndicate in August 2020, which provided the Company with the flexibility to continue to improve the businesses and focus on cash generation during the heights of the economic turbulence caused by the COVID-19 pandemic.

In anticipation of the Demerger, we have engaged extensively with our banking syndicate in order to agree new standalone facilities for the Melrose Group and the Dowlais group that are appropriate for the two groups going forward. These standalone facilities have now been agreed and are conditional on the Demerger, and will be used to repay the existing Melrose Group facilities in full on completion of the Demerger. As part of this process, a number of improvements on the existing Melrose Group facilities have been agreed with the syndicate, which are applicable to both new facilities. Further detail can be found in the Finance Directors' review on pages 30 to 37.

Suppliers and customers

The relationships that our businesses have with their suppliers and customers are key to their success, and we encourage each of them to foster positive and open business relationships with them, providing support where necessary. Our businesses continue to work hard to build upon and strengthen these relationships where possible. The Board recognises the importance of these relationships, and encourages regular and meaningful engagement by the businesses with this key stakeholder group. Details are set out in the Sustainability review on pages 55 to 91.

During 2022, the Board increased its focus on supply chain oversight and improvement in the businesses, including from a climate change governance perspective, and to increase our businesses' visibility of their Scope 3 emissions. Responsible Sourcing was elevated to a topic of higher materiality in 2021, and in 2022, Melrose set a new Group Supply Chain policy for implementation within the businesses. Melrose has also overseen further engagement by the businesses with their respective supply chains, including through the CDP Supply Chain engagement initiative. The Board requires our businesses and their suppliers to promote the strongest responsible, ethical and sustainable business practices through stringent supplier qualification processes.

The Board remains conscious that modern slavery and human trafficking are serious issues and seeks to provide investors with as much transparency, disclosure and assurances regarding the nature of the supply chains within the businesses that Melrose owns from time to time. As described in our most recent 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. In line with our decentralised model, the Melrose senior management team works closely with the businesses to better understand their respective supplier landscapes and to support them in this area of critical importance. This is supported by our Anti-Slavery and Human Trafficking policy, which all of our businesses are required to and have implemented, and associated training. Melrose remains 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.

Any material issues of concern in these areas that are identified by the business unit executive teams are escalated to the Board via the reporting procedures identified on page 49. During the year, no such issues were identified, but we remain vigilant in this regard. Further details can be found in the Sustainability review on pages 55 to 91.

Section 172 statement
Continued

Environment and communities

Improving the performance of our businesses from an environmental, social and governance perspective is central to our "Buy, Improve, Sell" strategy. All of the Directors are actively involved and concerned with the Group's efforts and progress in relation to sustainability and climate change, and therefore the Board as a whole, led by the Chairman, is responsible for all matters concerning sustainability and climate change. The Board continues to remain focused on ensuring that the long-term performance of the Group and its businesses is sustainable. The Sustainability review on pages 55 to 91 describes in detail some of the actions that the Group has taken during 2022 towards meeting our sustainability targets and commitments, as well as measures taken to address the material sustainability topics which were elevated in importance and prominence in response to the evolving macro business environment, and were therefore a greater focus in 2022.

Our businesses understand the importance of meeting and fulfilling the targets and commitments set by Melrose. As manufacturing businesses, they are acutely aware of the risks and challenges, as well as the ultimate benefits, that a transition to Net Zero presents. To meet the Group's expectations, the businesses continue to review and set their own sustainability strategies, which are tailored to their organisations, and to the sectors and communities in which they operate.

In 2022, the Board approved three new Group policies: Supply Chain – to address the increasing importance of engaging with suppliers on environmental topics; Biodiversity – to drive the businesses' efforts in protecting the natural world; and Water – to ensure good water management practices as our businesses seek to achieve the newly launched water withdrawal intensity target, which was approved by the Board in 2022.

During the year, we continued to engage with key ESG benchmarking agencies to improve data quality and comprehensiveness of their coverage of our sustainability performance, and to identify and resolve inconsistencies. We have seen significant delays in scoring and benchmarking among a number of rating agencies, generally due to their own resourcing constraints. As they continue to expand their universe of covered issuers and improve the breadth of and the range of indicators used in assessment methodologies, we will engage with them directly to ensure that their review periods roughly reflect our reporting cycle, so that our most recent full-year data can be captured by their assessments and made available to our investors on time. In 2022, the Group continued to submit its response to the CDP Climate Change questionnaire, and made its inaugural CDP Water Security submission, which the Board views as excellent progress. The Sustainability review on pages 55 to 91 provides further detail of progress achieved in the year, and the recent ratings scores the Group received for its sustainability performance.

Lastly, in recognition of the growing importance of climate change, we launched our inaugural Group Net Zero Transition Plan in 2022, which sets out the actions we intend to take in the transition to a net zero economy, and how we plan to execute on our interim and long-term emissions reduction targets and achieve Net Zero by 2050.

We recognise the importance of local communities to the effective operations of our business. The Sustainability review on pages 55 to 91 highlights examples of actions the businesses took during 2022 to engage with their communities, including business-focused initiatives as well as charitable activity.

Proxy advisors and independent reporting bodies

In 2022, the Company continued to invest significant time in speaking regularly to the key corporate governance agencies regarding certain aspects of corporate governance that we and our investors consider to be of long-term strategic importance, particularly in the lead-up to the Company's annual general meeting, to ensure their support for the resolutions proposed. The Board appreciates that the key corporate governance agencies require transparency and active engagement in order to accurately review and assess our performance in line with expected practices. In addition, a large part of our investor community subscribes to these governance bodies and it is therefore important to us that we are proactive in communicating with them, to ensure their continued support. The views of the key proxy advisors are reported to the Board directly by the Group Company Secretariat.

The Company also continues to engage with independent reporting bodies supported by the UK Government where relevant, including the FTSE Women Leaders Review (formerly the Hampton-Alexander Review) and the Parker Review, on the specific topics governed by those reporting bodies. In 2022, in particular, we have invested significant time and effort in continuing to engage with various stakeholders on sustainability-related topics, which has included sustainability analysts, reporting organisations and rating agencies such as MSCI, Sustainalytics, V.E., FTSE Russell, S&P CSA and CDP. For further details, please refer to the Sustainability review on pages 55 to 91.

Regulators and government bodies

The Group and its businesses have 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 and the businesses' long-term success. In the UK, the Company has regular dialogue with the Department for Business and Trade (formerly the Department for Business, Energy and Industrial Strategy), the Ministry of Defence ("MoD"), the UK Panel on Takeovers and Mergers, and various other government departments and bodies, including in respect of 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.

Key Board decisions and stakeholder considerations

Demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen

- Shareholders
- Employees
- Lenders
- Suppliers and customers
- Environment and communities

In September 2022, Melrose announced its intention to separate GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen from the Melrose Group by way of a demerger of shares in a new holding company, Dowlais Group plc, to Melrose shareholders (the "Demerger"). The Demerger will result in two independent and separately listed companies, Melrose Industries PLC and Dowlais Group plc ("Dowlais"), each with its own distinct strategy and acquisition platform. Dowlais will effectively become an automotive platform, owning GKN Automotive, the global market leader in automotive drive systems, GKN Powder Metallurgy, a high-quality, market-leading supplier in powder metallurgy, and GKN Hydrogen, an early-stage growth business focused on developing and commercialising proprietary metal hydride storage systems. Further details on the Demerger are set out in the circular to shareholders and the notice of general meeting dated 3 March 2023, which will be available on our website.

The Demerger is the latest example of the Board's focus on delivering value to shareholders and other stakeholders, with both Melrose and Dowlais having the potential to benefit from further market recovery and future M&A opportunities. The Board chose to list Dowlais on the London Stock Exchange because it presents the best opportunities to pursue its strategy and attract further investment.

The Board's decision to undertake the Demerger was based on a fully informed and considered assessment of the performance of the businesses to be demerged and their maturity within their Melrose ownership cycle. Since acquiring GKN plc in 2018, Melrose has reinvigorated each of the GKN Automotive and GKN Powder Metallurgy businesses to achieve their potential, positioning them as excellent generators of cash, with sustainable world leading technology and experienced management teams executing successful strategies on a clear path to their adjusted operating margin targets of 10%+ (for GKN Automotive) and 14% (for GKN Powder Metallurgy). The Demerger will give Dowlais an exciting opportunity to grow shareholder value through organic growth and acquisition in its automotive platform. Dowlais will also be able to further develop its sustainability strategy, for the benefit of its customers and suppliers, employees, and the environment and communities it operates within. Simon Peckham, Melrose Chief Executive, and Geoffrey Martin, Melrose Group Finance Director, have joined the board of Dowlais as executive directors, for a limited period, to facilitate the further growth of the independent Dowlais group.

Following the announcement of the Demerger, we commenced a comprehensive engagement process with shareholders, which involved approaching shareholders in aggregate representing almost 70% of our register. As part of the roadshows referred to on page 50, direct engagement was held with key shareholders of the Company to provide an opportunity to discuss the proposal in further detail. The Dowlais executive management team have also undertaken two roadshows, with Melrose support. The outcomes of these roadshows have been very positive, and the Board hopes that shareholders will decide to vote in favour of the Demerger at the general meeting on 30 March 2023.

The Board has determined that now is the right time to proceed with the Demerger. We are particularly pleased to have fulfilled the commitment we made at the time we acquired the GKN businesses to protect pensioners and to continue to invest in research and development. We are returning GKN Automotive and GKN Powder Metallurgy to the London market in a much stronger financial position and with leading positions in the fast-growing global electric vehicle market. Together they will be well placed to continue delivering for all of their stakeholders and to take advantage of the opportunities available to Dowlais as a standalone automotive platform.

Following completion of the Demerger, Melrose will retain its ownership of GKN Aerospace. Its successful "Buy, Improve, Sell" strategy will continue unchanged and the Board expects to pursue future acquisitions as soon as possible following completion of the Demerger, which could either be in aerospace or the wider industrial sector, as appropriate, in order to continue to deliver value creation for all Melrose stakeholders.

Dividend payments

- Shareholders
- Lenders

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.

We understand the importance of returns to our shareholders and the Board continued with its progressive dividend policy in 2022. The Board determined to pay a final 2021 dividend in May 2022 of 1 pence per share (an increase of 33% on the final 2020 dividend) and an interim 2022 dividend in October 2022 of 0.825 pence per share (an increase of 10% on the interim 2021 dividend). Both the decision to pay such amounts, as well as the amounts themselves, were carefully made by the Board based on a fully considered assessment of the Group's performance and of the impact of such payments on the Company's shareholders and lenders. The Board felt that these amounts were sufficiently financially prudent, would be understood by the Group's lenders, and satisfy shareholder expectations in line with our strategy.

In line with this prudent approach, yet reflecting the Company's improved performance in 2022, the Board is very pleased to be able to report that it will pay a second interim dividend to shareholders of 1.5 pence per share. The proposed final dividend is normally announced as part of our financial year-end results and paid after shareholder approval at the Company's annual general meeting. However, to allow this to be appropriately paid to Melrose shareholders prior to the Demerger, a second interim dividend will be paid on 18 April 2023[1] to replace the final dividend. Please see page 242 for further information on the proposed timetable for payment of the second interim dividend. Combined with the 2022 interim dividend of 0.825 pence per share, this represents a total dividend for the year of 2.325 pence per share (2021: 1.75 pence), an increase of 33% on the prior year. The Board is satisfied that the proposed dividend is affordable and appropriate.

The Board was also pleased to return £500 million of capital to shareholders during 2022 following the sale of Ergotron, which was completed by way of a share buyback. This is a continuation of Melrose's strategy to return value created through acquisitions to our shareholders. In determining the maximum amount of the share buyback, the Board balanced the needs of a number of stakeholders, ultimately determining that a significant portion of the sale proceeds should be returned to shareholders.

(1) After the date of approval of the Annual Report and financial statements, the second interim dividend payment date was changed to 11 April 2023 in order to effect the Dividend Reinvestment Plan prior to completion of the proposed Demerger.

Section 172 statement
Continued

Further focus on the Group's sustainability performance to drive improvements and value creation

- Shareholders
- Employees
- Suppliers and customers
- Environment and communities
- Proxy advisors and independent reporting bodies
- Regulators and government bodies

Sustainability is a regular topic on the Board's agenda, receiving appropriate consideration throughout the year at its scheduled meetings. Following on from the sustainability targets and commitments that were set in 2021, the Board took a number of decisions in 2022 to further progress the Group's sustainability efforts and performance, and to support our businesses in their respective journeys towards Net Zero by 2050. In taking its decisions, the Board sought to balance the interests of all relevant stakeholders, to ensure that they are each adequately represented and can hold the Board accountable for the Group's progress in relation to these matters. Detail on some of these key decisions, and how key stakeholders were engaged with and considered, is set out below and in the Sustainability review on pages 55 to 91.

Further to the Group's inaugural reporting against the key areas recommended by the Task Force on Climate-related Financial Disclosures ("TCFD"), the Board expanded the Group's TCFD reporting framework disclosure to initiate qualitative consideration of the financial impacts of climate risks. The Board recognises that this additional disclosure is necessary in order to help to progress the businesses' strategies and to provide enhanced disclosure to shareholders and other stakeholders.

In 2022, the Board adopted the Group's inaugural Net Zero Transition Plan, prepared in accordance with the UK Transition Plan Taskforce's ("TPT") guidance, which sets out the actions we intend to take in the transition to a net zero economy, how we plan to execute on our interim and long-term emissions reduction targets, and how we plan to achieve Net Zero across the Group by 2050. The Group Net Zero Transition Plan also sets out how climate considerations are integrated into the Group's strategic thinking and future planning, such as major capital expenditure, acquisitions and disposals. In adopting the Group Net Zero Transition Plan, the Board was mindful to ensure that the actions it sets out are necessary to achieve the agreed-upon targets within the envisaged timelines, sufficiently focusing our businesses' executive management teams on the end goals, yet without overly diverting resources away from the businesses' core focuses.

The Board elevated the importance and prominence of Responsible Sourcing and Water across the Group as material sustainability topics in 2021, and this has resulted in a number of actions being taken in 2022 relating to these areas of importance. It introduced new Group compliance policies for these areas for implementation within our businesses, and updated the Melrose Code of Ethics to align it accordingly. The new policies, which were drafted with support from our external sustainability consultants and are available on our website, continue to be (along with all other Group compliance policies) monitored by the Melrose senior management team to ensure their effectiveness for the Group. In approving these policies, the Board sought to balance all relevant stakeholders, including shareholders and the environment.

With respect to Supply Chain, there has been an increased emphasis on the businesses to increase their engagement with suppliers, to be able to expand our Scope 3 data coverage. Melrose joined the CDP Supply Chain engagement initiative in 2022 to start improving our visibility of Scope 3 emissions, achieving an engagement rate of over 50% for the year. The expansion of this data coverage will not only enable our businesses to understand their full value chain emissions, it will also allow them to focus their efforts on the greatest Greenhouse gas reduction opportunities, and to hold their suppliers to account in respect of their emissions. Collectively, this is for the benefit of all of the Group's key stakeholders.

For Water, the Board launched the Group Water Stewardship Programme and set a quantitative Group-level target to reduce water withdrawal intensity by 25% by 2030. The Group also made its inaugural CDP Water Security submission in 2022, to improve the external transparency of our businesses' water data, in line with increasing investor expectations in this area, and to demonstrate the Group's commitment to ensuring that our businesses remain resilient to water associated risks.

The third new Group compliance policy that was introduced during the year was our Biodiversity policy. The Board recognises the importance of biodiversity and how fundamental it is to our society, and the policy sets out the key aspects that are expected of our businesses to promote the growth of the natural world and help prevent deforestation. The Board intends to continue to evolve the Group's understanding and assessment of biodiversity factors during 2023, prior to the official release of a global Taskforce on Nature-related Financial Disclosures ("TNFD") framework.

Our Sustainability review on pages 55 to 91 sets out the key priorities for the Board in this area during 2023.

Sale of Ergotron

- Shareholders
- Employees
- Lenders
- Suppliers and customers
- Environment and communities

The sale of Ergotron completed in July 2022 for total proceeds of £519 million. This marked the end of our ownership of the businesses from the Nortek acquisition. That acquisition has been highly successful both in terms of doubling the initial investment and transforming the underlying businesses, delivering on our strategy of creating significant long-term value for shareholders, and achieving above-average returns on their investment.

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

In taking its decision to achieve the disposal on the terms and at the time they did, the Board's focus was primarily on securing the maximum disposal proceeds that would ultimately be returned to shareholders, in order to deliver on its strategy to deliver above-average returns to shareholders on their investment. However, as responsible stewards of our businesses, the Board was also keen to ensure that Ergotron left the Group in a significantly improved position from both a financial and non-financial perspective, in order to deliver long-term and sustainable benefits for its employees, suppliers and customers, communities, and other key stakeholders.

Implementing business improvement as we transition to Net Zero

2022 Sustainability review

Contents

Chairman's statement	56
Our purpose and sustainability highlights	57
Our sustainable improvement strategy	58
Progress in addressing material sustainability topics	60
Sustainability and climate change governance	62
Enabling a sustainable transition to Net Zero	64
TCFD Report	66
Environmental leadership	78
Social	82
Governance	88
Outlook for 2023	91

Justin Dowley
Non-executive Chairman

> "This year has been a further significant step in the execution of our Group sustainability strategy. I am pleased to report that the Board adopted Melrose's first Net Zero Transition Plan in 2022. Through this, we provide our stakeholders with clarity around the actions we intend to take in the transition to a net zero economy, and how we plan to execute on our interim and long-term emissions reduction targets."

Chairman's statement

This year has been a further significant step in the execution of our Group sustainability strategy. I am pleased to report that the Board adopted Melrose's first Net Zero Transition Plan in 2022. Through this, we provide our stakeholders with clarity around the actions we intend to take in the transition to a net zero economy, and how we plan to execute on our interim and long-term emissions reduction targets. Our established Group environmental sustainability targets include reduction of Greenhouse Gas ("GHG") emissions, growth of renewable electricity within the energy mix of each of our businesses, increase in the percentage of solid non-hazardous waste diverted from landfill, and reduction in water withdrawal that will help drive the sustainability of their operations. Sustainability is embedded in each business's operational excellence, innovative climate-focused R&D, and in their respective product ranges that seek to help decarbonise their sectors, accelerating the global move towards Net Zero.

We have prepared our second annual disclosures in line with the latest recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD")[1] and the Financial Reporting Council's ("FRC") thematic review of climate-related considerations[2]. Key updates include initial qualitative disclosures relating to the quantification of the financial impacts of climate-related risks, articulation of our Group sustainability and climate governance framework, and building on our climate scenario analysis to inform additional detail on the Group's approach to identification, assessment and management of climate transition risks and opportunities.

Implementing our Group sustainability priorities is an important part of our "Buy, Improve, Sell" strategy, and is embedded within our efforts to improve returns for our shareholders as we address the material sustainability topics that are of most concern to our stakeholders. Last year, Responsible Sourcing and Water were elevated in our review of the Melrose Group materiality matrix. In 2022, we took proactive steps to address these topics across the Group. To further embed Responsible Sourcing within our businesses, we launched a Group Supply Chain Management programme which included the development of a Group Supply Chain policy and expanded our visibility of Scope 3 emissions attributable to each business through the participation in the Carbon Disclosure Project ("CDP") Supply Chain engagement initiative.

In seeking to help address global water challenges, we implemented our first Group Water Stewardship Programme across our businesses, set a Group-level water withdrawal reduction target, launched our first Group Water policy, and made our inaugural CDP Water Security submission.

Looking towards nature-related risks and opportunities as an emerging focus for the global business community, we also adopted a foundational Group Biodiversity policy. We recognise the importance of encouraging good governance practices within each of our businesses and seek to play our part in protecting the natural world.

Although climate change and other environmental topics remain a priority, this is not to the exclusion of societal factors. Providing a safe and supportive working environment, access to learning and development opportunities, and encouraging diversity and inclusion at all levels, will help our businesses continue to attract and retain the best talent. Whilst it is pleasing to note that in line with our Group target, we have achieved a Lost Time Accident ("LTA") frequency rate of below 0.1, we continue to prioritise continuous health and safety improvements across each of our businesses in the push for a LTA frequency rate of zero.

Our businesses are also encouraged to support the local communities which they are part of through charitable and community projects. In 2022, this included our businesses' involvement in community initiatives towards humanitarian action in Ukraine.

We realise that building strong sustainable businesses is a long-term journey, and whilst there remains plenty for us to deliver, it has been promising to see our improvement to date being recognised by several of the key ESG benchmarking agencies, including MSCI providing Melrose with an 'A' rating, and Sustainalytics who have reduced our risk rating from 'high' to 'medium' and placed us in the top 10% of our peers.

J Dowley

Justin Dowley
Non-executive Chairman
2 March 2023

(1) https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf.
(2) www.frc.org.uk/getattachment/65fa8b6f-2bed-4a67-8471-ab91c9cd2e85/FRC-TCFD-disclosures-and-climate-in-the-financial-statements_July-2022.pdf.

Our purpose

Sustainability has always been an important part of our "Buy, Improve, Sell" strategy, and we firmly believe that this focus is not just the right thing to do, but is a central enabler of the success of the Melrose Group and the manufacturing businesses we own.

The fundamentals of the business strategy that Melrose has followed since being founded in 2003 are to acquire good quality manufacturing businesses that are underperforming their potential but have established positions in sectors which can be among the most difficult to decarbonise. The success of this business model relies on investing heavily to improve performance and productivity, accelerating operational improvements, realising shareholder value at the appropriate time and then returning this value to shareholders.

Within the "Improve" stage of our ownership, we focus on building our businesses into new, better organisations that are operationally and financially positioned to prosper in a sustainable manner, over the longer term, for the benefit of all stakeholders. We do so through unrelenting focus on integrating our core sustainability principles and climate commitments into their strategic agendas.

We view investing in businesses that operate in traditionally carbon-intensive sectors as an opportunity to create positive change. We strongly believe that meaningful sustainability improvements towards transitioning our businesses and their traditionally carbon-heavy industries to a greener future, will propel global efforts towards achieving Net Zero by 2050.

In line with our decentralised business model, we provide the strategic guidance, investment and resources to ensure that each of our businesses develops and executes on its own sustainability strategy. We encourage them to prioritise climate-focused projects in line with their operational, market and sectoral environments, throughout our ownership. As we reshape the businesses we acquire, we implement strong targets to drive their long-term strategy and performance.

Whilst we always seek to help enhance our businesses' longer-term sustainability profile and act as if we were to own them forever, we cannot ignore our inevitably limited ownership period. We therefore align our actions with the dynamic nature of our portfolio such that our targets and commitments remain relevant as and when the Group composition changes.

Having built and formalised our own sustainability reporting infrastructure at a Group level, we do not view sustainability underperformance as a barrier to an acquisition. As part of pre-acquisition due diligence, where possible, we would consider and review available information on a company's sustainability credentials (for example, formal energy and carbon disclosures, and climate risks, amongst any other relevant information).

Following acquisition, we help our businesses create ambitious but realistic plans aligned with our Group sustainability targets, which serve as a framework for driving and measuring longevity and credibility in our businesses' sustainability performance over time. Analysis of a business's performance against its budgets, targets and strategic plans feeds into Group decision-making on whether it is the right time, commercially and strategically, to sell a business for the next stage of its development.

Sustainability highlights

44%
of new products launched in 2022 contributing to the decarbonisation of our businesses' sectors against the 50% Group target by 2025

>90%
solid non-hazardous waste diverted from landfill in 2022 against the 95% target by 2025

<0.1
LTA frequency rate in line with the Group target

c.10%
reduction in emissions intensity from 2021 against the 20% reduction target by 2025

14%
year-on-year reduction in energy consumption intensity compared to 2021

>£20m
invested in energy efficiency programmes in 2022

MSCI – ESG Rating

ESG Rating: A (2020: BB)

'A'

Sustainalytics

ESG risk rating has improved to 28.3 (Medium) from 34.2 (High)

Ranked 8th out of 114 Industrial Conglomerates (2021: 20th out of 114)

ESG Risk Management score improved to 62.5 (Strong) from 53.6 in 2021

CDP Climate Change score

Climate Change 2022: C (2021: C)
Industry Average 2022: C (2021: C)

'C'

Our sustainable improvement strategy

The key to the success of our "Buy, Improve, Sell" approach lies in rebuilding and repositioning businesses to succeed over the long term. We are committed to investing in our businesses to make meaningful contributions to decarbonising the sectors in which they operate, supported by ethical and transparent governance practices.

Our sustainability principles

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:

- 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 they are part of
- Exercise robust governance, risk management and compliance

Group targets and commitments

Our Group sustainability targets and commitments seek to drive our businesses to address some of the key ESG priorities faced by their industries in support of our sustainability principles. In 2022, we added an additional water withdrawal intensity reduction target to reflect the elevated importance of water to our stakeholders.

Our changing Group composition is inherent to our "Buy, Improve, Sell" strategy, meaning absolute metrics across all areas are expected to fluctuate as we buy and sell businesses. However, by fostering a culture of improvement, both operationally and financially, we strengthen our businesses' capabilities and resources, allowing them to continue pursuing sustainable growth that continues beyond our ownership.

Environmental(1)

Respecting and protecting the environment

• Reduce CO_2e/£m revenue by 20% on average across the businesses by 2025 and 40% by 2030(2)	On track
• Achieve net zero Greenhouse gas emissions by 2050(3)	On track
• Divert 95% of our solid waste from landfill by 2025 and 100% by 2030(4)	Fulfilled and being maintained
• Source 50% of our electricity from renewable sources by 2025 and 75% by 2030(5)	In progress
• Reduce water withdrawal intensity by 25% by 2030(6) and implement a Group Water Stewardship Programme to improve water management across our businesses	On track

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

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

Social

Prioritising health, safety and wellbeing of employees

• Protect our employees from injury and lost time accidents and maintain a LTA frequency rate below 0.1	Fulfilled and being maintained

Nurturing skills and development

• Ensure that all permanent employees receive regular (annual) formal performance reviews(7)	On track

Supporting communities that our businesses are part of

• Invest £10 million over five years through the Melrose Skills Fund	On track

Promoting diversity and inclusion

• Maintain a Board and Melrose Executive Committee comprising at least 33% female membership	Fulfilled and being maintained
• Maintain achievement of the Parker Review recommendations	Fulfilled and being maintained

Governance

Exercising robust governance, risk management and compliance

• All employees, suppliers and contractors must comply with our Code of Ethics, conducting business with integrity and in a responsible, ethical and sustainable manner	Fulfilled and being maintained

(1) The Group's chosen intensity ratio is energy consumption, emissions and water withdrawal reported above normalised MWh, tonnes of CO_2e or m^3 per £1,000 of turnover. The data has been standardised from the source units in which it was initially collected. The turnover figures used to calculate the intensity ratio include continuing businesses only and do not include any share of revenues from entities in which the Group holds an interest of 50% or less.
(2) Target baselined on full year 2021 performance. Baseline was set in conjunction with the timeframe of the Group's target-setting process.
(3) Including Scope 1, 2 and 3 emissions.
(4) Excluding hazardous waste.
(5) Where renewable electricity is commercially and reasonably available in the relevant jurisdiction.
(6) Target baselined on full year 2021 and with consideration of half year 2022 performance. Baseline was set in conjunction with the timeframe of the Group's target setting process.
(7) Where permitted by local laws and employee representative bodies.

Delivering on our promises

In 2022, we continued to focus on improving the key sustainability matters that impact our businesses and their sectors, and are of most concern to key stakeholders. Key developments included:

- Launching our inaugural Group Net Zero Transition Plan which sets out the actions we intend to take in the transition to a net zero economy, and how we plan to execute on our interim and long-term emissions reduction targets;
- Implementing Group Supply Chain, Biodiversity and Water policies, and addressing the two elevated material topics of Responsible Sourcing and Water, and updating our Diversity and Inclusion policies in light of key regulatory developments;
- Developing a quantitative Group-level target to reduce water withdrawal intensity by 25% by 2030(6), and supporting each business to implement our newly launched Group Water Stewardship Programme. We also made our inaugural CDP Water Security submission in 2022;
- Expanding our TCFD disclosures to cover qualitative considerations of financial impacts of climate risks;
- Joining and achieving over 50% engagement rate in the CDP Supply Chain engagement initiative to assist in beginning to capture further supplier environmental data to start tracking their net zero alignment;
- Completing a third-party facilitated review of ESG data collection, monitoring and tracking processes among all Group businesses with a view to improving their data governance.

Melrose Industries PLC Annual Report 2022

Progress in addressing material sustainability topics

Our Group materiality assessment initially undertaken in 2020 identified the key sustainability topics considered to be both important to our stakeholders and to impact our ability to create value over time. In 2021, the topics of Responsible Sourcing and Water were elevated in importance and prominence in response to the evolving macro business environment, and were focused upon in 2022.

Responsible sourcing and supply chain

To achieve Net Zero, we need to play our part in accelerating the climate transition beyond our immediate chain of control. We want to accelerate the transition to Net Zero for not only our businesses, but also for the suppliers that they rely on.

To fulfil this commitment at Group level, we have set the supply chain management programme as a running item on our businesses' agendas in line with our Group approach to driving our businesses to improve the understanding of their primary suppliers' climate positions, prepare for any supply chain-related risks, seize emissions reduction opportunities, and ultimately improve their Scope 3 carbon footprints. As part of this journey, in 2022, Melrose joined the CDP Supply Chain engagement initiative, which assisted us in beginning to capture further supplier environmental data and enable efficient tracking of our businesses' suppliers' alignment to Net Zero. In 2022, the Board approved our inaugural Group Supply Chain policy. Each business is expected to comply with this policy with each executive management team taking responsibility for ensuring its effective transmission and onward implementation, with support from the Melrose senior management team.

>50%

engagement rate generated for the CDP Supply Chain engagement initiative in 2022

↓25%

target

to ensure our gradual improvement in water management, we have set a target to reduce water withdrawal intensity(1) across our businesses by 25% by 2030(2)

Water

We implemented our inaugural Group Water policy in 2022, which sets out our approach to improving our businesses' water management practices. The policy is intended to help our businesses build resilience to water risks, minimise their potential negative impact on water availability and quality, and continue to explore ways of addressing water challenges in their regions of operation where such challenges are prevalent. To ensure our gradual improvement in this area, we have set a quantitative target to reduce water withdrawal intensity(1) across our businesses by 25% by 2030(2). To support this, we have set an associated process-oriented target as part of our Group Water Stewardship Programme launched in 2022. Additionally, we made our inaugural CDP Water Security submission in 2022 to improve the external transparency of our businesses' water data and will continue to report on progress going forward as part of our suite of CDP disclosures. More information on Group water developments can be found on page 78.

Full details of our updated materiality assessment can be found at www.melroseplc.net/sustainability/our-sustainable-improvement-strategy/materiality-assessment.

(1) The Group's chosen intensity ratio is water withdrawal reported above normalised m^3 per £1,000 of turnover.
(2) Target baselined on full year 2021 and with consideration of half year 2022 performance. Baseline was set in conjunction with the timeframe of the Group's target setting process.

Sustainability and climate change governance

In 2022, we further crystallised our Group sustainability and climate change governance framework, which enables the delivery of our sustainability targets and commitments. The framework illustrates how we govern the implementation of our overarching Group sustainability strategy, including identifying, assessing and managing climate-related risks and opportunities within each business during our ownership, overseen by the Board with the support of the Melrose senior management team.

The framework fosters good information flows, reporting lines, and communication channels, enabling the Board, its committees and the Melrose senior management team to fulfil their respective governance responsibilities.

Melrose Board of Directors

Has overall responsibility and oversight of Group sustainability strategy, including climate-related risks and opportunities and is supported by the Melrose senior management team.

Audit Committee

- Meets at least three times a year.
- Responsible for monitoring, overseeing and reviewing the effectiveness of the Group's risk management processes and approach, including reviewing the Group's principal risks which include climate change risk, and considering the risks and opportunities identified by the Melrose senior management team.
- Reviews and monitors the integrity of the Group financial statements, control systems and compliance controls, which over time shall integrate sustainability-related financial information more closely, including in relation to climate change.
- High-level visibility of key divisional risks, which may include sustainability or climate change related risks, following a review of the divisional risk registers by the Melrose senior management team.

Melrose senior management team

- Meets weekly.
- Cross-functional team including Group corporate, tax, risk, finance, legal and sustainability.
- Responsible for executing the Board's overall sustainability strategy including climate change considerations.
- Oversees quarterly divisional climate performance reporting against Group KPIs and targets.
- Identifies, assesses and prioritises climate-related risks and opportunities that are presented to the Board and the Audit Committee for consideration.
- Advises the Board and the Committees on governance and regulatory requirements, including on climate change.
- Core sustainability team membership includes the Group Company Secretariat and the legal function, sustainability lead and sustainability coordinator.

External advisors

- Help to identify divisional level climate-related risks and opportunities that are then fed into the overall risk management process.
- Provide sustainability, climate-related and regulatory training and updates to the Melrose senior management team.

Remuneration Committee

- Meets at least twice a year.
- Responsible for setting executive remuneration policy and integrating sustainability into the executive remuneration structure.
- Addresses sustainability progress as part of the Annual Bonus Plan.

Nomination Committee

- Meets at least twice a year.
- Responsible for ensuring the membership of the Board and the pipeline for succession planning purposes reflects diversity.

Workforce Advisory Panel

- Responsible for promoting the views and the interests of the workforce.

Divisional CEOs and executive management teams

- Deliver operational ESG initiatives towards fulfilling their divisional and Melrose Group sustainability targets and commitments.
- Responsible for the management, implementation and oversight of their sustainability strategy and climate-related risk assessment and implementing mitigation actions where necessary.
- Responsible for adapting to changing customer preferences, market demands and sectoral regulatory requirements for sustainability and climate-related matters.
- Responsible for the financial impact of the increased cost of energy and materials and climate-related mitigation opportunities, for example R&D and products contributing to decarbonisation and emissions reduction plans.

Divisional sustainability leads

- Execute the day-to-day running of the divisional executive management teams' plans and strategy.
- Help to identify division-specific sustainability matters, including climate change risks and opportunities, and relay information to the divisional CEOs and executive management teams, as well as the Melrose senior management team.
- Ensure the monitoring of divisional sustainability targets at a granular level.
- Engage with the Melrose senior management team on a weekly basis.

Melrose Industries PLC Annual Report 2022

Enabling a sustainable transition to Net Zero

We recognise the serious threat posed by climate change and the need for meaningful action, and our goal is to encourage the businesses that we own to avoid harmful emissions into the air, water and soil as far as possible.

The manufacturing businesses that we acquire often operate in industries that can be among the most difficult to decarbonise. Through focused investment, we encourage our businesses to improve their operations and market offerings and therefore minimise their negative impact on climate change. Our approach also helps them reduce their vulnerability to climate-related risks and safeguard 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 climate change within each business that we acquire, as we invest in improvement actions we enable them to continue this positive trajectory beyond our ownership period.

UN SDGs

Group climate-related targets	Progress
Respecting and protecting the environment	
• Reduce CO_2e/£m revenue by 20% on average across the businesses by 2025 and 40% by 2030[(1)]	On track
• Achieve net zero GHG emissions by 2050[(2)]	On track
• Source 50% of our electricity from renewable sources by 2025 and 75% by 2030[(3)]	In progress
Investing in and supporting our businesses as they develop products and services aligned with a net zero future	
• Achieve 50% of total R&D expenditure on climate-related R&D per year to contribute to the decarbonisation of our businesses' sectors by 2025, 75% by 2030 and 100% by 2040	On track
• Achieve 50% of new products which contribute to the decarbonisation of our businesses' sectors by 2025, 75% by 2030 and 100% by 2040	On track

(1) Target baselined on 2021 performance. Baseline was set in conjunction with the timeframe of the Group's target-setting process.
(2) Including Scope 1, 2 and 3 emissions.
(3) Where renewable electricity is commercially and reasonably available in the relevant jurisdiction.
(4) The data has been standardised from the source units in which it was initially collected. The turnover figures used to calculate the intensity ratio include continuing businesses only and do not include any share of revenues from entities in which the Group holds an interest of 50% or less.

Energy consumption and carbon emissions

The GHG emissions for the Group, broken down by Scope 1, Scope 2 and some Scope 3 emissions, for 2022 and 2021, are set out in the table opposite. In 2022, the Group reported a small decrease in total absolute Scope 1 and Scope 2 GHG emissions and a decrease in total operational energy consumption intensity of 6% (based on the MWh of energy used across all of our businesses' locations). Scope 3 emissions have increased due to the expansion of data collection across the Group in 2022 versus 2021, and we expect this percentage to fluctuate in future years as the quality of our reporting improves. In 2022, despite there being increases in absolute Scope 2 and 3 emissions, operational energy consumption decreased and both intensity ratios decreased compared to 2021. This is reflective of the fact that revenue has increased at a higher rate than energy consumption year-on-year, as well as the additional Scope 3 category reported (Category 3: Fuel and energy-related activities not included in Scope 1 or Scope 2). Increases in Scope 2 emissions are also due in part to the higher country specific emissions factors compared to previous years. The Group's chosen intensity ratio is energy consumption and emissions reported above normalised MWh and tonnes of CO_2e per £1,000 of turnover[(4)], which we believe remains the most appropriate intensity ratio for Melrose given our business model and structure.

c.10%

reduction in emissions intensity from 2021 against the 20% reduction target by 2025

Melrose Group energy consumption and GHG emissions for the period 1 January 2022 to 31 December 2022

	2022			2021[(1)]			
	UK	Global (excl. UK)	Total	UK	Global (excl. UK)	Total	Change (2022/21)
Energy (MWh)[(2)]							
Total operational energy consumption	103,902	2,523,360	**2,627,262**	123,654	2,662,113	**2,785,767**	**-6%**
Company's chosen intensity measurement[(3)]: Energy consumption reported above normalised MWh per £1,000 turnover	0.014	0.335	**0.349**	0.018	0.387	**0.405**	**-14%**
Emissions[(2)] (CO_2e)[(4)]							
Scope 1: Direct GHG emissions[(5)]	7,716	151,656	**159,372**	9,394	160,476	**169,870**	**-6%**
Scope 2: Indirect GHG emissions[(6)]	11,934	603,728	**615,662**	15,313	590,382	**605,695**	**2%**
Total Scope 1 and Scope 2 emissions	19,650	755,384	**775,034**	24,707	750,858	**775,565**	**0%**
Company's chosen intensity measurement[(3)]: Emissions reported above normalised tonnes per £1,000 turnover	0.003	0.100	**0.103**	0.004	0.109	**0.113**	**-9%**
Scope 3 emissions:							
Category 3: Fuel- and energy-related activities (T&D)[(7)]	1,194	40,178	**41,372**	1,355	44,054	**45,409**	**-9%**
Category 3: Fuel- and energy-related activities (WTT)[(8)]	4,172	25,481	**29,653**	1,611	26,467	**28,078**	**6%**
Category 6: Business travel and business travel (WTT)[(9)]	–	–	**14,953**	–	–	**6,873**	**118%**
Total Scope 3 emissions	5,366	65,659	**85,978**	2,966	70,521	**80,360**	**7%**

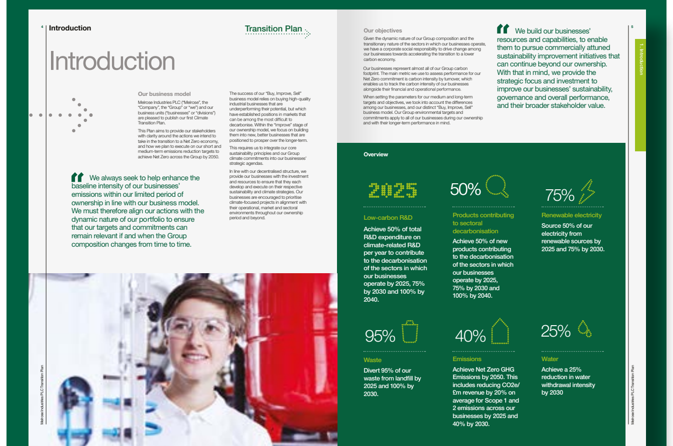
(1) 2021 data has been restated.
(2) The 2022 and 2021 data include continuing businesses only.
(3) The data has been standardised from the source units in which it was initially collected. The turnover figures used to calculate the intensity ratio include continuing businesses only and do not include any share of revenues from entities in which the Group holds an interest of 50% or less.
(4) CO_2e – carbon dioxide equivalent, this figure includes GHGs in addition to carbon dioxide.
(5) 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.
(6) 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.
(7) Electricity transmission and distribution losses.
(8) Emissions from fuel-related well-to-tank.
(9) Including rail and vehicle travel information, collected from 100% (by revenue) of the Group, and air travel collected from 100% (by revenue) of the Group in 2022. For 2021, this category included only business travel collected from 63% of sites (by revenue) of the Group.

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 best practices. At the end of 2022, in recognition of the businesses' strong focus on ensuring an efficient and sustainable use and management of energy, 108 sites (76.6%) across our businesses were certified to ISO 14001 standard (2021: 74%), and 26 sites (18.3%) achieved ISO 50001 certification (2021: 28 sites, 18.4%).

This section has been prepared for the reporting period of 1 January 2022 to 31 December 2022, and in accordance with the reporting 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 material emission sources from within the organisational and operational scope and boundaries of the Group, as 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. These emission 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. The emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2022 (the Department for Environment, Food and Rural Affairs ("DEFRA") factors) together with the International Energy Agency ("IEA") country-specific factors for the associated overseas electricity usage have been used to calculate the GHG emissions figures.

Group Net Zero Transition Plan

In 2022, we published our inaugural Melrose Group Net Zero Transition Plan, providing our stakeholders with clarity around the actions we intend to take in the transition to a net zero economy, and our plan to execute on our interim and long-term emissions reduction targets through their integration into the Group's strategic thinking and future planning, like major capital expenditures, acquisitions and disposals.



Download our Transition Plan: www.melroseplc.net/media/3036/melrosetransitionplan.pdf

Melrose Industries PLC Annual Report 2022

Task Force on Climate-related Financial Disclosures Report

Executive summary

The transition and physical effects of climate change continue to accelerate, and impactful action is required to reduce global emissions. We recognise the need for transparency to enable our stakeholders to understand the climate-related risks that we may face as a Group, how we can manage them, and how we support our businesses as they seize opportunities to decarbonise their own operations and their respective sectors.

This second TCFD Report reflects our and our businesses' progress in integrating climate considerations into business strategy and risk management. Being a continual journey, we recognise the opportunity to continue to refine our climate-related disclosures over time, as regulatory requirements and our stakeholders' expectations evolve, new ways of improving our climate data availability and quality emerge, and our climate analytics capabilities and understanding of implications associated with climate change develop.

This report consists of four thematic sections. The Governance section describes how climate risks and opportunities are managed in our governance structures. The Strategy section focuses on the integration of climate-related considerations into our Group strategy. The Risk Management section reflects our established processes for identifying and managing climate risks across our governance structures, and the eventual oversight of our businesses' progress on managing climate-related risks and acting on associated opportunities. Finally, the Metrics and Targets section explores the indicators we use to drive our businesses as they work to achieve our Group short, medium and long-term climate targets.

For clarity around compliance of the following information with the TCFD framework, the TCFD All Sector Guidance and Supplemental Guidance for Non-Financial Groups[1] and the requirements arising from Listing Rule 9.8.6R(8), we consider our disclosure to be consistent with all TCFD recommendations and recommended disclosures, as shown in the below TCFD cross-reference and disclosure consistency summary.

Recommendation	Recommended disclosures	Page reference
Governance Disclose the organisation's governance around climate-related risks and opportunities	a) Describe the Board's oversight of climate-related risks and opportunities	67
	b) Describe management's role in assessing and managing climate-related risks and opportunities	67-68
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	68-72
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	72-74
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	75
Risk Management Disclose how the organisation identifies, assesses, and manages climate-related risks	a) Describe the organisation's processes for identifying and assessing climate-related risks	75
	b) Describe the organisation's processes for managing climate-related risks	75
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	76
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	76
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks	76
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	76

(1) https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf.

Governance

Melrose Board believes that the integration of sustainability and climate-related matters into our "Buy, Improve, Sell" strategy is crucial to the success of our businesses. Sustainable value creation is integrated into our business model, as illustrated on page 5.

Our established sustainability governance and risk framework with clear accountabilities enables us to identify and review climate-related risks and opportunities. We recognise that addressing climate-related risks must reflect our business model, and also take into account impacts on the Group's investment focus, existing and future employees, financial position and performance, and remain relevant to our businesses' sectoral challenges. Climate change is reviewed at various levels on a cross-functional basis including the Board, its committees, the Melrose senior management team and the divisional executive management and sustainability teams. Please see our Group sustainability and climate change governance framework on pages 62 to 63 for further information.

a) Describe the Board's oversight of climate-related risks and opportunities.

The Melrose Board of Directors, supported by the Melrose senior management team, has oversight of and ultimate responsibility for Melrose's sustainability strategy, targets, disclosures, and reporting. The Board assesses climate-related risks and opportunities among other sustainability and environmental material topics and monitors the Group's performance towards achieving its climate-related targets. The Board also oversees our alignment with the TCFD recommendations and the commitments set out in our Group Net Zero Transition Plan, which was published in 2022 in line with the UK Transition Plan Taskforce's ("TPT") guidance.

The Board receives annual training and quarterly updates on key sustainability and climate-related matters that impact the Group and its businesses, and on the specific measures that need to be implemented to improve our businesses' performance towards achieving our Group climate-related targets.

The Board regularly considers climate-related matters when reviewing and guiding strategy and overseeing its implementation. This oversight occurs through the Board attending business reviews during the year at which the CEOs of our Group businesses are regularly invited to present, as well as through the provision of Board papers and presentations by the Melrose senior management team at quarterly Board meetings. Through this oversight of the Group sustainability strategy, governance policies and risk management, and of the Melrose senior management team in its supervision of climate-related matters with the Group businesses, the Board oversees the implementation of improvement measures. Progress in improving climate-related matters is monitored by the Melrose senior management team and reported to the Board for its review, challenge and discussion on a quarterly basis. This includes the tracking of Group targets, and key metrics such as year-on-year reduction in emissions, increase in climate-related R&D spend, the number of new products contributing to decarbonisation and other innovation programmes.

The Audit Committee with the support of the Melrose senior management team updates the Board on climate risk management by monitoring and reviewing the effectiveness of the risk management processes, including the review of the Group's principal risks which include the climate change risk.

The Remuneration Committee implements the Company's Directors' remuneration policy ("Directors' Remuneration Policy"). The Remuneration Committee considers that the most appropriate place to recognise progress in relation to sustainability and climate-related matters within the Melrose executive remuneration structure is in the annual bonus plan, as part of the strategic objectives. As part of the renewal of the existing Directors' Remuneration Policy at the 2023 annual general meeting, the Remuneration Committee is proposing to adjust the weightings of the performance measures in the annual bonus plan such that ESG can become a specific focus of the award, with a defined component to ensure further incentivisation to deliver the Company's ESG strategy. The 2023 Directors' Remuneration Policy will enable an award based on financial performance metrics of at least 50%, ESG performance metrics of at least 10%, and the remainder based on strategic performance metrics. This structure will provide the Remuneration Committee with flexibility each year to set the factors that are most appropriate to the Company and its strategy and, consistent with current market practice, will be disclosed retrospectively due to commercial sensitivity (consistent with the approach taken to the existing strategic element). The intention will be to increasingly align the ESG factors with performance against the Company's published targets in this area, as the quality of data increases. However, it is proposed that the current executive Directors for the duration of the 2023 Directors' Remuneration Policy will continue on the current arrangements, with a maximum opportunity of 100% of salary, split between financial performance metrics (at least 50%) and strategic and/or personal objectives (which will continue to include ESG). Please see the Directors' Remuneration report on pages 119 to 144 of the Strategic Report for more details.

Oversight of sustainability and climate-related issues is integrated across our Board and its committees as outlined in the Group sustainability and climate change governance framework on pages 62 to 63.

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

The Melrose senior management team plays a key role in escalating material sustainability and climate risks and opportunities to the Board and ensuring that the implications of these are considered within the Board's agenda, governance framework, business strategy and where relevant, financial plans, to address climate-related risks and pursue opportunities. More information on how we determine the materiality of climate-related risks and their financial impact can be found in the Strategy b) section on pages 72 to 74.

The Melrose senior management team incorporates the Group's sustainability function, which is overseen by the Group Company Secretariat, and is responsible for executing the Group's sustainability strategy, as approved by the Board. This includes the monitoring of improvement actions and performance towards achieving Group climate-related targets (including reduction in energy consumption and emissions, increase in climate-focused R&D and new products contributing to the decarbonisation of our businesses' sectors), the TCFD recommendations and the inaugural Group Net Zero Transition Plan.

Climate-related risks and opportunities are discussed regularly amongst the Melrose Executive Committee including at weekly management meetings as appropriate, and in decision-making that relates to setting strategy to mitigate identified risks or capitalise on opportunities. Risks and opportunities that are considered by the Melrose senior management team to be material to the Group are reported to the Board each quarter.

Where relevant, the Melrose senior management team considers climate-related risks and opportunities with the businesses' respective executive management teams when reviewing and guiding strategy, which can include the approval of major capital expenditure. As such, the Melrose senior management team regularly engages with the executive teams and sustainability leads of each business, to identify and assess their sustainability and climate-focused improvement plans, performance against Group climate-related targets, and their sustainability reporting alongside financial and operational metrics.

The Melrose senior management team oversees the identification of Group climate-related risks and opportunities with the support of the businesses, who identify, monitor, and manage the specific risks relevant to their sectors, markets and operating activities. These are reported to the Melrose senior management team to ensure that risks and opportunities are identified with reference to our businesses' strategies and sectors, and that required controls are in place for appropriate mitigation and management.

The Melrose senior management team also oversees the assessment of Group climate-related risks and opportunities with the support of advisors where appropriate, who contribute to the awareness and analysis of climate-related risks and opportunities that are relevant to the Group businesses' sectors, in light of the evolving regulatory requirements and industry best practice. Insight and analysis of risk impacts and trends are collated, challenged and reported to the Audit Committee, and ultimately to the Board by the Melrose senior management team.

Melrose runs a decentralised business model and believes that the tactical implementation of climate-related actions and initiatives is most effective when carried out by our businesses themselves, and overseen by their respective executive teams. This is where direct impact can be made within their distinct business strategies and sectoral contexts. As such, each business's CEO and executive management team are accountable for reducing negative impact on the climate within their operations and interacting with their respective supply chains in line with the adopted Group sustainability targets and commitments. Each business's sustainability team coordinates and collaborates with other operational functions to execute programmes aimed at progressing towards achieving our Group climate-related targets. The Melrose senior management team has ultimate oversight of each business's sustainability and climate-related performance and conducts quarterly reviews to assess progress and align actions for each Group climate-related target alongside other sustainability metrics and targets.

The assessment and management of sustainability and climate-related risks and opportunities are integrated across our cross-functional Melrose senior management team, which includes Group corporate, tax, risk management, finance, legal and sustainability functions. Our Group sustainability and climate change governance framework depicts the relationships between the Melrose senior management team and the Board, its committees, and divisional executive and sustainability teams, as well as external advisors.

Strategy

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

Climate scenario analysis

Melrose carried out an initial climate scenario assessment in 2021, using two Representative Concentration Pathways ("RCPs") scenarios, which set the most conventional and understood pathways for concentrations of GHG emissions and, effectively, the amount of warming that could occur by the end of the century. The results of this analysis can be found on our website at www.melroseplc.net/sustainability/our-key-principles/respect-and-protect-the-environment/climate-change.

To aid readers of this report, we provide a summary of the two scenarios, together with an overview of our climate risks and opportunities.

Low-carbon scenario (RCP 2.6)
Very stringent. Emissions start declining immediately and get to zero by 2100. Warming likely to be below 2°C.

High-carbon scenario (RCP 6.0)
Some mitigation. Emissions rise to 2080 and fall causing high physical impacts. Warming likely to exceed 2°C.

Our climate scenario modelling of both risks and opportunities over the short, medium and long-term time horizons reflects the investment and value creation cycle of our "Buy, Improve, Sell" model as the Group aims to increase the value of its businesses at the point of their sale by integrating climate risk and opportunity considerations during its ownership. The time horizons used for the scenario analysis are as follows:

Climate scenario time horizons	
Short-term until 2024	Aligned with Melrose's investments and immediate improvement phase.
Medium-term until 2027	Aligned with Melrose's ownership and the "Improve" aspect of our business model.
Long-term until 2040	Expected to align with the period beyond Melrose's ownership.

Melrose Group transition and physical risks by time horizon and climate scenario

Risk type	2024	2027	2040
Transition			
Technology			
Low-carbon scenario RCP 2.6	Medium	Medium	High
High-carbon scenario RCP 6.0	Low	Medium	Medium
Market			
Low-carbon scenario RCP 2.6	Medium	Medium	Medium
High-carbon scenario RCP 6.0	Low	Low	Medium
Carbon policy and regulations			
Low-carbon scenario RCP 2.6	Medium	High	High
High-carbon scenario RCP 6.0	Low	Low	Medium
Reputation			
Low-carbon scenario RCP 2.6	Low	Medium	Medium
High-carbon scenario RCP 6.0	Medium	Medium	High

Risk type	2024	2027	2040
Physical			
Property			
Combined scenario (RCP 2.6/6.0)	Low	Low	Medium
Supply Chain			
Combined scenario (RCP 2.6/6.0)	Low	Low	Medium
Production			
Combined scenario (RCP 2.6/6.0)	Low	Low	Medium

Increasing magnitude of risks before mitigation activities

Low Medium High

Climate-related risks and opportunities

We have identified four transition risks and three physical risks that have the potential to materially impact the Group and its current businesses. Material risks are those that could have a significant effect on our businesses' operations, strategy, and financial planning if they are not managed appropriately over the three time horizons. As shown by our climate scenario analysis, transition risks are more material within the Group than physical risks. It was also found that our transition climate risks are very closely aligned with associated opportunities, informing the allocation of Melrose investment and the strategic focus of our businesses' efforts towards mitigating the Technology, Regulatory and Market risks.

Against three transition risks we identified three opportunities, which are considered material and, if seized upon successfully, will improve not just the Group's and our businesses' performance, but also reduce our impact on the planet. We reflect below on some of the key short, medium, and long-term transition risks faced by the Group and some of its businesses and the corresponding opportunities that they seek to seize with focused investment from Melrose.

Sustainability review
Continued

Transition climate risks
Technology Risk

Group level scenario analysis	2024	2027	2040
Low-carbon scenario RCP 2.6	Medium	Medium	High
High-carbon scenario RCP 6.0	Low	Medium	Medium

Group level

Risk description

The increasing demand for lower-carbon technologies can render current products obsolete, and the investment in new technologies that are not focused on climate, unsuccessful. Due to the very nature of its focus on the industrial sectors, the Group is exposed to technology risks as it buys manufacturing businesses with a view to improving them during its ownership. Very often, the businesses operate in industries in which the reduction of carbon footprint can be challenging. The participants within these sectors are under increasing pressure to develop and scale new lower-carbon technologies that help to drive down emissions (for example, use of hydrogen, zero-carbon aircrafts, increasing penetration of battery electric vehicles ("BEVs") and plug-in hybrid electric vehicles ("PHEVs")). This pressure is likely to increase over time under both climate scenarios.

Opportunity description

The Group is well-positioned to contribute to decarbonisation and the acceleration of the global ambition to reach Net Zero given its access to businesses in sectors that are in most need of investment and support to combine carbon focus with efforts to improve their productivity and international competitiveness. Opportunity therefore lies in the potential to gain a competitive advantage in the early development of alternative lower-carbon technologies and the manufacturing of products that are compatible with new emerging technologies which support the transition to a low-carbon economy. Our analysis of the technology risk once again underlines the business opportunity that Melrose has as a Group in enabling the net zero transition, building on its over two decades long expertise in the UK and international manufacturing arena.

Divisional/sector level

Risk description

Under the low-carbon scenario in particular, the Technology risk is expected to increase across the aerospace and automotive industries due to the rising pressure to develop and scale new lower-carbon technologies to drive down emissions (for example, use of hydrogen, zero-carbon aircrafts, increasing penetration of BEVs and PHEVs).

Aerospace: Potential Technology risk is associated with hydrogen fuel aircraft due to the incompatibility of current aircraft components with hydrogen fuel. Managing the development of hydrogen technology needs to be carried out carefully to account for increased operating and R&D costs needed to respond to new machinery, and the needs for training and competence development.

Automotive: Investment in new technologies such as hydrogen technology or components for electric vehicles ("EVs") may fail to gain traction resulting in R&D losses. The progression in technology is leading to greater electrification of vehicles and it is projected that the BEVs' and PHEVs' share of global production will be 29% in 2027. This may cause disruptions to the automotive industry as some components, such as propshafts, used in internal combustion engine ("ICE") vehicles are becoming obsolete. If technology is not made more competitive the overall attractiveness of EVs will decrease and slow the demand for EV compatible components, risking the investments made in EV technology.

Opportunity description

Aerospace: GKN Aerospace is already investing in low-carbon R&D in line with the Group sustainability target and is active in initiatives aimed at upskilling the future leaders of the aerospace sector. For more information about GKN Aerospace's opportunities to address the Technology risk, please see page 73.

Automotive: Opportunity lies in improving the competitiveness of EV products compared to fossil fuel-based vehicles, to ensure that the overall attractiveness of EVs does not decrease or slow the demand for EV-compatible components, and that the investments already made in EV technology are not at risk. For more information about GKN Automotive's opportunities to address the Technology risk, please see page 73.

Market Risk

Group level scenario analysis	2024	2027	2040
Low-carbon scenario RCP 2.6	Medium	Medium	Medium
High-carbon scenario RCP 6.0	Low	Low	Medium

Group level

Risk description

The Market risk comes from the changing demand for products due to shifting customer sentiment towards lower-carbon options. The Market risk is intrinsically linked with the Technology and Sector reputation risks, hence the mitigation strategies are similar. Under the lower-carbon scenario, Market risk exposure remains a stable medium across all time horizons. Under the high-carbon scenario, exposure does not manifest until 2040.

Opportunity description

The transition to low-carbon transport presents an opportunity to produce components that will differentiate the Group's businesses from competitors and position them for growth in their markets. In line with its sustainability principles, the Group leverages its unique expertise and knowledge of the manufacturing sectors and markets, to boost its businesses' productivity, ensuring the highest standards of product safety and encouraging them to adhere to the highest market standards.

Divisional/sector level

Risk description

There is potential uncertainty around which aerospace and automotive technologies will prevail in the market and which technologies customers will favour, and the businesses need to be cognisant of shifting consumer preferences.

Aerospace: The projected shift of consumer demand to lower-carbon travel options can potentially cause a threat to overall air travel demand. This may result in fewer aircraft and hence fewer component purchases. Additionally, in certain markets, passengers may prefer to start using alternative modes of transportation such as trains, and although air traffic is expected to grow until 2040, it is predicted to be slower than in the early 21st century.

Automotive: As with the Technology risk, a more rapid than the forecast shift to EVs and sustainable transport could result in several components manufactured for ICEs not being needed by EV customers. Failure to adapt to an increased demand for electric components may cause a loss in market share.

Opportunity description

Aerospace: The projections for the Market risk to be 'low' in the short and medium term, and only rise to "medium" in the long term under RCP 2.6, are due to the potential passenger transportation volume expected to increase with global population and economic growth. This presents multiple opportunities, including its contribution to the industry in the replenishment of existing fleets with the very latest lightweight and efficient components and products, and planning new aircraft and engine design to further improve efficiency and reduce emissions. With its market position, GKN Aerospace has a unique opportunity to address the increasing passenger demand for lower-carbon options and become a frontrunner in the production of parts for zero-carbon aircraft using sustainable aviation fuels.

Automotive: With all of its products designed to meet the highest international and OEM standards for hazardous materials and recyclability, therefore minimising the CO_2 impact of its customers' vehicles, GKN Automotive is well-positioned to address the Market risk. Additionally, it is now a supplier on nine of the top ten addressable BEV platforms, outside of China, and has an order book that is matching the market in terms of the shift to EVs. For more information, please see page 73.

Carbon policy and regulations Risk

Group level scenario analysis	2024	2027	2040
Low-carbon scenario RCP 2.6	Medium	High	High
High-carbon scenario RCP 6.0	Low	Low	Medium

Group level

Risk description

The Group's exposure to the potential carbon policy and regulatory risk is dictated by its historical focus on buying and improving businesses which often operate in some of the most carbon-intensive industries. This presents a risk of potential tightening of carbon policies and regulation, including stricter emissions standards for production activities, taxes on specific products and processes and carbon pricing on carbon-intensive materials, which can affect the Group's performance.

Divisional/sector level

Risk description

Due to the energy-intensive nature of manufacturing, our businesses are exposed to increasing carbon policy and regulatory risks in short, medium and long-term horizons, particularly under the low carbon RCP 2.6 scenario. The high carbon RCP 6.0 scenario assumes less near-term regulatory intervention and as such, risk exposure does not begin to manifest until 2040. Carbon prices are forecast to increase over the medium and long term to make businesses more responsible for their energy use and carbon emissions. The scope of carbon prices is also forecast to encompass more industries, with particular attention paid to carbon-intensive such as manufacturing. Increases in the cost of carbon are also likely to impact not only our businesses' direct energy bills but also their supply chain costs. For more information on mitigation of the policy and legal risk, please see page 74.

Automotive and Powder Metallurgy: Products and components are being increasingly regulated with various restrictions, such as the EU's target of reducing CO_2 emissions from new cars and vans by 55% by 2030, and a complete ban on the sale of new ICE vans and cars by 2030. This means that components manufactured by GKN Automotive and GKN Powder Metallurgy must be developed in line with these regulations.

Powder Metallurgy: Several manufacturing practices are more challenging to decarbonise. For example, some of GKN Powder Metallurgy's processes, such as the use of furnaces which are energy-intensive, present a risk with increasing carbon regulations and pricing. Current limitations of technology and cost prove a barrier to decarbonising these processes, and GKN Powder Metallurgy is continuously exploring ways to improve.

Sector reputation Risk

Group level scenario analysis	2024	2027	2040
Low-carbon scenario RCP 2.6	Low	Medium	Medium
High-carbon scenario RCP 6.0	Medium	Medium	High

Group level

Risk description

Melrose's current portfolio of businesses operate in some of the highest emitting and hardest to decarbonise sectors. The expectation of accelerating the path towards Net Zero comes with a responsibility for affecting positive climate impact across supply chains, product use habits, and sectoral contribution to more efficient policy measures. Reputation risk appears to be 'low' in the short term under the low-carbon scenario, and it is the only climate risk that was found to be more prominent under the high-carbon scenario. This is due to assumptions around increased stakeholder pressure and the limited carbon policies and interventions assumed in this scenario, which could mean that emissions in manufacturing sectors stay relatively high and that the Group's short and medium-term emissions reduction targets are missed. This could result in reputational damage, as well as a reduction in access to capital from environmentally conscious investors.

Opportunity description

The identified challenges also present significant opportunities through process integration (such as combining various operations to reduce consumption of resources and therefore emissions), developing and commercialising low-carbon alternative components and other innovative solutions that decrease energy use.

Divisional/sector level

Risk description

Stakeholders, including suppliers, customers and investors, prefer manufacturers that better align with their own climate-related targets and commitments. Those companies that cannot decarbonise fast enough risk becoming misaligned with the expectations of their stakeholders.

Opportunity description

Our businesses are well prepared to meet their major customers' expectations relating to environmental and climate performance, leveraging the Group's corporate governance framework, policies and sustainability targets and commitments (as shown on pages 62 to 63 and 58 to 59), to maintain a focus on decarbonising their own operations and increase the focus on developing and providing low-carbon components. For examples of mitigation strategies of each of our businesses, please refer to page 74.

Sustainability review
Continued

Physical climate risks

In the Group 2021 climate scenario analysis, physical climate risks were given a single combined risk rating, as it was established that physical outcomes were not likely to begin to diverge significantly until after 2040 under both scenarios assessed. The below overview sets out the results of the analysis of physical climate risk exposure considering three risk categories.

Melrose Group-level exposure to physical climate risks

Physical Risks and Potential Impact Ranking – Combined scenario RCP 2.6/6.0	2024	2027	2040
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).	Low	Low	Medium
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.	Low	Low	Medium
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.	Low	Low	Medium

Combined scenario RCP 2.6/6.0	Property			Supply Chain			Production		
	2024	2027	2040	2024	2027	2040	2024	2027	2040
GKN Aerospace	Low	Low	Medium	Low	Low	Medium	Low	Low	Medium
GKN Automotive	Low	Low	Medium	Low	Low	Medium	Low	Low	Medium
GKN Powder Metallurgy	Medium	Medium	Medium	Low	Low	Medium	Low	Low	Medium

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

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

Climate change has a direct impact on product strategy, development, and financial planning across our businesses. Over the last three years, with the support of the Board and Melrose senior management team, our businesses have invested c.£340 million on climate-related R&D programmes that primarily aim to develop technologies that help their customers improve energy efficiency and reduce GHG emissions compared with conventional technologies.

During 2022, we continued to consider the findings from our climate scenario analysis and progressed our Group sustainability improvement actions, including consideration of some of the potential financial impacts across the assessed climate scenarios for our businesses' sectors. Much of this analysis remains qualitative at this stage, but the Group has begun to consider quantifiable impacts against certain risks internally, where the underlying data is available and where current visibility of the risks allows. The potential financial impacts of the Group's positive and negative exposure to climate risks and opportunities require many assumptions to be made in respect of factors such as low-carbon technology forecasts, energy consumption, carbon pricing forecasts, and others, which are subject to high variability. The analysis conducted to date shows that our overarching business strategy would not be impacted, and importantly, mitigating actions are already in place for most risks, which significantly reduces potential negative financial impacts. There will be opportunities to continue to iterate our analysis as the scope of relevant data and assumptions becomes available both internally and externally to support and inform further quantitative assessment.

Please see pages 75 and 111 for further details on how climate change risk is taken into account in the Group's impairment testing which includes short to medium-term planning (five years) for each of the Group's cash-generating units ("CGUs"), and addresses known risks from climate change and other environmental factors impacting forecast costs as well as the opportunities in associated markets as they prepare for change, for example, hydrogen propulsion within the aerospace industry and electrification within the automotive industry, which may impact revenues.

We outline further how climate-related risks influence the Group and its businesses, alongside some cases that exemplify the risks our businesses face, and how these are addressed through mitigation, and strategies to capitalise on them. In defining the risk and opportunity types, we were guided by the examples of climate-related risks and opportunities and potential financial impacts recommended by TCFD (Tables A1.1 and A1.2 in the TCFD Implementing Guidance[1]).

(1) www.tcfdhub.org/wp-content/uploads/2022/04/Table-A1.1-and-A1.2-marked.pdf.

TCFD risk type	Sub-category risks	Potential financial impact
Technology	• Substitution of existing products and services with lower emissions options • Costs to transition to lower emissions technology	• Increased R&D costs to respond to technology and market trends and increasing capital expenditure to invest in new and specialist machinery

TCFD opportunity type	Opportunity categories	Potential financial impact
Products and services	• Development and/or expansion of low emission goods and services • Development of new products or services through R&D and innovation • Ability to diversify business activities • Shift in consumer preferences	• Increased revenue through demand for lower emissions products and services

Mitigation and strategy to capitalise

Whilst Technology risk is significant for the Group over the medium to long term, mitigating activities can be introduced to reduce risk and ultimately provide the businesses with new opportunities through continued focus, investment and collaboration. The Group's targets for climate-related R&D spend, and new low-carbon products help identify new technologies to guide and capitalise on the businesses' individual climate-focused capital expenditure programmes. Melrose's businesses actively collaborate with other aerospace and automotive sector participants to support the decarbonisation of air and motor travel, ensuring that they are at the forefront of innovation, as climate-focused organisations.

Examples of our businesses' actions to address the Technology climate change risk

GKN Aerospace	GKN Automotive	GKN Hydrogen
GKN Aerospace leads a ground-breaking UK collaboration programme "H2GEAR" which is developing hydrogen propulsion systems that can reduce GHG emissions by over 90% compared to kerosene in sub-regional or regional flights. Critically, it enables the incorporation of hydrogen-electric power into engines and minimises the disruption risk that hydrogen technology could cause. Producing components that are compatible with new technological developments will allow GKN Aerospace to capitalise on developing revenue streams early on in their lifetime and become recognised for the production of new sustainable components.	GKN Automotive is well-positioned as a top tier 1 supplier to global automotive OEMs to benefit from the opportunities presented by the ongoing transition to EVs, with its product and technology portfolio aligned to this industry megatrend. Although the industry transition to EVs may lead to a certain reduction in production of propshafts, this will be offset with an increased demand for eDrive components and systems which GKN Automotive already has over 20 years' experience in, and its market-leading sideshaft technology for BEVs.	GKN Hydrogen's modular product offering is expected to be well-placed to flourish alongside the growth of renewable energy sources, with applications in micro grids and residential building, industry and transportation, power back-up, and in off-grid standalone energy storage. With safety requirements, sustainability, and flexibility of great importance to this expansion of energy storage, GKN Hydrogen's technologies are primed for rapid growth in their application as they provide reliable and secure hydrogen storage.

TCFD risk type	Sub-category risks	Potential financial impact
Market	• Changing consumer behaviour • Substitution of existing products and services with lower emissions options	• Potential impact on revenue due to changing product demand (for example, reduced demand for ICE parts and increasing demand for EV parts in the automotive sector)

TCFD opportunity type	Opportunity category	Potential financial impact
Markets	• Access to new markets	• Better competitive position to reflect shifting consumer preferences, resulting in increased revenues

Mitigation and strategy to capitalise

Changing market demands for low-carbon products pose a significant medium to long-term unmitigated risk for the Group. The Group's businesses are responding by seeking to gain a better understanding of current and potential future consumer actions and by aligning investment and strategy accordingly.

Examples of our businesses' actions to address the Market climate change risk

GKN Aerospace	GKN Automotive	GKN Powder Metallurgy
Increased focus on individual carbon footprints may result in reduced demand for conventional air travel, particularly for airlines with older, less efficient fleets. For GKN Aerospace, this presents multiple opportunities: in the near to medium term, supporting the industry in the replenishment of existing fleets with the very latest lightweight and efficient components and products, and planning new aircraft and engine design to further improve efficiency and reduce emissions. In the medium to long term, it has an opportunity to become a frontrunner in the production of parts for zero-carbon aircraft using sustainable aviation fuels.	GKN Automotive continues to grow its significant share of the rapidly expanding EV market. It already holds a strong position through its leading driveline technologies, and over 20 years of eDrive system development. GKN Automotive has content on nine out of the top ten selling addressable BEV platforms outside of China, and its eDrive technologies have powered more than 2 million EVs to date.	GKN Powder Metallurgy is also well placed to capitalise on the low-carbon market opportunity with further development of products such as its e-pump system that substitutes engine-driven pumps on vehicle transmissions. The new system can achieve a fuel benefit of up to 10% compared to a conventional engine driven pump and offers customers a lower-carbon alternative. As the world's leading provider of powder metal solutions, GKN Powder Metallurgy is also committed to pursuing growth opportunities in the magnets for EVs market, in response to the supply challenges the industry is facing. Its dedicated magnets project team, bringing together multidisciplinary experts, operates out of the business's Innovation Centres for metal powders (in Cinnaminson, US) and for sinter metal manufacturing (in Radevormwald, Germany).

TCFD risk type	Sub-category risks	Potential financial impact
Policy and legal	• Increased pricing of GHG emissions • Enhanced emissions-reporting obligations • Increased cost of raw materials	• Increased operating costs and revenue deriving from carbon taxes and regulatory interventions, as well as increasing costs of the raw components in manufacturing

Mitigation

Melrose has a Group-level priority to support its businesses in driving the decarbonisation of their respective sectors and has set Group-level emissions reduction targets. In recognition of the carbon-intensive nature of certain manufacturing production processes within our businesses' operations, the Group has set a target to reduce energy intensity, which will help to avoid or mitigate our businesses' potential exposure to the evolving carbon regulation and the potential financial impact of increased carbon prices.

Our businesses also invest in identifying and implementing energy reduction initiatives. Our Group interim and long-term targets to source renewable electricity also guide our businesses in their carbon intensity reduction programmes across their operations. The Group's participation in the CDP Supply Chain engagement initiative has helped to quantify some of our businesses' Scope 3 emissions footprint, and also to identify suppliers with the largest carbon footprint whose products and components may be most impacted by carbon pricing.

Examples of our businesses' actions to address the Policy and legal climate change risk

GKN Aerospace	GKN Automotive	GKN Powder Metallurgy
To address the expectations from its large customers, GKN Aerospace is considering assessing embodied carbon as part of its product portfolio which will help it to understand the impact of using materials with high-carbon footprint to enable them to adjust product design to reduce it.	To help understand the most carbon-intense parts of the business in efforts to reduce its emissions, GKN Automotive is in the process of implementing a tool which would assess CO_2 emissions from the manufacturing of its purchased components and raw materials. Additionally, in 2022, it has set Science Based Targets for its own emissions which will be validated with the SBTi[1] in 2023.	To reduce its exposure to carbon pricing regulations, GKN Powder Metallurgy continuously seeks to reduce the emissions in its manufacturing processes. One of the examples of this was the review of its furnaces' shift patterns which resulted in 20% of its furnaces being shut down at any one time, significantly reducing energy consumption and therefore emissions.

TCFD risk type	Sub-category risks	Potential financial impact
Reputation	• Increased stakeholder concern (investors)	• Reduction in capital availability (due to investor preferences shifting towards companies that are less exposed to high-emitting activities)
TCFD opportunity type	Opportunity category	Potential financial impact
Resilience	• Participation in renewable energy programmes and adoption of energy efficiency measures	• Increased revenue through new products and services related to ensuring resilience, as well as increased reliability of supply chain and ability to operate under various conditions

Melrose has a Group-level priority to support its businesses in driving the decarbonisation of their respective sectors and has set Group-level emissions reduction targets to support this. The achievement of these Group targets, including the target of 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, will put the Group and its businesses in a good position to have sector-leading positions on the key industry platforms for producing and commercialising low-carbon products and technologies.

Examples of our businesses' actions to address the Reputation climate change risk

GKN Aerospace	GKN Automotive	GKN Powder Metallurgy
GKN Aerospace's collaboration in initiatives such as the FlyZero programme which aims to realise zero-carbon emission commercial aviation by 2030.	All GKN Automotive's products are designed to meet the highest international and OEM standards for hazardous materials and recyclability, therefore minimising the CO_2 impact of its customers' vehicles. Improved fuel efficiency of GKN Automotive's components allows customers to use them with the confidence that their final product will be within their fuel efficiency targets.	GKN Powder Metallurgy's several product and service offerings with innovative technologies that will be key to the low-carbon transition, including the additive manufacturing business, which can reduce the carbon footprint of manufactured products by using much less material than traditional manufacturing processes.

(1) The Science Based Targets initiative.

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

Our climate scenario analysis focused on a selection of climate-related risk and opportunity categories across physical and transition risk areas, their materiality, levels of exposure and responses to them under two scenarios: low-carbon (RCP 2.6) and high-carbon (RCP 6.0). The scenario analysis is available on our website at www.melroseplc.net/sustainability/our-key-principles/respect-and-protect-the-environment/climate-change.

To identify key characteristics for assessing climate-related risks and opportunities, we took into consideration a number of assumptions related to policy, macroeconomic trends, emissions pathways, and technology assumptions that were publicly available. There will be opportunities to continue to iterate our analysis as the scope of relevant data and assumptions becomes available both internally and externally to improve this initial assessment.

The analysis of the two different temperature scenarios has allowed us to verify and confirm the resilience and adaptability of our "Buy, Improve, Sell" business strategy in meeting expectations of the global transition to a low-carbon economy. By concluding that our strategy can be resilient to climate-related scenarios, we take into account three key considerations. Firstly, the Group has a responsibility to help decarbonise manufacturing sectors that can be among the hardest to decarbonise, and to drive industrial businesses that we own to achieve Net Zero by 2050. Secondly, the integration of sustainability and climate considerations into our investment cycle reflects the projected timelines for temperature changes within our two adopted climate scenarios[1], meaning that upon acquiring a new business, we instil best practice governance frameworks and refocus its strategy and investment to attain stronger performance all round, including towards achieving our Group sustainability targets and commitments. Finally, we have a robust risk management framework, which enables the Board's and the Melrose senior management team's continuous focus on increasing the value of the Group's businesses for all stakeholders and safeguarding them from any potential risks.

Risk Management

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

The objectives of the Board and Melrose senior management team 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 nature of how climate change transition and physical risks impact each of our businesses is not homogenous and considering that the Group operates on a decentralised basis, each business is individually responsible for developing and managing its own processes to monitor the associated risks that are relevant for its respective sector and business strategy as overseen by the Melrose senior management team.

As a principal Group risk, climate change risk undergoes the continuous assessment through the established Melrose risk management processes of identification, evaluation, mitigation, analysis, review and monitoring, as is the case with other principal Group risks. Melrose's 'top-down', 'bottom-up' risk management framework connects risk oversight and assessment at the Group level with the identification and assessment of risk exposure at the business unit level. For further details on the Group approach to assessing its principal risks, please see the Risk management and Risks and the uncertainties sections of the Strategic Report on pages 38 to 48.

In 2021, we conducted and published our first formal Group climate change scenario analysis, and in 2022, we reassessed climate-related risks for continued relevance as part of the review of the Group risk register given the more prominent place that climate change risk has assumed in the risk register. Climate-related risks were assessed alongside climate-related opportunities, based on the same criteria that was used to determine and rate the divisional-level risks and their relative significance in comparison to Group-level risks. This allowed for their integration into the wider Group risk management framework.

Climate change risk comprises transition and physical risks, capturing the climate risks identified by our businesses, and is reviewed and updated as required, at least annually. Using the three time horizons, our risks are ranked on both likelihood (the probability of the risk occurring) and impact (the financial and reputational outcome of the risk occurring), resulting in a combined Group risk register with a low, medium or high-risk rating for each time horizon and scenario. In the initial scenario analysis, the physical risks were given a single rating across both scenarios[1]. This is because the temperature outcomes of the scenarios do not begin to diverge meaningfully until after 2040. This is the time at which the physical impacts of climate change are expected to start becoming noticeably different depending on the scenario that is being considered. In the 2022 reassessment of physical risks this assumption has been maintained. The above likelihood and impact criteria allow the materiality of risks to be determined, meaning that Melrose can prioritise the management of the most material risks by allocating appropriate resources to it.

The Group's exposure to climate-related risks is through the individual businesses that we own, and the opportunities that derive from mitigating measures are considered in each business's own sustainability strategies, guided by Melrose, but set and implemented at a business level, in line with our decentralised business model. We are aware that the effects of climate change on specific sectors and businesses are highly variable. For more details on the identified climate-related transition and physical risks, please see page 69.

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

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 the Melrose senior management team and a review of the key findings presented by the internal and external 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 Group.

With Melrose's support, guidance and oversight, each of our businesses are individually responsible for developing and managing their own processes to monitor sustainability and climate-related risks and opportunities as appropriate to their respective business strategies and sectors. Each of them invests in and implements appropriate systems and processes to manage their impact on the environment and climate change, and continually reviews these in line with evolving expected practices. As such, the executive management team of each business is responsible for regularly reviewing and considering the levels of significant climate-related risks, their impact on business strategies and the effectiveness of management and mitigation controls. For more information on how we manage each identified climate-related risk on Group and divisional levels, please refer to pages 70 to 71.

(1) Specifically, the RCP 2.6 scenario which is aligned with the Paris Agreement's stated 2°C limit/1.5°C aim.

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

Climate Change as a principal Group risk was previously embedded within the Legal, Regulatory and Environmental principal Group risk. In 2021, to reflect the emerging risks involved with the increased frequency of extreme weather and climate-related disasters, coupled with tightening legislation and regulations in this area, climate change risk was realigned as a new standalone principal Group risk.

Climate change risk comprises transition and physical risks as identified in our 2021 climate scenario analysis. These risks undergo reassessment every year by the Melrose senior management team to determine the risk trend, impact and likelihood, taking into account the composition of the Group at the time of reassessment. The transition and physical climate risks are then presented to the Audit Committee for consideration alongside the other principal Group risks on a biannual basis in the form of reports prepared by the Melrose senior management team. The Chairman of the Audit Committee updates the Board to inform the Board's review, challenge and setting of the Group's appetite for each principal Group risk including Climate Change. The Board's assessment of each of the principal Group risks and their management, are disclosed on pages 38 to 48 of the Strategic Report which shows the relative significance of climate-related risks compared to other Group risks.

Given the dynamic nature of our Group composition and the transitionary nature of our businesses' sectors, the impact of climate change risk on the Group will fluctuate over time as will its impact on our businesses, as they each move through our "Buy, Improve, Sell" cycle. The incorporation of climate change considerations into the overall risk management process helps to understand the specific transition and physical risks, as well as the potential opportunities deriving from mitigating measures.

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.

We disclose a wide range of metrics associated with climate change, including GHG emissions by type, energy consumption by type, as well as renewable electricity consumption, water withdrawal and waste generation.

All of our metrics used for assessment of climate-related risks and opportunities, shown in the table below, are linked to Melrose's strategy through the corresponding sustainability targets and commitments, presented on pages 58 to 59. The Group sustainability highlights on page 57 depict our performance against select targets.

Risk and opportunity	Metrics
Technology risk and opportunity	Expenditure on R&D relating to solutions that contribute to the decarbonisation of our businesses' sectors[1]
Market risk and opportunity	Revenue from new products that contribute to the decarbonisation of our businesses' sectors
Carbon policy and regulations risk	Total GHG footprint, total energy consumption and percentage of electricity from renewable sources
Sector reputation risk and opportunity	Melrose's external sustainability rating (for example, MSCI or Sustainalytics)

(1) Please refer to page 72 for climate-focused R&D investment to date.

b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.

Our energy consumption and emissions data, the statement of alignment with the GHG Protocol and statement on SECR disclosures can be found on page 65. We currently disclose Scopes 1 and 2 and select Scope 3 GHG emissions in line with the GHG Protocol methodology, representing a breakdown of the Group's emissions by type and intensity measurement. Our chosen intensity ratio is energy consumption and emissions reported above normalised MWh and tonnes of CO_2e per £1,000 of turnover, which we believe remains the most appropriate intensity ratio for Melrose given our business model and structure. The data is reported against normalised MWh and tonnes of CO_2e meaning that the data has been standardised from the source units in which it was initially collected. The turnover figures used to calculate the intensity ratio include continuing businesses only and do not include any share of revenues from entities in which the Group holds an interest of 50% or less.

We also disclose select Scope 3 GHG emissions against Category 3 (fuel- and energy-related activities not included in Scope 1 or Scope 2) and Category 6 (business travel). We have started to gather emissions data from our businesses' upstream supply chain (through the CDP Supply Chain engagement initiative[2] and partial GHG inventories across our businesses) to help us understand, quantify and in future, disclose a broader range of Scope 3 emissions. Key priorities for 2023 in relation to further developing our climate-related data include the collection, measurement, understanding and reporting of our businesses' suppliers' emissions (Scope 3), with primary focus on upstream emissions. The completion of GHG inventories, currently ongoing within each of our businesses' carbon footprinting projects, will allow the Group to assess the materiality of select Scope 3 emissions in line with its reporting boundary. It will also contribute to further expanding the Group's Scope 3 emissions reporting in line with GHG Protocol.

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

Melrose's overarching decarbonisation ambition is to achieve Net Zero by 2050. To ensure this long-term target is met, in 2021 we set milestone targets to achieve reduction of CO_2e/£m revenue by 20% on average across the businesses by 2025. In the medium term we aim to reduce emissions intensity by 40% by 2030. Our other main climate-related targets are:

- Source 50% of our electricity from renewable sources by 2025 and 75% by 2030[3].
- 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.

Each business is individually responsible for developing processes to monitor and manage environmental data and assess progress against Group and divisional targets. By monitoring these metrics and targets, we can drive our businesses to seek to mitigate their exposure to risks such as carbon pricing and technology. We also seek to allocate resource to capitalise on opportunities that climate change may provide, particularly in respect of R&D investment, helping to keep our businesses at the forefront of climate-focused innovation including hydrogen technologies and the transition to EVs. Please see the overview of our Group targets and commitments on pages 58 to 59.

(2) For more details, please refer to page 81.
(3) Where renewable electricity is commercially and reasonably available in the relevant jurisdiction.

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"The transition and physical effects of climate change continue to accelerate, and impactful action is required to reduce global emissions. We recognise the need for transparency to enable our stakeholders to understand the climate-related risks that we may face as a Group, how we can manage them, and how we support our businesses as they seize opportunities to decarbonise their own operations and their respective sectors."

Environmental leadership

Our strategic sustainability priority is to respect and protect the environment. To support this, we continue to invest in and support our businesses as they develop products and services aligned with a net zero future.

UN SDGs

Group environmental targets	Progress
Respecting and protecting the environment	
• Divert 95% of our solid waste from landfill by 2025 and 100% by 2030[1]	Fulfilled and being maintained
• Reduce water withdrawal intensity by 25% by 2030[2] and implement a Group Water Stewardship Programme to improve water management across our businesses	On track

(1) Excluding hazardous waste.
(2) Target baselined on full year 2021 and with consideration of half year 2022 performance. Baseline was set in conjunction with the timeframe of the Group's target-setting process.

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

Our Group Environmental policy, approved by the Board, demonstrates 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 can be found on our website at www.melroseplc.net/media/2805/environmental-policy.pdf.

Water

Whilst water withdrawal for the Group is moderate, water conservation is becoming an increasingly important issue for some of our stakeholders. In 2021, Water was elevated in the Melrose Group materiality matrix.

During 2022, the Melrose Board approved a Group Water policy for implementation by our businesses, which sets out the Group's water management position and is centred around ensuring that our businesses remain resilient to any risks associated with water, minimise potential impacts on water availability and quality, and facilitate their contributions to addressing water challenges. The Group Water policy can be accessed on our website at www.melroseplc.net/media/3038/water-policy.pdf.

The ambition outlined in the Water policy is supported by a new quantitative Group-level target of a 25% reduction in water withdrawal intensity by 2030[2] (reported above normalised m^3 per £1,000 of turnover), and a process-oriented drive to support each business within the Group towards implementing the Group Water Stewardship Programme, which was launched in 2022.

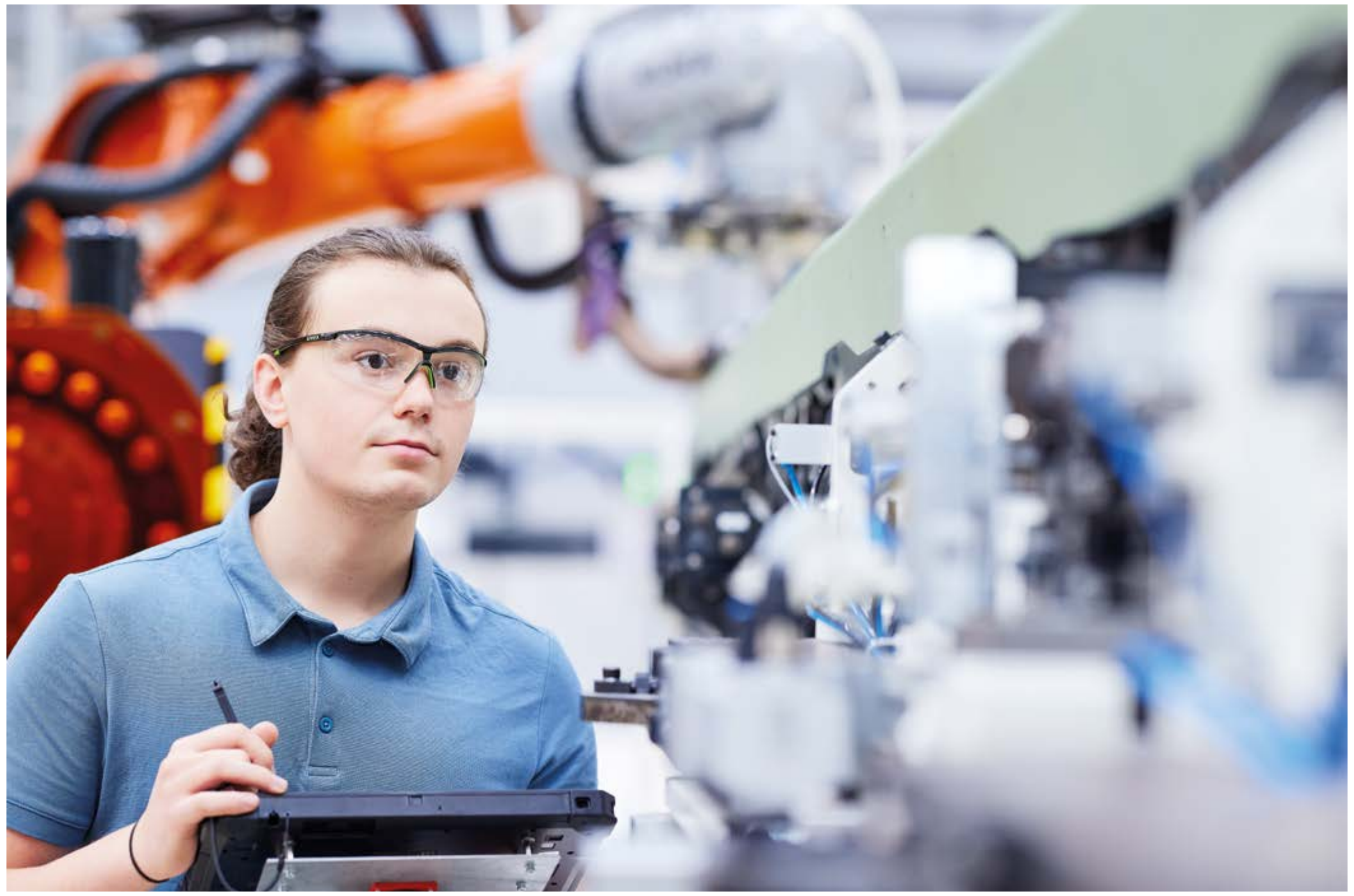
Water withdrawal data is presented in the table below, showing a decrease in total water withdrawn in 2022 compared to 2021.

Melrose Group water withdrawal[3] data for the period 1 January 2022 to 31 December 2022

Cubic metres	2022	2021[4]	Change (2022/2021)
Water withdrawal (m^3) in operations[5]	3,590,208	3,788,965	-5%
Company's chosen intensity measurement:			
Water withdrawal (m^3) per £1,000 turnover[6]	0.476	0.550	-13%

(3) 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.
(4) 2021 water withdrawal data has been restated.
(5) Water withdrawal data was collected from 100% of sites across the Group in 2022 and 2021.
(6) The Group's chosen intensity ratio is water withdrawal reported above normalised m^3 per £1,000 of turnover. The data has been standardised from the source units in which it was initially collected. The turnover figures used to calculate the intensity ratio include continuing businesses only and do not include any share of revenues from entities in which the Group holds an interest of 50% or less.
(7) For these purposes, baseline water stress measures the ratio of total water withdrawals to available renewable surface and groundwater supplies.
(8) 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.

In 2022, we updated the high-level analysis of our operations in water-stressed[7] areas to reflect the changing Group composition. Our businesses' manufacturing and office sites[8] were reviewed to identify operations 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 16% of our businesses' current sites are located in areas of 'extremely high' baseline water stress, and a further 17% of current sites are currently located in areas of 'high' baseline water stress. Engagement with our businesses to work towards reducing withdrawals in these areas is an active and ongoing process, towards addressing and improving water management.



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 solid non-hazardous waste from landfill by 2025 and 100% by 2030.

In 2022, we have improved data collection processes across our businesses and improved our waste management disclosure. Solid waste generation data reflected in the table below shows an overall increase in the total waste generated in 2022 compared to 2021. This was partially driven by production returning to near pre-pandemic levels. Despite the increase in absolute waste weight, there have been reductions in the proportion of non-hazardous waste that is sent to landfill. Additionally, a larger proportion of waste is being sent to higher waste hierarchy options of recycling in 2022 compared to 2021.

Melrose Group waste generation data for the period 1 January 2022 to 31 December 2022

Tonnes	2022[9]	2021[10]	Change (2022/2021)
Total solid waste	198,718	162,336	22%
Thereof non-hazardous	172,449	151,900	14%
Thereof hazardous[11]	11,333	10,436	9%
Waste incinerated	14,936	5,850	155%
Waste recycled	174,078	141,947	23%
Waste to landfill	7,829	9,175	-15%
Non-hazardous solid waste diverted from landfill	166,219	n/r[12]	n/r
Non-hazardous solid waste diverted from landfill rate	96.39%	n/r	n/r

(9) Waste generation data collected from 100% of sites across the Group in 2022. In 2022, total solid waste is made up of non-hazardous, hazardous and incinerated waste.
(10) Waste generation data collected from 100% of sites across the Group in 2021.
(11) Excluding incinerated waste.
(12) Not reported.

Biodiversity

Melrose recognises the importance of biodiversity and how fundamental it is to our society. During 2022, the Melrose Board approved a new Group Biodiversity policy for implementation within its businesses. The policy sets out our fundamental principles and expectations of our businesses in promoting the growth of the natural world and help prevent deforestation. From this, they are expected to build their own business-level policies and practices over time. The Group Biodiversity policy can be found on our website at www.melroseplc.net/media/3037/biodiversity-policy.pdf.

>90%

solid non-hazardous waste diverted from landfill in 2022 against the 95% target by 2025

Energy efficiency

Our businesses seek 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.

During 2022, the Group more than doubled its investment in energy efficiency programmes, having as a whole invested over £19 million (2021: over £9 million) in the following areas:

LED lighting retrofits

>£3m

More efficient air conditioning and heating systems

>£1.5m

Renewable energy installations

>£1m

Insulation improvements

>£1m

Energy-efficient equipment

>£12.5m

Our businesses take a tailored approach to implementing climate-related initiatives that are most relevant and impactful to their operational and market environments. Each business is at a different stage in their climate strategy, but all have implemented or are in the process of implementing a wide range of positive actions, which will continue in 2023.

Supply chain management

We require our businesses to participate responsibly and sustainably within their supply chains and to mitigate the risk of supply chain issues. At a minimum, we expect them to source raw materials and manufacture products in a responsible, ethical and sustainable manner.

In 2021, we elevated the importance and prominence of Responsible Sourcing across the Group as a material sustainability topic. Supply chain engagement as the key initial enabler of our commitment to source responsibly has therefore received greater focus during 2022.

In line with our decentralised model, we require our businesses to work closely with their suppliers to drive them to minimise their environmental impact, respect their employees' human rights and provide good and safe working conditions across their operations. In practice, this means that our businesses require their suppliers to respect and protect the environment in compliance with the applicable environmental legislation relating to energy use, waste, emissions, water and resource consumption and management, to treat their staff equally, to pay their employees a fair wage that meets or exceeds the minimum standards or prevailing industry standard, to eliminate excessive working hours for all workers, and protect their workers' health and safety rights at work.

Our businesses are expected to implement supplier qualification processes where relevant which, at a minimum, require suppliers to complete a risk assessment to identify and appropriately manage the risks associated with the environmental and social sustainability of their operations. Our businesses each have a supplier code of conduct, or an equivalent, which outlines their ambitions to safeguard both human rights and the natural environment globally and all of their suppliers are required to comply with these codes of conduct.

In 2022, Melrose joined the CDP Supply Chain engagement initiative, to assist in beginning to capture our businesses' additional supplier environmental data and enable efficient tracking of their alignment with Net Zero. This first year engagement has provided valuable insights on suppliers' environmental data, including their energy use, emissions reduction initiatives and climate targets alongside other environmental data. The selected organisations were reflective of our businesses' largest suppliers by spend, and engagement with them was therefore important for pinpointing risks and identifying emissions reduction opportunities.

As set out in the Group Conflict Minerals policy, we also 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 geographies. Our businesses are also expected to work with their supply chain partners to ensure compliance with all applicable laws and regulations. As a minimum, their 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 of the relevant business.

Melrose Industries PLC Annual Report 2022

Social

Promoting diversity, prioritising and nurturing the wellbeing and skills development of employees, and contributing to the communities that they are part of, is instrumental to the success of our businesses and their impact in the regions where they operate.

UN SDGs

3 GOOD HEALTH AND WELL-BEING · 5 GENDER EQUALITY · 8 DECENT WORK AND ECONOMIC GROWTH

Group social targets	Progress
Prioritising health, safety and wellbeing of employees	
• Protect our employees from injury and lost time accidents ("LTAs") and maintain a LTA frequency rate below 0.1	Fulfilled and being maintained
Group social commitments	
Nurturing skills and development	
• Ensure that all permanent employees receive regular annual formal performance reviews where permitted by local laws and employee representative bodies	On track
Supporting communities that our businesses are part of	
• Invest £10 million over five years through the Melrose Skills Fund	On track
Promoting diversity and inclusion	
• Maintain a Board and Melrose Executive Committee comprising at least 33% female membership	Fulfilled and being maintained
• Maintain achievement of the Parker Review recommendations	Fulfilled and being maintained

The Melrose Group Code of Ethics reinforces our Group sustainability principles and provides our businesses with clear guidance as to how the Board and Melrose senior management team expect them to conduct business, and the consequences of non-compliance. The Code of Ethics outlines the policies and procedures that Melrose has put in place to drive best practice in health and safety, wellbeing and training, and to promote diversity and inclusion throughout the Group. The Code was approved by the Board and last updated in December 2022. It can be found on our website at www.melroseplc.net/sustainability/data-reports-and-policies.

Employee engagement

We recognise the importance of engaging with employees in a meaningful way to support their development and ensure that the businesses provide the best working environment. Our businesses consult regularly with employees to ensure that concerns are addressed in a meaningful and mutually beneficial way.

In 2022, each of our businesses undertook all-employee engagement surveys, which are completed confidentially and anonymously, with the average response rate being over 75% (2021: 75%). Upon receipt of survey results, the relevant information is shared with the businesses' executive management teams, plant directors, HR teams and other people leaders. These results are then further analysed through mediums such as employee focus groups. Across all our businesses, action plans are developed to help address areas for improvement. 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 Workforce Advisory Panel ("WAP"), chaired by a member of the Melrose senior management team and comprising 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 voices of their workforce. Each member is also responsible for demonstrating how key workforce views are fed into their respective executive management teams' decisions, as well as ensuring that the workforce is aware of their impact on such decisions. Similar to 2021, key workforce views in 2022 related to learning and development opportunities, particularly in the context of the current macroeconomic climate. Please refer to the Talent and career management section on page 86 for examples of how this has been addressed.

Melrose requires its businesses to safeguard the contractual and statutory employment rights of their employees. Each business is encouraged to maintain constructive relationships with employee representative bodies, including unions and works councils. The rights of workers to participate in collective bargaining and their freedom of association is respected across all businesses. Workers are entitled to join or form trade unions of their own choosing and to bargain collectively where legally permissible within their jurisdiction. 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.

Melrose Group employees as at 31 December 2022	
Permanent employees of which:	38,691
Full-time employees	37,694
Part-time employees	997
Temporary employees	4,691
Apprentices	405
Total	**43,787**

Pensions

With every acquisition, Melrose seeks to strengthen pension scheme funding for the benefit of employees and retirees, improving the probability that all historic benefit promises are met in full. We take pride in having substantially improved all of the UK pension schemes under our ownership, with many of them becoming fully funded on or prior to 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 100% 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.

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, on top of providing £150 million of immediate 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.
- Agreed more secure funding targets of Gilts +25 basis points (GKN 2016 scheme prior to its 2021 buyout) and Gilts +75 basis points (GKN 2012 schemes 1-4) to achieve more prudent funding targets and therefore less risky investment strategies.
- 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:

- Set realistic and prudent funding targets to ensure improved financial health for the long-term delivery of members' benefits.
- Increase funding levels during our period of stewardship.
- Provide better structural and financial security to our businesses' pension schemes during our ownership.
- Insist on independent trustees to chair our businesses' pension schemes in accordance with governance best practice.
- De-risking our businesses' pension schemes through appropriately prudent discount rates, relatively unadventurous investment return targets and hedging against changes to liabilities arising from inflation and/or interest rate movements.

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

40%

female representation on the Board, meeting the expectations of the FTSE Women Leaders Review

Reward and recognition

Each of our businesses has policies in place relating to recruitment, talent development and succession planning, supported by training programmes and effective management. They are required to ensure that relevant opportunities are in place for employees to discuss career development with their direct managers, and each business encourages internal applications for open positions. In 2022, 12% of open positions were filled by internal candidates (2021: 20%)(1).

Where permitted by local laws and employee representative bodies, performance evaluations are undertaken across our businesses, with 46% of employees receiving a performance appraisal in 2022 (2021: 45%)(2). At the time of writing, performance evaluations for 2022 were ongoing. In the pursuit of improvement, in 2022, GKN Automotive committed to ensuring that all permanent employees receive performance reviews by 2024. It has also revised its evaluation guidance and improved the communication of the performance calendar across employees. Annual salary reviews are aligned with performance evaluations where applicable 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, over 70% of the Group's permanent employees (by headcount) benefit from being a member of a company-based pension scheme.

(1) Data was collected from 100% (by headcount) of the Group in 2021 and in 2022.
(2) Data was collected from 98% (by headcount) of the Group in 2021 and in 2022.

Diversity, equity and inclusion

Driving our businesses to create and maintain a diverse, inclusive and safe environment is a priority as a Group. We recognise the importance of diversity in building a high calibre workforce and are committed to championing diversity in the broadest sense, be that along geographical, cultural or personal lines, encompassing gender, race, ethnicity, country of origin, nationality, colour, social and cultural background, religion, family responsibilities (including pregnancy), sexual orientation, age and disability. 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 fair criteria outlined in job descriptions. For any employees with a disability, we take steps to ensure reasonable adjustments are made where required.

The Melrose Code of Ethics highlights the importance of diversity and inclusion and is supported by our Board of Directors Diversity policy and our Melrose Diversity, Equity and Inclusion policy, both of which are reviewed and approved each year by the Nomination Committee. These policies can be found on our website at www.melroseplc.net/sustainability/data-reports-and-policies.

Promoting diversity at all levels

There are a number of ways in which the Board has proven its commitment to diversity. In particular, the last four Non-executive Director appointments have been female. Furthermore, two of the committee chairs, the Chair of the Audit Committee and the Chair of the Nomination Committee, are now held by women.

As at 31 December 2022, Melrose had 40% female representation on the Board (2021: 42%), meeting the expectations of the FTSE Women Leaders Review (formerly the Hampton-Alexander Review) for 40% female representation on FTSE 350 boards by the end of 2025, and the incoming Financial Conduct Authority ("FCA") requirement for 40% female representation on boards for financial years starting on or after 1 April 2022.

Gender diversity at Board level

	Male	Female
At 31 December 2022	6 (60%)	4 (40%)
At 31 December 2021	7 (58%)	5 (42%)

In addition, Melrose continues to meet the Parker Review target of having one director from an ethnic minority background on its Board.

Diversity is promoted below Board level as well. Melrose established an Executive Committee at the beginning of 2020 in order to pave the way for a diverse pipeline for succession planning purposes and to recognise the diversity of thought leadership at a senior level. As at 31 December 2022, the Melrose Executive Committee and its direct reports consisted of 39% female representation (and 36% female representation specifically at an Executive Committee level), exceeding the Hampton-Alexander Review target of 33% female representation within executive teams and their direct reports, and close to the new target set by the FTSE Women Leaders Review of having 40% female representation within executive committees and their direct reports by the end of 2025.

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

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. However, the Group has continued to make good progress in increasing senior manager diversity during the year.

Group permanent employee gender diversity at 31 December 2022

	Male	Female	Total	Male %	Female %
Total Group employees	30,815	7,876	38,691	80	20

Group senior manager diversity at 31 December 2022

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	116	31	147	79	21
Total Senior Managers	134	39	173	77	23

Melrose Industries PLC Annual Report 2022

Talent and career management

Skills development

Melrose is committed to promoting employee career development and life-long learning. Boosting productivity is central to Melrose's strategy to improve performance across its businesses, all of which are encouraged to ensure that extensive training opportunities are available and promoted to all workers at all stages of their careers and that high skills levels are cultivated and maintained across the Group.

Leadership training is an integral part of ensuring the workforce remains engaged and innovative. We encourage our businesses to develop a diverse pipeline of successors for key roles and leadership positions to secure robust succession strategies. Annual talent reviews help identify individuals who have the ability and aspiration to grow into more stretching roles.

Our businesses deliver a wide variety of flexible training programmes through a combination of online and in-person training. Set out in the table below is the average training time per employee and the total number of hours spent on workforce training. The decrease in training time and spend per employee were relative to the lower headcount in 2022 and the increase in COVID-19 related training demand in 2021.

Training and development

	2022	2021
Average training time per employee (hours)[1]	17	23
Average training spend per employee (£)[2]	183	209
Total number of training hours[3]	**729,474**	**929,878**
Total annual spend on workforce training (£)[4]	**7,992,943**	**8,384,837**

(1) Data was collected from 100% (by headcount) of the Group in 2022 and 2021.
(2) Data was collected from 98% (by headcount) of the Group.
(3) Data was collected from 100% (by headcount) of the Group in 2022 and 2021.
(4) Data was collected from 98% (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 2022, over 400 apprenticeships were in place across the Group's businesses, providing a mix of on-the-job and classroom training.

The Group also places a strong focus on training and developing graduates, and our businesses all run a variety 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.

In addition to apprenticeships and graduate programmes, GKN Aerospace and GKN Automotive also run a number of internship and cooperative education programmes, whereby students complement their studies with paid periods of work over the course of their degree. These programmes give students the opportunity to gain valuable industry experience that helps broaden their skillsets, whilst helping businesses develop a talented and diverse recruitment pool.

Apprenticeship and graduate programmes across GKN Aerospace and GKN Automotive are supported by the Melrose Skills Fund which was launched 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. Examples of such initiatives include GKN Aerospace's support of the restoration of a renowned modified Mk1 Spitfire aircraft and provision of apprentices to work on the aircraft.

Safety first

We drive our businesses to prioritise the health, safety and wellbeing of their employees and contractors, and are committed to setting and ensuring that the high standards we instil are safeguarded by strong governance principles, effective and robust policies, procedures and training programmes. Our businesses take a holistic approach to employee wellness, which starts with protecting their physical and mental health, protecting their social wellbeing, and respecting their human rights, and extends to ensuring a positive workplace culture that attracts and retains a highly skilled workforce. This underpins our overarching commitment to stop all preventable accidents from occurring within our businesses and to their contractors, through the promotion of safe behaviours at site level and across all locations, and an enhanced focus on hazard identification and awareness. 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 oversight over any material incidents or issues that arise.

As at 31 December 2022, 76% (2021: 75%)[5] of sites (inclusive of office, production and testing sites) within the Group were certified to the ISO 45001 international standard[6], with additional relevant sites progressing towards accreditation. All of GKN Automotive's production sites and test centres and all of GKN Powder Metallurgy's manufacturing sites are ISO 45001 certified. 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 that standards are being maintained.

Health and 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 requires 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.

The average LTA frequency rate across the Group was less than 0.1 in 2022, in line with the Group target, and continue to prioritise health and safety improvements across our businesses in the push for a LTA rate of zero. Please refer to the Health and Safety section of our Non-Financial KPIs on page 29 of the Strategic Report.

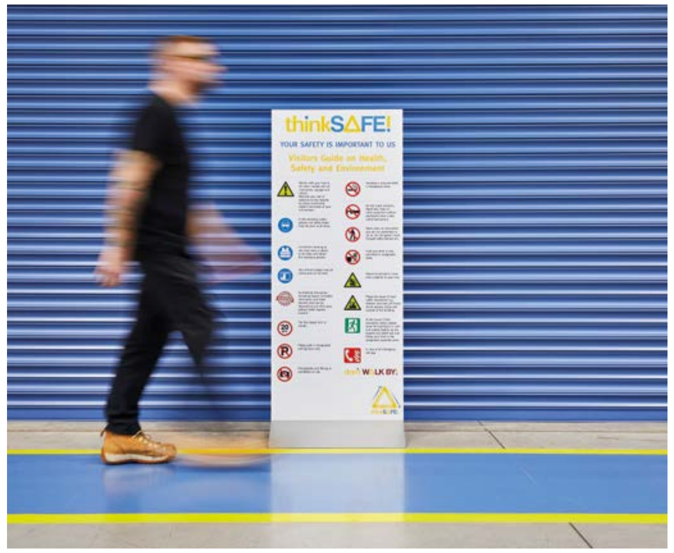
Ensuring the highest standards of product quality and safety

We are committed to ensuring that our businesses achieve the highest standards of product quality, reliability and safety. In recognition of the importance of protecting the wellbeing of the ultimate end-users of their products, each business follows strict product design and development procedures to ensure precise delivery to customer specification and seeks opportunities to enhance quality and safety performance.

The Group takes a preventative approach to product responsibility. We ensure that effective controls and processes are in place around social factors such as safety and quality assurance, including crisis management procedures and processes including, but not limited to, potential recall programmes.

In 2022, 98% (2021: 98%) of the Group's product portfolio (by revenue) was certified to a recognised international quality management standard of ISO 9001, ISO/IATF 16949 or EN/AS9100.

(5) Data was collected from 98% (by sites) of the Group.
(6) Occupational health and safety standard.



98%

of the Group's product portfolio (by revenue) was certified to a recognised international quality management standard

Community

Our businesses are encouraged to engage their employees in contributing to local charitable and community projects, and lead by example through providing significant investment in both volunteering time and material resources. In 2022, the Group made cash donations to not-for-profit charitable organisations of £1,042,150 (2021: £703,408).

Examples include GKN Automotive's sites offering employee hours for work in educational establishments to provide careers talks, give local school groups plant tours and run STEM-related competitions such as the car-building F24 competition and the IET Faraday Challenge days, an annual competition comprised of STEM activities. GKN Powder Metallurgy's site in Buzău, Romania provided direct help for Ukrainian refugees by donating food, employee time and assisting local authorities in the setup of a permanent refugee centre.

Governance

Sound business ethics and integrity are core to the Group's values and fundamental for the success of our strategy. Melrose is a premium listed company with strong, established financial and non-financial controls that are continually assessed, tested and reviewed.

UN SDG

Group governance commitment	Progress
Exercising robust governance, risk management and compliance	
• All employees, suppliers and contractors must comply with our Code of Ethics, conducting business with integrity and in a responsible, ethical and sustainable manner	Fulfilled and being maintained

Our robust governance framework is overseen by the Melrose Board of Directors and supported by independent internal audit and risk functions, regular public disclosure and financial reporting, external audits, public accountability and conformance with leading benchmarks set by the UK Corporate Governance Code (the "Code"). The framework is also supported by direct engagement with investors, corporate governance and proxy advisors, and the Group's wider stakeholders to ensure best market practice is being implemented.

Strong financial and non-financial controls as well as 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 Group Code of Ethics and compliance policies which reflect current best practice and strong corporate citizenship. Each business is required to communicate and embed the Group Code of Ethics and compliance policies within their operations and activities to ensure that they conduct business with integrity and in a responsible, ethical and sustainable manner. The Group Code of Ethics and some of the compliance policies and statements can be found on our website at www.melroseplc.net/sustainability/data-reports-and-policies. The Group Code of Ethics and compliance policies, as approved by the Board, 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, human rights, supply chain, biodiversity and water.

During 2022, Melrose implemented new Supply Chain, Biodiversity, and Water policies, and also updated the Melrose Board of Directors Diversity policy and Melrose Diversity, Equity and Inclusion policy. The new and updated policies have been fully implemented across all businesses, and they (as well as all other Group compliance policies) continue to be monitored to ensure their effectiveness for the Group.

Implementation of the Group Code of Ethics and compliance policies 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.

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 is available on our website at www.melroseplc.net/media/2803/abc-policy.pdf. During 2022, two employees were disciplined or dismissed due to non-compliance with the Anti-Bribery and Corruption policy.

Although the policy prohibits party political donations, it does, however, recognise 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 wrongdoing 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 concern are treated with respect and dignity and do not face retaliation. During 2022, 120 whistleblowing cases were recorded through the platform (2021: 103)[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) Excluding any whistleblowing cases received by businesses that were no longer part of the Group as at the end of 2022 and 2021.

Modern slavery and human trafficking

The Group has a zero-tolerance approach to any form of modern slavery, as set out in the Melrose Anti-Slavery and Human Trafficking policy which is available on the website at www.melroseplc.net/media/2590/anti-slavery-and-human-trafficking-policy.pdf.

In accordance with the Modern Slavery Act 2015, Melrose publishes its own Modern Slavery Statement which is approved by the Board annually, and the latest statement can be found on our website. 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 that 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, as set out in our Human Rights policy, in support of the principles set out in the UN Declaration of Human Rights. Our Human Rights policy can be found on our website at www.melroseplc.net/media/2806/human-rights-policy.pdf.

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 on human rights reported by our businesses in 2022 or in the previous two years.

Paying tax responsibly

Melrose is committed to paying taxes that are due, complying with all applicable laws, and engaging with all applicable tax authorities in an open and cooperative manner. The Group does not engage in aggressive tax planning. The Group's Tax Strategy is reviewed, discussed and approved by the Board annually. The Audit Committee periodically reviews the Group's tax affairs and risks.

The Group has adopted a policy in respect of the prevention of the facilitation of tax evasion which has been implemented by the businesses, with guidance on undertaking risk assessments and training to employees in relevant roles.

The Group does not operate in countries considered as partially compliant or non-compliant according to the OECD tax transparency report, or in any countries blacklisted by the EU, for the purposes of tax avoidance and/or harmful tax practices, per the lists released as at 4 October 2022.

Risk and internal controls

Risk management

A key responsibility of the Board and Melrose senior management team is to safeguard and increase the value of the businesses and assets in 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. Melrose recognises 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 Financial Reporting Council's ("FRC") 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.

Internal financial controls and reporting

The Group has a comprehensive and robust system for assessing the effectiveness of the Group's internal controls, including strategic business planning and regular monitoring and reporting of ESG data alongside financial and operational performance. The identification and oversight of material controls over the ESG data of the businesses is the responsibility of the Melrose senior management team, which has established an evolving programme of regular monitoring and review (at least quarterly) processes that are consistently robust across the Group. This is complemented by reporting protocols to ensure the businesses' executive management teams are accountable for achieving progress on sustainability and climate-related matters. ESG data collection, control and decision-making is supported through regular sustainability training at Board level. The quality and accuracy of ESG data is continually improved against relevant guidance from prominent international regulatory frameworks. Horizon-scanning of applicable external reporting requirements is conducted regularly by the businesses where relevant to identify the opportunities to strengthen data management systems and controls.

A detailed annual budget is prepared by the Melrose senior management team and thereafter is reviewed and formally approved by the Board. The Group budget and other operational and strategic targets, including on sustainability and climate change, are regularly updated via business review meetings which are held with the involvement of the Melrose senior management team to assess the businesses' performance, and update sessions with businesses' sustainability teams take place at least quarterly. The key messages of these reviews are in turn reported to, and discussed by, the Board each quarter.

The Group engages BM Howarth as internal auditor with additional support as required from Ernst & Young. A total of 50 sites across the Group were assessed by BM Howarth during 2022. The Directors can report that based on the sites visited and reviewed in 2022, there has been progress across the Group following the 2022 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. The Melrose senior management team is responsible for ensuring that the Audit Committee's recommendations in respect of internal controls and risk management are implemented.

Information security and data privacy

Melrose strongly respects privacy and seeks to minimise the amount of personal data that it collects, as well as to ensure 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 executive management teams of each business and external cyber security risk consultants to track the Group's exposure to cyber security risk and, to ensure appropriate compliance with the General Data Protection Regulation ("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 management 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.

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 National Institute of Standards and Technology ("NIST") in the defence sector and the Trusted Information Security Exchange ("TISAX") in the automotive sector.

As part of Melrose's overall information security strategy, IT security awareness training was provided by all businesses in 2022.

Outlook for 2023

In 2023, we will continue to oversee and invest in our businesses to accelerate their sustainability performance.

Key areas of focus for 2023 include:

- Setting a Group commitment relating to the setting of Science Based Targets within our businesses.
- Developing internal Melrose sustainability performance tools to display our businesses' quarterly sustainability performance against our Group sustainability targets and bolster regular engagement to measure and track progress, with a view to further their improvement efforts in impactful areas.
- Increasing our Diversity and Inclusion commitment to maintain 40% female representation across the Board and to achieve 40% female representation at Melrose Executive Committee level, in line with the new FTSE Women Leaders Review target.
- Continuing to evolve the Group's understanding and assessment of biodiversity factors prior to the official release of a global Taskforce on Nature-Related Financial Disclosures ("TNFD") framework.
- Continuing to evolve the Group's TCFD disclosures, with increased linkages to quantitative data within the Annual Report and financial statements where relevant and appropriate.
- Continuing to engage with our businesses' suppliers with a view to expanding our Scope 3 data reporting.
- As part of the renewal of the Company's Directors' Remuneration policy in 2023, further integrating ESG into executive remuneration by proposing to carve out a standalone element of the annual bonus for ESG metrics.

Non-financial information statement

In addition to the operational and financial improvements that we implement within our businesses, we recognise our responsibility to improve the non-financial performance of the businesses we acquire, and to build sustainable businesses for the long-term.

Our efforts to improve our businesses are supported by a foundation of robust governance, risk management and compliance, and we continue to engage with key internal and external stakeholders to ensure all our businesses better understand and deliver upon their expectations.

This section of the Strategic Report constitutes the Group's Non-Financial Information Statement for the purposes of sections 414CA and 414CB of the Companies Act 2006. The information listed is incorporated by reference.

Reporting requirement	Policies and standards that govern our approach	Principal Group Risk	Where you can find more
Stakeholders	Melrose was founded in 2003 to empower underperforming manufacturing businesses to unlock their full potential for the collective benefit of stakeholders, whilst providing shareholders with a superior return on their investment. The Board understands and takes into account the interests of its different stakeholders when taking decisions, and undertakes thorough event-driven consultations with relevant stakeholders to ensure that the decisions it takes are based on a fully informed view of the potential impact of the decision on those stakeholders.	• Mergers and acquisitions	**2022 Annual Report** • Our strategy and business model • Our strong track record • Board stakeholder engagement and decision-making (Section 172 statement) • Sustainability review
Environmental matters	The Sustainability review on pages 55 to 91 sets out our approach and policy in respect of the environment, sustainability and climate change and provides examples of the actions our businesses are taking to contribute to the decarbonisation of the sectors in which they operate, to promote energy efficiency and to reduce waste and water consumption. It also provides details of the Group's energy consumption and Greenhouse gas emissions. Our Group established sustainability targets and commitments in 2021, as we transition to a net zero economy by 2050, which support our four overarching sustainability principles, being aligned with our material sustainability issues. The integration of the UN Sustainability Development Goals with our targets and commitments, and our strategy and business model, links our sustainability objectives with those of society and aligns our value creation strategy with our stakeholders. We also adopted our inaugural Net Zero Transition Plan, prepared in accordance with the UK Transition Plan Taskforce's ("TPT") guidance, in 2022. The plan sets out the actions we intend to take in the transition to a net zero economy, how we plan to execute on our interim and long-term emissions reduction targets, and how we plan to achieve Net Zero across the Group by 2050.	• Climate change • Legal and regulatory	**2022 Annual Report** • Board stakeholder engagement and decision-making (Section 172 statement) • Sustainability review • Melrose Group Task Force on Climate-related Financial Disclosures ("TCFD") • Group Net Zero Transition Plan **Group Policies** • Conflict Minerals policy • Environmental policy • Biodiversity policy • Water policy
Employees	At Melrose, we promote diversity and prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of. Our Sustainability review on pages 55 to 91 sets out our approach and the policies that support it. We recognise the increasing importance of taking a holistic approach to employee wellness by protecting physical health, mental health and social wellbeing. This helps to foster a positive workplace, and to attract and retain a highly skilled workforce. We are committed to building a diverse workforce at all levels and creating an inclusive culture for all. Our Sustainability review on pages 55 to 91 sets out how we are doing this, and further information on our policies to promote diversity and inclusion can be found in the Nomination Committee report. 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. Our Workforce Advisory Panel provides an important, ongoing forum for direct engagement and consultation between the workforce and our businesses' executive teams. With every acquisition, Melrose seeks to strengthen pension scheme arrangements for the benefit of current and former employees. 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.	• Operations • Loss of key management and capabilities • Legal and regulatory • Pensions	**2022 Annual Report** • Board stakeholder engagement and decision-making (Section 172 statement) • Sustainability review • Nomination Committee report **Group Policies** • Code of Ethics • Whistleblowing policy • Anti-slavery and Human Trafficking policy • Melrose Board of Directors Diversity policy • Melrose Diversity, Equity and Inclusion policy • Human Rights policy

Reporting requirement	Policies and standards that govern our approach	Principal Group Risk	Where you can find more
Respect for human rights	We are committed to acting in an ethical manner with integrity and transparency in all business dealings, and to creating 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 which is set out in our Human Rights policy. The Group supports the principles set out in the UN Declaration of Human Rights. Our businesses are required to implement effective and proportionate measures to identify, assess and mitigate potential labour and human rights abuses across their operations and supply chains. Melrose takes a zero-tolerance approach to any form of modern slavery or human trafficking. We are committed to investing in and working with our businesses to create effective systems and controls to safeguard against any form of modern slavery taking place within them or their respective supply chains. You can read more on our approach and the policies in place to support it in the Sustainability review on pages 55 to 91.	• Legal and regulatory	**2022 Annual Report** • Sustainability review **Group Policies** • Modern Slavery Statement • Whistleblowing policy • Anti-slavery and Human Trafficking policy • Human Rights policy • Supply Chain policy
Social matters	Our Sustainability review on pages 55 to 91 details our businesses' approaches to supporting their communities. There you can find out more on our approach and the policies, schemes and initiatives that support it. You can also find information on our tax strategy.	• n/a	**2022 Annual Report** • Sustainability review **Group Policies** • Code of Ethics • Anti-Bribery and Corruption policy • Conflict Minerals policy • Whistleblowing policy • Anti-slavery and Human Trafficking policy • Environmental policy • Human Rights policy • Supply Chain policy • Biodiversity policy • Water policy
Anti-corruption and anti-bribery	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.	• Legal and regulatory	**2022 Annual Report** • Sustainability review **Group Policies** • Code of Ethics • Anti-Bribery and Corruption policy

All Group policies referred to in the table above as well as additional information in relation to the areas discussed above, are available on our website at www.melroseplc.net/sustainability/data-reports-and-policies.

Additional information		Page
Description of principal Group risks and impact of business activity	Risk management	Pages 38 to 39
	Risks and uncertainties	Pages 40 to 48
Description of the business model	Our strategy and business model	Pages 4 to 5
	Our strong track record	Pages 6 to 7
	Long-term value creation	Pages 8 to 9
Non-financial key performance indicators	Key performance indicators	Pages 28 to 29

The Strategic Report, as set out on pages 2 to 93, has been approved by the Board.

On behalf of the Board:

Simon Peckham
Chief Executive
2 March 2023

Governance overview

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 2022 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 2022. 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, the Senior Independent Director and Chairman of the Audit Committee, Ms Liz Hewitt, retired from the Board as planned. Mr David Lis, Chairman of the Remuneration Committee, was appointed as the Senior Independent Director, and Mrs Heather Lawrence was appointed as the Chairman of the Audit Committee. There were no other changes made to the Board's composition during 2022. Biographies for the Directors of the Company as at the date of this Annual Report can be found on pages 98 to 99.

Succession planning arrangements for the Board as a whole were reviewed in 2022. 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 116 to 118 contains further details on how succession planning arrangements for the Board and the Melrose senior management team were reviewed and considered during 2022.

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 issues, and to ensure that actions being taken are supportive of the Group's aims, objectives and culture.

Main responsibilities of the Board

The main responsibilities of the Board are to:

- 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 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 compliance 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.

Governance structure

Non-executive Chairman	– Justin Dowley	
Executive Directors	– Simon Peckham – Christopher Miller	– Geoffrey Martin – Peter Dilnot
Non-executive Directors	– David Lis (Senior Independent Director) – Charlotte Twyning – Funmi Adegoke	– Heather Lawrence – Victoria Jarman

Audit Committee
See page 110

Nomination Committee
See page 116

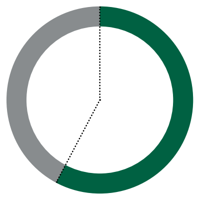
Remuneration Committee
See page 119

Diversity and skills overview(1)

Board skills

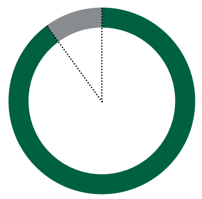
Industrial	7
Accounting and Finance	5
Legal	3
Investment	7
Corporate Governance	10

Board gender diversity



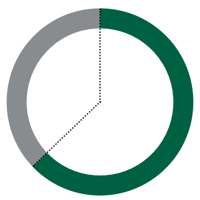
Male	60%
Female	40%

Board ethnic diversity



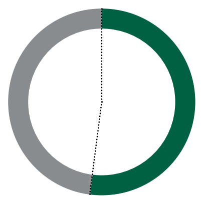
Non BAME(2)	90%
BAME(2)	10%

Melrose Executive Committee



Male	64%
Female	36%

Melrose Central employees (excl. Board)



Male	52%
Female	48%

(1) Diversity data as at 31 December 2022.
(2) Black, Asian and Minority Ethnic.

Governance overview
Continued

Remuneration
The Directors' Remuneration report, comprising the annual statement from the Chairman of the Remuneration Committee, the Annual Report on Remuneration and the proposed 2023 Directors' Remuneration Policy, is available on pages 119 to 144.

As part of the shareholder approval being sought for the proposed demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger") at a general meeting to be held on 30 March 2023 (the "General Meeting"), the Company is proposing to make three key adjustments to the existing Melrose long-term incentive arrangements, to appropriately reflect the Demerger in them. These are, in summary: (i) to allocate the invested capital between the continuing Melrose Group and the Dowlais group according to a fixed ratio, in order to reflect the separation of the businesses as part of the Demerger; (ii) to extend the crystallisation date of the 2020 Employee Share Plan by twelve months to 31 May 2024, to avoid the Demerger having an unintended inappropriate effect in either direction by ensuring that the calculation of any award under the 2020 Employee Share Plan is based on a period without any volatility related to the Demerger; and (iii) the setting of terms to reward further value creation in the GKN Automotive and GKN Powder Metallurgy businesses once they have been demerged from Melrose. Further details will be provided in the circular to shareholders and notice of general meeting which will be posted to shareholders on 3 March 2023. These adjustments will require consequential amendments to the current 2020 Directors' Remuneration Policy, which are also being proposed for shareholder approval at the General Meeting and, if passed, will be effective from completion of the Demerger. The Company will then be seeking to renew the amended 2020 Directors' Remuneration Policy at this year's AGM, as planned.

As further detailed in the Directors' Remuneration report, the Directors' Remuneration Policy and the Melrose long-term incentive plan have had significant continuity from Melrose's establishment in 2003, and have been at the heart of Melrose's long-term success since. Melrose undertook a detailed planning process in relation to the Demerger and, in the six months prior to the date of this report, has engaged both significantly and extensively with its key shareholders in preparation for it. Recognising the timetable for the Demerger, and overlap with the publication of this Annual Report and financial statements, we envisage that a further round of engagement with key shareholders on the renewal of the 2020 Directors' Remuneration Policy may be possible in due course, once the Demerger has completed and prior to the 2023 AGM. The 2023 Directors' Remuneration Policy is on broadly consistent terms as those previously approved, save for a proposed increase to the maximum opportunity under the annual bonus plan, as further explained on page 127.

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 implementing the Company's purpose and strategy. In particular, the Board assesses the basis on which the Company generates and preserves value over the long-term, including reviewing opportunities and risks, and the sustainability of the Company's business model. Further details on this can be found in the Sustainability review on pages 55 to 91. It has carefully considered how it can strategically address matters relating to sustainability in the most efficient and appropriate way, in light of both 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 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.

Sustainability has been historically considered by the Remuneration Committee as part of executive remuneration within the strategic element of the annual bonus plan. For the 2023 Directors' Remuneration Policy the Remuneration Committee is proposing to include within the annual bonus plan a standalone ESG element of 10% of the total award, in addition to the current financial and strategic elements, further highlighting the importance of sustainability to the long-term performance of the Company. Further details are provided on page 127.

Risk management and internal control
Melrose has implemented a uniform Enterprise Risk Management programme across all of its business units, with complementary processes and procedures. During 2022, 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, the Melrose senior management team, with support from external consultants, continued to utilise 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 external consultants. This helped to guide the Audit Committee on relevant updates to the Group risks (including assessing, for discussion with the Board, whether there were any new and/or emerging principal Group risks), as reported in the Risks and uncertainties section on pages 40 to 48.

Full details on the Group's approach to risk management can be found in the Risk management section on pages 38 to 39, and in the Audit Committee report on pages 110 to 115.

> "Melrose's reputation for acting responsibly plays a critical role in its success as a business and its ability to generate shareholder value."

Ethics and compliance
Our Code of Ethics (which can be found at 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, human rights, supply chain, biodiversity and water.

The implementation of the Melrose Code of Ethics and Group compliance policies are supported by a combination of risk assessment requirements, training and ongoing monitoring to ensure their effectiveness for the Group. In 2022, the Group introduced its first Supply Chain policy, Biodiversity policy and Water policy; further details about these policies can be found in the Sustainability review on pages 55 to 91. 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 in the Risk management section on pages 38 to 39 of the Strategic 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 practice. 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 review on pages 55 to 91. 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 2022, 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, following the announcement of the Demerger, we commenced a comprehensive engagement process with key shareholders, which involved contacting shareholders who in aggregate represented nearly 70% of our register. This engagement process proved very informative for key shareholders, and also provided them with an opportunity to meet with the executive management team of Dowlais Group plc, the new holding company of the demerged group. As part of this, I actively engaged with certain key shareholders to discuss their views on the proposal.

Melrose also continued with a variety of workforce engagement initiatives, most notably through its Workforce Advisory Panel ("WAP"), which met twice in 2022. 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 2023. 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 49 to 54.

J Dowley

Justin Dowley
Non-executive Chairman
2 March 2023

Board of Directors

Justin Dowley
Independent Non-executive Chairman

Board meetings attended[1]	4
Business reviews attended	3
Other significant appointments • Senior Independent Director of Scottish Mortgage Investment Trust PLC • Deputy Chairman of The Panel on Takeovers and Mergers • Director of a number of private companies	
Committee membership • Nomination • Remuneration	
Independent	Yes
Tenure[2]	11 years

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.

Christopher Miller
Executive Vice-Chairman

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

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.

Simon Peckham
Chief Executive

Board meetings attended[1]	4
Business reviews attended	3
Other significant appointments • Executive Director of Dowlais Group plc[3]	
Independent	Not applicable
Tenure[2]	Not applicable

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.

Geoffrey Martin
Group Finance Director

Board meetings attended[1]	4
Business reviews attended	3
Other significant appointments • Executive Director of Dowlais Group plc[3]	
Independent	Not applicable
Tenure[2]	Not applicable

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.

Peter Dilnot
Chief Operating Officer

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

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.

(1) Meetings attended refers to scheduled meetings.
(2) Tenure runs from the date of appointment until 31 December 2022 and is based on full years only.
(3) During the year, Melrose announced its proposed demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger"). Dowlais Group plc ("Dowlais") is the intended holding company of the demerged businesses, and subject to receipt of approval by Melrose shareholders to the Demerger at a general meeting to be held on 30 March 2023, and completion of the demerger, Dowlais will be listed on the London Stock Exchange.
(4) Heather Lawrence was also a non-executive director of Coats Group PLC until 31 March 2023.
(5) Victoria Jarman was also a non-executive director of Entain PLC until 17 February 2023.

David Lis
Senior Independent Director

Board meetings attended[1]	4
Business reviews attended	3
Other significant appointments • Non-executive Director of Hostmore PLC • Non-executive Director of Dowgate Capital Limited • Non-executive Director of Wild Life Group Limited	
Committee membership • Audit • Nomination • Remuneration (Chairman)	
Independent	Yes
Tenure[2]	6 years

Year appointed
Appointed as the Senior Independent Director on 5 May 2022, having previously served as a Non-executive Director from 12 May 2016 and Chairman of the Remuneration Committee on 1 January 2019.

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.

Charlotte Twyning
Independent Non-executive Director

Board meetings attended[1]	4
Business reviews attended	3
Committee membership • Audit • Nomination (Chairman) • Remuneration	
Independent	Yes
Tenure[2]	4 years

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 across a number of 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 throughout her career. She now enjoys a portfolio career, combining a number of non-executive, trustee and advisory roles.

Funmi Adegoke
Independent Non-executive Director

Board meetings attended[1]	4
Business reviews attended	3
Committee membership • Audit • Nomination	
Independent	Yes
Tenure[2]	3 years

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

Skills and experience
Funmi is an experienced executive whose remit has spanned across senior business, legal, compliance and sustainability accountabilities. She has worked in global, multi-national companies including Bombardier and bp, and brings diverse industrial knowledge across the aerospace, manufacturing, energy, construction and technology sectors. Funmi is a qualified barrister, and is currently Group General Counsel and Chief Sustainability Officer at the FTSE 100 company Halma PLC.

Heather Lawrence
Independent Non-executive Director

Board meetings attended[1]	4
Business reviews attended	3
Committee membership • Audit (Chairman)	
Independent	Yes
Tenure[2]	1 year

Year appointed
Appointed as a Non-executive Director on 1 June 2021 and Chairman of the Audit Committee 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.[4]

Victoria Jarman
Independent Non-executive Director

Board meetings attended[1]	4
Business reviews attended	3
Other significant appointments • Non-executive Director of Great Portland Estates PLC[5]	
Committee membership • Nomination • Remuneration	
Independent	Yes
Tenure[2]	1 year

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.

Directors' report

The Directors of Melrose Industries PLC present the Annual Report and financial statements of the Group for the year ended 31 December 2022.

Incorporated information

The Corporate Governance report set out on pages 104 to 109 the Finance Director's review on pages 30 to 37 and the Sustainability review on pages 55 to 91 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 8 June 2023. 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 235 to 241 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 98 to 99.

Changes to the Board during the year are set out in the Governance overview on pages 94 to 97 and the Corporate Governance report on pages 104 to 109. Details of Directors' service contracts are set out in the Directors' Remuneration report on pages 119 to 144.

The Statement of Directors' responsibilities in relation to the consolidated financial statements is set out on page 145, 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. 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

Since the balance sheet date, the Board has approved the proposed demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger"). Whilst the Demerger remains subject to shareholder consent, the costs and expenses that are directly attributable to the Demerger are estimated to amount to £70 million. Approximately 75% of this is contingent on the Demerger taking place.

On 9 February 2023, the Trustees of GKN Group Pension Scheme 4 (the "Scheme"), sponsored by the GKN Aerospace division, signed a contract to fully secure benefits for all members of the Scheme for a cash settlement of approximately £45 million. At 31 December 2022, the Scheme had total liabilities of £433 million (31 December 2021: £628 million) and an accounting surplus of £52 million (31 December 2021: £87 million).

Capital structure

During 2022, the Company completed the disposal of its Ergotron business, for net cash proceeds of £519 million. After repayment of debt, in accordance with its strategy to return value to shareholders, the Company returned £500 million of the proceeds from the Ergotron disposal to shareholders via a share buyback (the "Share Buyback").

The Share Buyback commenced on 9 June 2022. In accordance with the Company's general authority to repurchase ordinary shares in the Company granted by its shareholders at the Annual General Meeting held on 5 May 2022, the Share Buyback was limited to 437,242,947 ordinary shares in the Company (the "General Authority") and was further limited to a maximum aggregate consideration payable by the Company of £500 million (the "Limit"). The Share Buyback completed on 1 August 2022 when the Limit was reached. The Company purchased a total of 318,003,512 ordinary shares in the Company as part of the Share Buyback, which were cancelled shortly after purchase.

The table below shows details of the Company's issued share capital as at 31 December 2021; following the cancellation of the ordinary shares purchased pursuant to the Share Buyback; and as at 31 December 2022.

Share class	31 December 2021	Post cancellation of ordinary shares purchased pursuant to the Share Buyback	31 December 2022
Ordinary shares of 160/21 pence each	4,372,429,473	4,054,425,961	4,054,425,961

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

The Directors note that in connection with the Demerger the Directors are seeking authority to effect a share consolidation, such that shareholders will receive one new share in the Company in exchange for every three existing shares in the Company held by them at the record time for the consolidation with fractional entitlements being aggregated and sold in the open market. To effect the proposed share consolidation, it will be necessary for the Company to issue two additional existing shares in the Company so that the number of the Company's existing shares is exactly divisible by three. A circular to shareholders and notice of general meeting in connection with the Demerger and containing further details of the proposed share consolidation will be published on 3 March 2023.

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 2 March 2023, 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 2023 AGM are set out in the AGM Notice on pages 235 to 241.

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.

Substantial shareholdings

As at 31 December 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, had been notified to the Directors:

Shareholder	Shareholding(1)	% of ordinary share capital as at 31 December 2022(1)
The Capital Group Companies, Inc.	524,561,063	12.94
BlackRock Inc	332,302,037	7.53
Select Equity Group Inc	230,018,297	5.67
Norges Bank	163,601,346	4.04
Aviva plc	134,928,387	3.09
Bank of America Corporation	131,232,533	3.24

Between 1 January 2023 and 2 March 2023, 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(2)
The Capital Group Companies, Inc.	608,169,502	15.00

(1) Where the holding of shares has not been re-notified to Melrose since the previous share capital consolidation became effective in August 2021, the number of shares is as notified to Melrose prior to this consolidation. In addition, where the holding of shares has not been re-notified to Melrose since the Share Buyback completed in August 2022, the number of shares is as notified to Melrose prior to this.
(2) Since the disclosure date, the shareholder's interests in the Company may have changed.
(3) After the date of approval of the Annual Report and financial statements, the second interim dividend payment date was changed to 11 April 2023 in order to effect the DRIP prior to completion of the proposed Demerger.

Shareholder dividend

The Directors are pleased to announce the payment of a second interim dividend of 1.5 pence per share to replace the final dividend which would normally be approved at the 2023 AGM (2021 final dividend: 1 pence). This second interim dividend will be paid on 18 April 2023(3), prior to the Demerger, to ordinary shareholders on the register of members of the Company at the close of trading on 10 March 2023. This will mean a full year dividend for 2022 of 2.325 pence per share (2021: 1.75 pence).

For discussion on the Board's intentions with regard to the Company's dividend policy, please see the Chairman's statement on pages 10 to 11, which is incorporated into this Directors' 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 2022, the total amount of unclaimed dividends of Brush Holdings Limited was £17,417.44. If the unclaimed dividends are not claimed by 30 June 2023, 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 2022, the total amount of unclaimed dividends of GKN Limited was £245,010.29. If the unclaimed dividends are not claimed by 30 June 2023, 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 5 May 2022, the Company is authorised to make market purchases of up to 437,242,947 of its ordinary shares, representing approximately 10% of the current issued ordinary share capital of the Company. The Company has made purchases of its own shares pursuant to this authority. As described on page 100, the Company undertook a share buyback between June and August 2022, as a result of which 318,003,512 ordinary shares of the Company were repurchased pursuant to, and in compliance with, this authority. The remainder of this authority will expire at the end of this year's AGM.

At the 2023 AGM, the Company is seeking approval to make market purchases of its ordinary shares up to 202,586,150, being approximately 14.99% of the issued ordinary share capital of the Company following the proposed share consolidation as described in the Capital structure section of this Directors' report, 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 235 to 241.

Melrose Industries PLC Annual Report 2022

Directors' report
Continued

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 30 to 37, the Risks and uncertainties section of the Strategic Report on pages 40 to 48, 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 in 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 14 to 27 and the Sustainability review on pages 55 to 91, which are incorporated by reference into this Directors' report, investment into research and development activities continued throughout 2022. GKN Aerospace is involved in developing ground-breaking liquid hydrogen technology as part of its £54 million collaborative H2GEAR programme. This programme focuses on technology to accelerate aerospace decarbonisation, with the goal of zero CO_2 emissions hydrogen-powered sub-regional aircraft entering the skies as early as 2026. The programme is expected to create more than 3,000 jobs across the UK and will reinforce the UK's position at the forefront of aerospace technology research and development.

GKN Automotive is continuing to help progress the electric vehicle revolution and ongoing decarbonisation of the global automotive sector at its UK Innovation Centre in Abingdon, UK. This has included 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's investment in new technologies continued during 2022, including in relation to its new proprietary electric pumps which are substituting engine drive pumps on vehicle transmissions. This technological innovation targets notable efficiencies and CO_2 reductions driven by component precision, as well as attractive cost benefits delivered through manufacturing process improvements.

The Melrose Skills Fund has also funded initiatives in the GKN Aerospace and GKN Automotive businesses and in the wider community. Further details on the initiatives being implemented are set out in the Sustainability review on pages 55 to 91.

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 10 to 11 and the Strategic Report on pages 2 to 93 of this Annual Report (including the Longer-term viability statement on page 37 and the Risks and uncertainties section on pages 40 to 48), 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 2022, are shown in the Sustainability review on pages 55 to 91 and in the Section 172 statement set out in the Strategic Report on pages 49 to 54, 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 14 to 27, in the Section 172 statement on pages 49 to 54, and in the Sustainability review on pages 55 to 91, 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 ("GHG") emissions, waste, water usage, and other energy consumption, as well as the methodology used to calculate such emissions and consumption, are set out in the Sustainability review on pages 55 to 91, which is incorporated by reference into this Directors' report.

In 2022, the Board oversaw the implementation of the Group sustainability targets and commitments which were set in 2021. Details of these targets and commitments are set out in the Sustainability review on pages 58 to 59. In line with its commitment to report on progress against its target to achieve net zero GHG emissions by 2050, the Group published its inaugural Group Net Zero Transition Plan and enhanced its Task Force on Climate-related Financial Disclosures ("TCFD"), complying with key recommendations. In this second year of climate financial reporting, the Group sought to develop linkages between the identified climate transition risks and their material operational and financial impacts. The TCFD report can be found on pages 66 to 76 of the Sustainability review. The Board also approved three new policies, including Supply Chain, Biodiversity and Water, as well as overseeing the setting of a reduction target for Group water withdrawal intensity, the launch of a Water Stewardship Programme, and initial supply chain engagement initiatives.

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 2022 (2021: 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 2020 Employee Share Plan, which are set out on page 125 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 Notes (as defined below), 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 2 March 2023.

The Group has bank facilities comprising a multi-currency denominated term loan of £30 million and US$788 million respectively and multicurrency denominated revolving credit facilities of £1.1 billion, US$2.0 billion and €0.5 billion respectively (together, the "Existing Facilities"). Details of these facilities are provided in the Finance Director's review on page 32 and note 25 to the financial statements.

In contemplation of the Demerger, the Company, among others, entered into a facilities agreement dated 22 February 2023, pursuant to which the lenders thereunder have agreed to make available banking facilities to certain members of the Group (the "New Facilities Agreement"). Such facilities comprise term loan facilities of US$300 million and €100 million respectively (each with a term of three years), multicurrency revolving credit facilities of £300 million, US$550 million and €300 million respectively (each with a term of three years, subject to a maximum extension of up to two years) and a multicurrency revolving credit facility of US$250 million (with a term of three years) (together, the "New Facilities"). As at 2 March 2023, the New Facilities are undrawn. It is proposed that certain of the New Facilities will be drawn on the date of the Demerger and, together with the proceeds of certain other facilities, be applied to prepay the Existing Facilities in full.

In the event of a change of control of the Company following a takeover bid, the Company and lenders under both the Existing Facilities and the New Facilities (as applicable) are obliged to enter into negotiations to determine whether, and if so how, to continue with the facilities. There is no obligation for the lenders to either fund new loans requested during the 30 day period after a change of control, or, if no agreement is reached, continue to make the facilities available following such 30 day period. 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, had outstanding £450 million fixed rate notes paying 5.375% p.a. interest, issued under a Euro medium-term note programme, which matured and were repaid in full on the maturity date of 19 September 2022. In November 2022, GKN Holdings Limited launched a tender offer (the "Tender Offer") in respect of its approximately £300 million fixed rate notes paying 4.625% p.a. interest and maturing on 12 May 2032 (the "Notes"), also issued under a Euro medium-term note programme. The Tender Offer was announced on 21 November 2022 and made on the terms and subject to the conditions set out in a tender offer memorandum dated 21 November 2022 prepared by GKN Holdings Limited. As a result of the Tender Offer, £169,957,000 in aggregate principal amount of the Notes were validly tendered and were accepted for repurchase by GKN Holdings Limited, subject to the terms and conditions described in the tender offer memorandum, for cash at a purchase price of £870 per £1,000 in principal amount of the Notes. GKN Holdings Limited also paid the accrued and unpaid interest in respect of the Notes repurchased pursuant to the Tender Offer for the period from and including the interest payment date of the Notes immediately preceding the settlement date of 1 December 2022 to, but excluding, the settlement date of 1 December 2022.

With respect to the remaining Notes, pursuant to their terms and conditions, 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 at the time the change of control occurs; or (ii) if the Notes carry an investment grade credit rating from at least two ratings agencies at the time the change of control occurs, and the Notes are downgraded to a non-investment grade rating or that rating is withdrawn and not restored to an investment grade rating by them or replaced by an investment grade rating of another rating agency, within 90 days of the change of control and, in each case, such downgrade or withdrawal is publicly announced, or notified in writing to the Notes trustee, by such 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 for the participants 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 2022 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:

Warren Fernandez
Company Secretary
2 March 2023

Corporate Governance report

In line with the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council (the "FRC"), 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 2022.

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 review and the Section 172 statement, also form part of this Corporate Governance report.

Statement of compliance

Throughout the year ended 31 December 2022, 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 comprises 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 105.

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 49 to 54 sets out the ways in which the Board took shareholder and other stakeholder considerations into account in its decision-making in 2022.

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 good quality but underperforming manufacturing businesses and set out to solve chronic issues within them, 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 in 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 build businesses that are more sustainable. We recognise that this also requires a wide range of non-financial areas to be addressed, including risk management, ethics and compliance, as well as working with the businesses to set meaningful sustainability targets alongside financial metrics. These actions benefit their long-term future, and seek to 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 38 to 39 and 110 to 115 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 each 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 2022, 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, including the proposed demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger") and associated changes to the Company's long-term incentive arrangements and extension of the Chairman's tenure, 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 2023 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 49 to 54.

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 review on page 82.

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 Group 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, human rights, supply chain, biodiversity, and water.

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 page 95.

There were four formally scheduled Board meetings held during the year and the attendance of each Director at these meetings is shown on page 106.

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 106. 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 the Melrose senior management team.

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 of Association (the "Articles"), and in compliance with the Companies Act 2006, 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, five 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 107, 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. It is proposed that his tenure is extended by a further two years in order to provide certainty and stability through the completion of the Demerger. Mr David Lis is the appointed Senior Independent Director, and acts as an intermediary for the other Directors and shareholders. The number of Directors on the Board decreased during the year following the retirement of Ms Liz Hewitt 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.

Corporate Governance report

Continued

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. The Board does not consider it appropriate to impose minimum shareholding requirements on the Non-executive Directors.

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 committee 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 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.

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. New Directors are required to disclose any directorships held and other business interests, and existing Directors are required to obtain the Chairman's consent for additional external appointments. 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. Mr 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. Mr Simon Peckham and Mr Geoffrey Martin have also been appointed as executive directors of Dowlais Group plc, which will be the new UK listed holding company of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses subject to shareholder approval and completion of the Demerger, providing their knowledge and expertise through a transitional services agreement for a period of time following completion of the Demerger. Both will also continue to perform their current roles as Melrose Chief Executive and Group Finance Director respectively. The Board has concluded that these appointments will not affect their ability to meet their respective 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]	2	2	–	–	2
David Lis	4	4	2	2	3
Charlotte Twyning	4	4	2	2	3
Funmi Adegoke	4	4	2	–	3
Heather Lawrence	4	4	–	–	3
Victoria Jarman	4	–	2	2	3

(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) Liz Hewitt retired as a Non-executive Director of the Company on 5 May 2022. She attended all Board and applicable committee meetings, together with all business reviews, prior to her retirement.

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 98 to 99, and on the Company's website at www.melroseplc.net. These biographies identify any other significant appointments held by the Directors.

During the year, Liz Hewitt, the Senior Independent Director and Chairman of the Audit Committee, retired from the Board as planned, having been appointed as a Non-executive Director of the Company for almost nine years.

The Board has made significant progress in improving its diversity in recent years. It continues to meet the FTSE Women Leaders Review target of having 40% female representation on its Board. In particular, the last four Non-executive Director appointments have been female. 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 Melrose senior management. It was a core focus in 2022 and as explained in section 2 on page 105, the Board has approved the extension of Justin Dowley's tenure as Chairman of the Board in order to provide certainty and stability through the completion of the Demerger.

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 2022 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, the Senior Independent Director in respect of the evaluation of 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 and its committees, the Chairman of the Board, the Senior Independent Director and the Chairman of each committee 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 2023:

- continuing to monitor senior management succession;
- ensuring the adequacy of 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 2022, it was recognised that cyber security is an ongoing risk and will, therefore, be focused on again in 2023;
- continuing to improve and monitor the cash management culture within the 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 2022 AGM, with the exception of Liz Hewitt, who retired 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 above 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. He first joined the Board as a Non-executive Director in September 2011 and served as the 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. Recognising the significant events related to the Demerger, the Board has proposed a further and final extension of his tenure for an additional two years in order to provide certainty and stability through the completion of the Demerger. He 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 having been 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. 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. 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 served as Chief Operating Officer since 2019, 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, the Senior Independent Director, 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 having held numerous senior positions in various sectors, most recently in aviation, alongside her substantial board experience.
- Funmi Adegoke brings to the Board diverse industrial knowledge, and significant transactional and commercial expertise gained from leadership roles in global multi-national organisations.
- 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 investment banking, as well as having the necessary expertise required to perform the role of Chairman of the Audit Committee.
- 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 98 to 99, 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 235 to 241.

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. In assisting the Board with these responsibilities, the Audit Committee reviews the effectiveness of, and monitors and oversees, the Group's risk management, internal financial control systems and processes and compliance controls, and provides both feedback and recommendations to the Board. The role of the Melrose senior management team is to implement these risk management and internal control 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 Audit Committee also supports the Board in monitoring risk exposure against risk appetite. 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.

The Audit Committee report is set out on pages 110 to 115 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 the acquisition of GKN, 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 guidance. Details on the Group's risk management strategy are set out on pages 38 to 39.

Further information regarding the Group's financial risk objectives and policies can be found in the Finance Director's review on pages 30 to 37. A summary of the principal risks and uncertainties that could impact upon the Group's performance is set out on pages 40 to 48.

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 pages 114 to 115, the Group engages BM Howarth as internal auditor with additional support, as required, from Ernst & Young. A total of 50 sites across the Group were assessed by BM Howarth during 2022.

The Directors can report that based on the sites visited and reviewed in 2022, there has been progress across the Group following the 2022 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, human rights, supply chain, biodiversity and water. 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 2022, Melrose introduced its first Supply Chain policy, Biodiversity policy and Water policy for implementation within the businesses, and Melrose also updated the Melrose Code of Ethics to align it with the new policies. The new policies (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 most recent statement is available on the Company's website at www.melroseplc.net/media/2950/modern-slavery-statement-fy2021.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 the Audit Committee report on page 113 for details of the Company's whistleblowing policies and procedures.

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 currently has a five-year total vesting and holding period (and, subject to shareholder approval and completion of the Demerger, will have a six-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, 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 119 to 144, 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 and, if approved, the renewed Directors' remuneration policy will provide the same ability for the Remuneration Committee to exercise discretion. In 2022, the Remuneration Committee determined to exercise discretion in respect of the payment of the 2021 annual bonus to the Chief Operating Officer in cash. Details were provided in the 2021 Directors' Remuneration Report. No further use of discretion was exercised in 2022.

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 119 to 144, which is presented in the following three sections:

- the annual statement from the Chairman of the Remuneration Committee, which can be found on pages 119 to 120;
- the Annual Report on Remuneration, which can be found on pages 121 to 134; and
- the proposed 2023 Directors' remuneration policy, which can be found on pages 135 to 144.

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)]. As part of the Demerger, certain adjustments are being proposed to the 2020 Employee Share Plan and the current Directors' remuneration policy, which are subject to shareholder approval at the general meeting on 30 March 2023 and completion of the Demerger. The details of these adjustments, which will be effective from completion of the Demerger, are set out in the circular to shareholders and notice of general meeting dated 3 March 2023, which will also be available on the Company's website from this date.

As mentioned in the Directors' Remuneration report, the current Directors' remuneration policy is due for renewal by shareholders at the 2023 AGM and the Group is seeking shareholder approval of the renewed Directors' remuneration policy, which, if approved, will apply to payments made from that date.

(1) The full details of the 2020 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 approved at the January 2021 meeting 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

Heather Lawrence

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[1]
Heather Lawrence (Chairman)[2]*	●●●● 4/4
David Lis*	●●●● 4/4
Charlotte Twyning	●●●● 4/4
Funmi Adegoke	●●●● 4/4

(1) Reflects regularly scheduled meetings of the Committee. During the year, meetings of a sub-group of the Committee were also held to discuss the audit tender process.
(2) Ms Liz Hewitt retired as a Non-executive Director and as Chairman of the Committee on 5 May 2022 and was succeeded by Mrs Heather Lawrence with effect from 5 May 2022. Liz Hewitt attended all Committee meetings held during the period 1 January 2022 to 5 May 2022.
* Indicates Committee members with financial expertise. In total, following the retirement of Liz Hewitt, 50% of the Committee has financial expertise.

Role and responsibilities

The Committee's role and responsibilities are set out in its terms of reference. These were last reviewed in November 2022 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;
- developing, implementing and monitoring the Group's policy on external audit;
- monitoring and evaluating the independence and effectiveness of the external audit function and approving the external audit plan and fee;
- taking into account relevant UK laws, regulations, the Ethical Standards and other professional requirements and the relationship with the auditor as a whole;
- 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;
- reviewing and where necessary challenging the provision of non-audit services by the external auditor;
- developing and overseeing the selection process for the appointment of the external auditor and in respect of an external audit tender, making a recommendation to the Board on the appointment of the external auditor following on from such tender process;
- monitoring and evaluating the independence and effectiveness of the internal audit function and approving the internal audit plan and fee; and
- reviewing and considering the Annual Report and financial statements to ensure that they are fair, balanced and understandable and advising the Board on whether it can state that this is the case.

Composition

The Committee is made up 100% of independent Non-executive Directors. Ms Liz Hewitt, former Chairman of the Committee, retired from the Board on 5 May 2022, and was succeeded as Chairman of the Committee by Mrs Heather Lawrence. Heather Lawrence joined the Board and the Committee in June 2021. She has strong audit experience having acted as audit committee chair of FlyBe Group plc.

Heather 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 Twyning 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 98 to 99.

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 and during the year, the Chairman of the Board attended all of the scheduled Committee meetings. In addition, the Committee meets at least once a 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 2022, the Committee met four times (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. During 2022, meetings were also held by a sub-group of the Committee as part of the external auditor tender process. Further details on the external auditor tender process are provided below.

Significant activities related to the 2022 financial statements

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

- review of the 2022 Annual Report and financial statements and the interim financial statements, including the going concern assumption for the Group 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 2022 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 2022 Annual Report and financial statements. The Committee advised the Board that, in its view, the 2022 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 2022 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 to, the scope of work to be undertaken in respect of the 2022 financial statements by the external auditor and the scope of work to be undertaken in 2023 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	How the issue was addressed 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 consistent with the industry and geography of operations. Due to consequential impacts from the COVID-19 pandemic of disrupted supply chains, interest rate rises and other inflationary pressure on input costs, certain businesses within the Group are mitigating the impact of volatile customer scheduling through cost reduction and efficiency actions, including restructuring. Additional sensitivities have been disclosed for the Automotive and Powder Metallurgy groups of CGUs. 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 accounting standards, impairment testing for each group 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)*	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 Automotive and Powder Metallurgy 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 macroeconomic 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 models, in particular regarding the timing of when volume reductions would recover; and • the appropriateness of the 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 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.
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 – unbilled work done, relating to certain risk and revenue sharing partnerships ("RRSPs") in a small number of Aerospace businesses. As required, management continues to review the key assumptions that have a significant impact on the allocation of overall transaction prices for impacted aerospace engine components. It is particularly important to reassess the operational progress and status of engine 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 commercial and operational progress on certain affected engine programmes during the year, it was concluded that an update to assumptions was appropriate. Whilst the changes have not had a material impact on 2022 results (£19 million), they will impact future results too. The amount of variable consideration recognised in the year is £106 million. This is due to a ramp up in volumes and operational benefits as well as implications of changes in assumptions. *(Refer to notes 3, 4 and 17 of the financial statements)*	Following the extensive briefing in the prior year, the Committee received an update prepared by management and again discussed the implications of IFRS 15, which included an assessment of estimates used in calculating variable consideration for certain RRSPs. The change in estimates, impacting both the amount and timing of revenue recognition, were primarily based on commercial progress of specific programmes. Whilst the impact of changes was largely immaterial for 2022, 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 it remains reasonably possible that assumptions may change which could lead to the recognition of further unbilled work done in the next year.

Audit Committee report

Continued

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
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 Financial Reporting Council ("FRC") and 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, 5 and 6 of the financial statements)*	The Committee has considered the nature, classification and consistency of adjusting items, whilst addressing the guidance provided by the FRC and ESMA. These items are defined and discussed in the Finance Director's review and detailed in notes 5 and 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 a write down of assets of £20 million was recognised as a result of exiting any direct trading links with Russian operations, as a consequence of the conflict in Ukraine. 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. Reconciliations of adjusted performance measures to statutory results are set out in notes 5 and 6 to the financial statements. The Committee found the disclosures to be 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.
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 longer-term viability statement before making a recommendation to the Board. The assessment of going concern uses the same forecast data as in many other areas of estimation within the full year accounting and takes into account the covenant tests. Due to the Group's announced intention to demerge GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger"), additional scenarios have been tested to ensure that there is sufficient liquidity and covenant headroom to enable the existing Group and the remaining group following the Demerger to meet obligations as they fall due over the next year. *(Refer to note 2 of the financial statements)*	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 the flexibility of liquidity arrangements to meet obligations. These principles were considered for different scenarios of how the Group might change during 2023. In addition to base case modelling, which uses approved financial forecasts, a reasonably possible downside was also considered. The Committee 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.
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. As a result of testing provisions, £11 million has been released as an adjusting item to avoid positively distorting adjusted operating profit. *(Refer to notes 3, 6 and 21 of the financial statements)*	At 31 December 2022, the carrying value of loss-making contract provisions in the Group was £108 million (31 December 2021: £167 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 to the Committee on their audit work covering loss-making contract provisions and assumptions. 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.

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, Heather Lawrence and David Lis have each held senior roles at various financial institutions. Furthermore, Heather Lawrence has held various non-executive directorship positions, including as audit committee chair of FlyBe Group plc. Charlotte Twyning and Funmi Adegoke have each held senior legal roles at global companies. In particular, Funmi Adegoke is currently Group General Counsel and Chief Sustainability Officer at the FTSE 100 company, Halma PLC.

During 2022, 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 external consultants, continued to utilise 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 Group's risk management process, and also reviewed and challenged an interim and annual report prepared by Melrose senior management of the Group's principal risks profile. This summary report guided the Committee on relevant updates to the Group's principal risks (including risk trends and mitigations), as reported in the Risks and uncertainties section on pages 40 to 48. The summary report was also enhanced this year to support the Committee in its discussions with the Board on risk appetite, as detailed further on page 39.

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 to the Board. No significant weaknesses were identified.

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 wrongdoing 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 of the Board 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 2022, a series of questions covering key areas of the audit process that the Committee is expected to have an opinion on 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 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 last year's report had outlined the Committee's intention to undertake an external audit tender process in 2022. The Committee is pleased to confirm that the tender process has now concluded and, subject to shareholder approval, PwC LLP has been selected as the Company's new external auditor for the financial year ending 31 December 2024.

The current audit engagement partner was appointed in 2019. Therefore, the audit engagement partner will serve until PwC LLP assumes the role of the incumbent external auditor.

Audit Committee report

Continued

The tender process was undertaken in 2022 in order to allow for a competitive process and to provide participants with sufficient time to become independent. The Committee expects that Deloitte LLP will remain the Group's external auditor until the conclusion of the 2023 financial year ("FY2023") audit. To facilitate an orderly transition, PwC LLP will also observe the FY2023 audit. The Chairman of the Committee led the tender process and oversaw the work of management, who supported the Committee in developing and implementing the planned approach. The Chairman of the Committee met with both the Group Finance Director and senior members of the Melrose finance team regularly throughout the tender process.

The process was prepared and followed in accordance with best practice FRC guidelines, and in particular was designed to be transparent and efficient, and to give firms an equal opportunity to tender for the services. Except for Deloitte LLP, no other firm was prohibited from taking part in the tender. After initial consideration of audit firms by the Committee, two firms were selected to be provided with a Request for Proposal ("RFP"). Each firm was invited to meet with the functional heads at Melrose, together with the finance directors of each business unit. Processes were implemented such that each firm was provided with equal access to management and information. Both firms were then invited to present to a sub-group of the Committee, which included both the Chairman of the Committee and the Group Finance Director.

The Committee assessed the two firms against a number of criteria, including audit quality and capability, and organisational capability and service delivery. The Committee's final evaluation of the firms took into account a number of criteria, including analysis of the RFP submission, audit workshops with the Company's management, assessment of the firm's approach to audit quality, performance in the final presentations, and due diligence on the firms. After detailed consideration, the Committee concluded that PwC LLP would be recommended to the Board for appointment as the Group's external auditor from the financial year ending 31 December 2024. The Board supported this decision.

Planning for transition to PwC LLP has commenced, including steps to ensure that they are fully independent in time for their appointment.

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 LLP, 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 2019, 2020 and 2021 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. These services will be migrated to another firm as part of the transition process to PwC LLP as the Company's new auditor from the financial year ending 31 December 2024, as detailed further above.

During 2022, the main services provided by Deloitte LLP other than statutory audits were in relation to non-statutory audits of carve-out financial statements and assurance reports for various projects including government grants or subsidies and a review of the half year interim statement. The Company's non-audit fee paid to the external auditor of £0.6 million represents 6% of the audit fees for 2022. Deloitte LLP also provided reporting accountant services in relation to the proposed demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger"), and was paid £0.9 million for this work. This fee was not subject to the non-audit fee cap calculation.

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, such as in the case of the Demerger. 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. Physical internal audit site visits were conducted by BM Howarth across a total of 48 sites in 2022. Further, due to continued restrictions in China as a result of COVID-19, two sites were reviewed remotely, meaning that 50 sites were reviewed in total.

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.

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 any shortcomings identified. In the event that significant deficiencies are found in internal financial controls, these are immediately brought to the attention of the Group Finance Director and the Melrose accounting function so that urgent action plans can be agreed. Follow-up site visits were performed during 2022 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 2022.

Heather Lawrence
Chairman, Audit Committee
2 March 2023

Nomination Committee report

Charlotte Twyning — Nomination Committee Chairman

The Nomination Committee (the "Committee") has overall responsibility for making recommendations to the Board on all new Board 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.

Member	No. of meetings[1]
Charlotte Twyning (Chairman)	2/2
Justin Dowley	2/2
David Lis	2/2
Funmi Adegoke	2/2
Victoria Jarman	2/2

(1) Reflects regularly scheduled meetings of the Committee.

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, Equity 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 2022, 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 is made up of 100% independent Non-executive Directors and comprises five out of six of the Non-executive Directors. As mentioned below, Ms Liz Hewitt retired from the Board in 2022 and as a member of the Committee, prior to any scheduled meetings taking place. Ms Victoria Jarman joined as a member of the Committee in 2022 and attended all scheduled meetings during the year.

The Committee is expected to meet not less than twice a year and, during 2022, 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 2022. This included a review and discussion of the skill sets, 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 FTSE Women Leaders Review (formerly 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 is 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, Equity and Inclusion policy, and to ensure that the Company continues to meet the expectations of the FTSE Women Leaders 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 2023.

It is noted that Liz Hewitt, Senior Independent Director and Chairman of the Audit Committee, retired from the Board on 5 May 2022 at the close of the Company's 2022 Annual General Meeting. She had served as a Non-executive Director of the Company for just under nine years. As previously disclosed, and as expected, Mr David Lis, Chairman of the Remuneration Committee, was appointed as 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, 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, and in the Committee's view he was very well positioned to take over this role. Mrs Heather Lawrence was appointed as Chairman of the Audit Committee upon Liz Hewitt's retirement from the Board, having held similar positions on other FTSE boards, and having benefited from a detailed handover in the year prior to her taking up this role.

Chairman's tenure

The Committee also continued to review the role of Mr Justin Dowley as Melrose's Non-executive Chairman. Although he was appointed to this 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. This is a key date in the consideration of his independence under the UK Corporate Governance Code (the "Code").

Recognising the significant events related to the proposed demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger"), the Board (upon the Committee's recommendation) has proposed that Justin Dowley's tenure be extended for two years beyond 2023. This is primarily to ensure continuity and stability through the completion of the Demerger. This will be the final extension sought for his tenure, and his appointment will remain subject to annual re-election at the Company's AGM each year. Key shareholders were formally consulted on this proposal as part of the wider shareholder engagement on the Demerger, and it was received positively.

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 their individual skills, relevant experience, contributions and time commitments to the long-term sustainable success of the Company. The Committee and the Board have each satisfied themselves that each of the Directors should stand for re-election, and the justifications for such re-elections are set out on pages 107 to 108 of this Annual Report and in the Notice of Annual General Meeting on pages 235 to 241.

Skills

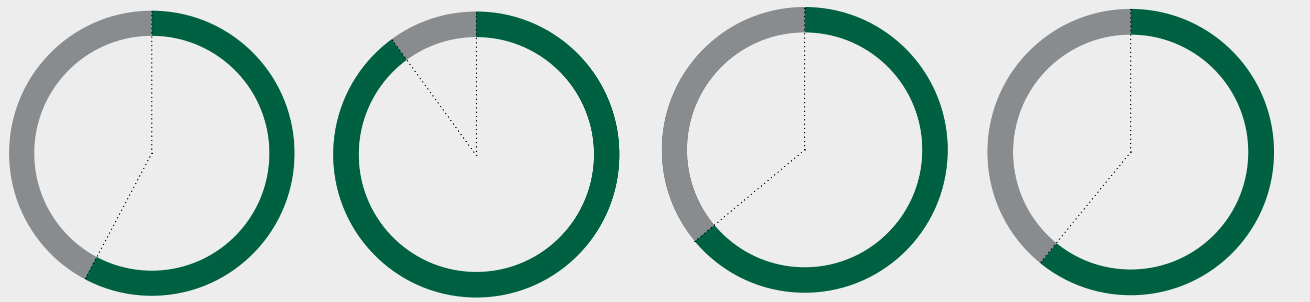
The Board possesses a wide range of knowledge and experience from a variety of sectors. In order to ensure the maximum effectiveness of the Board, the Committee continues to review the balance of skills and experience of Board members. The Committee considers that the current Directors, including the 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 95, 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. Responsibility for the succession planning arrangements of the divisional executive teams is the responsibility of the Chief Executive, although the Committee retains oversight of succession planning for key individuals and has access to the divisional executive teams through site visits and the business review cycle.

Diversity overview[1]

Board gender diversity | **Board ethnic diversity** | **Melrose Executive Committee** | **Senior management and direct reports[2]**



Board gender diversity		Board ethnic diversity		Melrose Executive Committee		Senior management and direct reports[2]	
Male	60%	Non BAME[3]	90%	Male	64%	Male	61%
Female	40%	BAME[3]	10%	Female	36%	Female	39%

(1) As at 31 December 2022.
(2) 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.
(3) Black, Asian and Minority Ethnic.

Diversity, equity 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 its 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, the last four Non-executive Director appointments have been women. Furthermore, two of the committee Chair roles, including the important role of Audit Committee Chair, are held by women. Melrose also continued to meet the Parker Review target of having one Director from an ethnic minority background on the Board.

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 2022, Melrose had 40% female representation on its Board, which meets the current expectations of the FTSE Women Leaders Review.

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 39% female representation (and 36% female representation specifically at an Executive Committee level) as at 31 December 2022, which is in line with the current target of diversity at this level, and is close to the new target set by the FTSE Women Leaders Review of having 40% female representation within executive committees and their direct reports by the end of 2025.

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, Equity and Inclusion policy as a minimum standard, and Melrose provides constant encouragement to the businesses to make continual improvement.

The Committee acknowledges that diversity, equity and inclusion is a changing landscape, and reviews its diversity policies on an annual basis. The policies, which can be viewed on the Company's website at www.melroseplc.net/sustainability/ include a Board of Directors' Diversity policy and a Melrose Diversity, Equity and Inclusion policy. 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 FTSE Women Leaders Review and the Parker Review. The Melrose Diversity, Equity and Inclusion policy, which is applicable to all Melrose employees, sets out Melrose's position on diversity, equity and inclusion in its workforce.

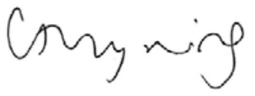
In particular, it highlights that Melrose aims to create a workforce that is diverse, equitable and inclusive, and free from bullying, harassment, victimisation and unlawful discrimination. The principles of the policy apply throughout the Group, and our businesses are encouraged to promote diversity 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 review on pages 82 to 87. Additionally, further details on diversity and Board skills can be found on page 95 of the Governance overview.

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 2022 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 page 107 for further details.



Charlotte Twyning
Chairman, Nomination Committee
2 March 2023

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, where it traded ahead of expectations on sales growth, profit and cash generation. The Group has continued its strong performance coming out of the pandemic, with a 126% increase in adjusted diluted earnings per share to 7.0 pence. As discussed elsewhere in this Annual Report and financial statements, the Board has approved to pay a second interim dividend of 1.5 pence per share to replace the normal final dividend which would normally be approved at the Annual General Meeting ("AGM"), in order to allow for payment to be made to shareholders ahead of the proposed completion date of the Demerger (see below). This will give a full year dividend of 2.325 pence per share, a 33% increase on last year and in addition to the £500 million share buyback completed in August 2022.

In September 2022, the Board announced its decision to separate GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen from the Melrose Group to form Dowlais Group plc ("Dowlais"), an independent company which will seek admission to listing on the premium segment of the Official List and to trading on the Main Market of the London Stock Exchange (the "Demerger"). The Demerger is expected to unlock value for shareholders and will allow both Melrose and Dowlais to fulfil their potential independently in their respective markets with clear organic growth and strategic acquisition rationale. On admission, the newly independent Dowlais group will have a dual strategy of pursuing organic market beating profitable growth with sector leading margins based on its global technology excellence and positioning. It will also have the platform and independent access to capital to take advantage of the M&A opportunities available in the automotive sector. During its ownership, Melrose has positioned both GKN Automotive and GKN Powder Metallurgy as excellent generators of cash, with sustainable world-leading technology and experienced management teams executing successful strategies on a clear path to their stated margin targets of 10%+ and 14% respectively. Certain adjustments to the existing Melrose long-term incentive arrangements are being proposed as part of the Demerger, in order to properly reflect the Demerger on these arrangements.

These adjustments are discussed in further detail in the circular to shareholders and notice of general meeting to be dated 3 March 2023 (the "Circular"), which will be available on our website. Subject to shareholder approval at the general meeting of the Company on 30 March 2023 (the "Demerger GM"), these adjustments will be effective from the completion date of the Demerger, which is expected to be 20 April 2023.

From completion of the Demerger, the Melrose Group will consist solely of the GKN Aerospace business, which has also continued to perform well during 2022 and is driving further improvements to unlock its full potential, with all required major restructuring projects to reach its stated 14%+ margin target now underway. It will be the subject of further focus during 2023, particularly once the Demerger completes. 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 2022 and 2023.

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 current Directors' Remuneration Policy at the 2020 AGM, and the 2020 Employee Share Plan at the January 2021 general meeting, and the approval of the 2021 Directors' Remuneration Report at the 2022 AGM.

Operation of the Directors' Remuneration Policy in 2022

The Chief Executive's and the Group Finance Director's salaries continue to deliberately remain well below the lower quartile of our FTSE 100 peers, with annual bonuses currently capped well below our peers at 100% of salary. The Committee is proposing to amend the operation of the annual bonus plan as part of the renewal of the Directors' Remuneration Policy at the 2023 AGM, by increasing the maximum opportunity from 100% to 200% of salary(1). This decision has been made to provide the Committee with the ability to create a competitive executive remuneration package to attract the best talent in the context of succession planning. The Committee is aware of the perception around increasing executive director pay given the external environment and current higher cost of living. Accordingly, should the increase be approved by shareholders, the current executive Directors will not receive the benefit of any increase in annual bonus entitlement for the duration of the 2023 Directors' Remuneration Policy. I believe this provides the Committee with this recruitment flexibility in line with the best interests of the Company. Any future recipient would remain positioned at the lower quartile when considering maximum annual bonus opportunity as a monetary value given the conservative base salary levels. To the extent it is utilised, it would be proposed to adjust the weightings of the performance measures in the annual bonus plan such that ESG can become a specific focus of the award, with a defined component to ensure further incentivisation to deliver the Company's ESG strategy.

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 123 sets out the most recently available CEO annual remuneration (excluding the LTIP element for comparison) and puts this deliberate strategy in context, highlighting that the single total figure of remuneration for the Chief Executive in 2022 was less than half, or over £1 million less than, the average FTSE 100 CEO annual remuneration in 2021.

(1) This was approved by the Remuneration Committee subsequent to the meeting of the Remuneration Committee held on 1 March 2023.

As this and the table on page 123 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. Under the current long-term incentive arrangements, executive Directors have the opportunity to share in the value they create for shareholders above a threshold return over the 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. With the impact of COVID-19 resulting in the previous incentive plan maturing with no award, the current plan represents the only incentive plan with possible benefits for Melrose management since 2017. I also note that the continued market volatility has weighed on the current scheme, such that if the crystallisation date had been 31 December 2022, then there would have been no award to the executive Directors. However, your Board believes that current work being undertaken by management in the businesses, including the Demerger, will deliver value to shareholders within the remainder of the performance period.

As part of the Demerger, certain adjustments are being proposed to the Company's long-term incentive arrangements (and consequential revisions to the 2020 Directors' Remuneration Policy), as set out in further detail in the Circular. These revisions will be voted on as part of the proposal to approve the Demerger (the "Demerger Proposal") at the Demerger GM, the outcome of which will be known by the date of publication of this report (but not by the date of this report). The total invested capital of the Group as at 31 December 2022 will be split between the continuing Melrose Group and the Dowlais group according to a fixed ratio, to match the separation of the businesses themselves under the Demerger, so that any increase in value from completion of the Demerger is measured against the invested capital relating to the relevant businesses. The amount allocated to the Dowlais group will form the invested capital under a separate, one-off incentive plan for Melrose senior management (see the Circular for further details).

In the six months prior to the date of this report, the Company has engaged both significantly and intensively with its key shareholders in preparation for the Demerger. Accordingly, although it is never taken for granted, this Directors' Remuneration report and the Directors' Remuneration policy renewal is drafted on the basis of support from shareholders for the Demerger Proposal. Recognising the timetable for the Demerger, and the overlap with the reporting of this Annual Report and financial statements, we envisage that a further round of engagement with key shareholders on the renewal of the 2020 Directors' Remuneration Policy may be possible in due course, once the Demerger has completed and prior to the 2023 AGM.

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 123), CEO pay ratio (pages 127 to 128), and Wider workforce considerations (page 130), 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.

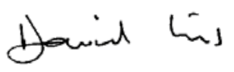
It is based on this performance, and in line with Melrose's remuneration philosophy of paying only for performance, that the Committee has taken its decisions in respect of executive Director remuneration arrangements for 2022 and 2023. There were no deviations from the Directors' Remuneration Policy in respect of the year and the Committee did not exercise any discretion to alter the 2022 outcomes from the application of the performance conditions. Full details are set out in the Annual Report on Remuneration on pages 121 to 134 that will be put to an advisory vote at the 2023 AGM.

Shareholder support

We were pleased that the 2021 Directors' Remuneration Report and the 2020 Directors' Remuneration Policy both received strong shareholder support at the 2022 AGM and the 2020 AGM respectively, receiving voting outcomes of 97.34% 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 2022 Directors' Remuneration Report and the 2023 Directors' Remuneration Policy at the 2023 AGM.

Yours sincerely



David Lis
Chairman, Remuneration Committee
2 March 2023

Annual Report on Remuneration[1]

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

- the actual performance and executive remuneration outcomes for the 2022 financial year; and
- the application of the current Directors' remuneration policy (the "Directors' Remuneration Policy") to the 2022 financial year and how the Directors' Remuneration Policy was operated in 2022.

The current 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 with over 82% of votes cast in favour of the proposal. On 30 March 2023, as part of the approvals required to implement the Demerger, shareholders will be asked for approval to make certain necessary adjustments to the 2020 Employee Share Plan (and consequential revisions to the current Directors' Remuneration Policy) to appropriately reflect the Demerger in the Melrose long-term incentive arrangements.

The full details of the current Directors' Remuneration Policy can be found on pages 103 to 111 of the 2019 Annual Report[2] and on pages 15 to 24 of the circular to shareholders dated 29 December 2020[3]. The circular to shareholders and notice of general meeting to be dated 3 March 2023 (the "Circular") contains details of the adjustments being proposed as part of the Demerger proposal, and will be available on our website.

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

Element	Page
Single figure of remuneration	122 and 131
Share interests awarded in the Financial Year	None / 125
Statement of Director shareholdings and interests	126 and 131
Performance graph	128
CEO pay ratio	127 to 128
Percentage change in remuneration of the CEO	128 to 129
Relative importance of spend on pay	130
Consideration of matters relating to Directors' remuneration	121 to 122
Statement of voting	134
Payments to Past Directors or for Loss of Office	123 / None

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 therefore aligned with the workforce) 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.

(1) This Annual Report on Remuneration speaks to the position as at the date of writing, being 2 March 2023. It is noted that, following this date but prior to the expected date of publication of this Annual Report on Remuneration, a general meeting of shareholders will be held on 30 March 2023 to approve the Demerger, as part of which shareholders will be asked to approve certain necessary adjustments to the 2020 Employee Share Plan and consequential amendments to the Company's current Directors' Remuneration Policy.
(2) Available at www.melroseplc.net/media/2536/melrose-ar2019.pdf.
(3) Available at www.melroseplc.net/media/2587/291220-melrose-circular.pdf.

(3) Supports the delivery of the value creation strategy – with the fixed elements being deliberately pegged at the lower quartile of FTSE 100 peers, the opportunity for any significant reward is heavily weighted to the Company's long-term incentive arrangements, which are entirely based on the creation of shareholder value.

(4) Pays only for performance – executive remuneration is heavily weighted to the Company's long-term incentive arrangements, which pay nothing to participants unless the executive Directors deliver a threshold return to shareholders over the relevant performance period, and only pay 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 page 133. 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.

2022 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 which is proposed to be amended at the Demerger GM on 30 March 2023 with effect from completion of the Demerger), and its four key remuneration principles.

There was no long-term incentive arrangement due to vest in respect of 2022, with the crystallisation date under the 2020 Employee Share Plan (the "MESP") being 31 May 2023 (and, subject to shareholder approval at the Demerger GM and completion of the Demerger, being 31 May 2024). As such there was no payout in respect of the year. As part of the Demerger, the Committee has proposed certain adjustments to the Company's long-term incentive arrangements to appropriately reflect the Demerger on them. Subject to shareholder approval at the Demerger GM and completion of the Demerger, this will split the Company's long-term incentive arrangements to reflect the Demerger (see the Circular for further details).

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 2022, consistent with the salary rises awarded to the wider Melrose head office population, and therefore aligned with the increases applied to the workforce. The Chief Executive's and the Group Finance Director's salaries remained below the lower quartile of the FTSE 100, as is demonstrated by the table on page 123. There were also inflationary increases of 3% made to the Non-executive Chairman's fee and the 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 for the executive Directors. In addition, there were small increases applied to the additional fees for holding the position of the Senior Independent Director and the Chairmanship of the Nomination Committee, as set out in last year's report.

For 2023, an increase of 5% was made to the executive Directors' base salaries with effect from 1 January 2023 as set out on page 126, which was below the increases awarded across the wider workforce. There were increases of 5% made to the Non-executive Chairman's fee and Non-executive Director basic fees with effect from 1 January 2023, consistent with the increases determined for the executive Directors' base salaries, as set out on page 131. In determining the 2022 remuneration outcomes and the remuneration approach for 2023, the Committee was mindful of the evolving macroeconomic challenges impacting the global economy, and aware of the guidance published by the Investment Association at the end of 2022 setting out the issues that remuneration committees should consider as they assess 2022 remuneration outcomes and set remuneration for 2023. As set out in this report, the executive Director salary increases were determined to be appropriate in light of the Company's performance in 2022, and the salary increases that were awarded across the wider workforce (both at a Melrose level and in our businesses) for 2023,

Directors' Remuneration report

Continued

which were higher than those awarded to the executive Directors, whilst recognising and balancing the need to appropriately remunerate and incentivise the executive team to continue to deliver value to shareholders. It is also noted that the executive Directors' 2023 salaries remain well below the lower quartile of the FTSE 100. The Committee therefore feels that it has been able to balance all relevant stakeholder considerations when setting salaries for 2023.

Although the annual bonus outcomes for 2022 were finally determined by the Committee in 2023, 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 any exercise of discretion to change this outcome. The Committee carefully considered the strategic objectives (including ESG objectives) and the extent to which these were met during 2022. As is detailed further on page 124, 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 any exercise of discretion to change this outcome. We have therefore determined to make a full award for the strategic objectives of 20%, and thus a total award for the annual bonus of 100% of salary. For the reasons set out in this report, the Committee believes that the bonus outcome for 2022 is appropriate, taking into consideration a number of factors, including the Company's strong business performance, and the wider stakeholder experience.

The Committee has reviewed the remuneration outcomes for the year and confirms that the Directors' Remuneration Policy operated as intended during the year, and felt that the incentive outcomes were in line with the overall performance of the Group. There were no deviations from the Directors' Remuneration Policy in respect of the year and the Committee did not exercise any discretion to alter the 2022 outcomes from the application of the performance conditions.

Business performance

2022 saw our businesses continue on their improvement tracks to achieving their respective stated margin targets. The year saw the completion or substantial completion of a number of enterprise projects across the businesses, which have been initiated under Melrose ownership. All businesses improved their adjusted operating profit and margin in 2022 compared to 2021, and are benefitting from business improvement actions. Despite the macro challenges facing the Group in 2022, all of the businesses were able to successfully offset the impact of inflation, setting them on a good footing for 2023. Further details on this are set out in the Chief Executive's review on pages 12 to 13 and the Divisional reviews on pages 14 to 27.

This Annual Report and financial statements, and specifically the Group's strategic KPIs on pages 28 to 29, demonstrates the good progress that was made in 2022 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 long-term incentive arrangements are designed to reward the flow-through of the successful implementation of the strategy into longer-term sustainable shareholder returns, consistent with previous incentive plans.

ESG

As mentioned in the 2021 Directors' Remuneration Report, the Committee's view is that the most appropriate place to recognise progress in relation to ESG 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. ESG has historically been considered in the annual bonus as part of the strategic objectives. With the renewal of the Directors' Remuneration Policy at the 2023 AGM, the Committee is proposing to adjust the weightings of the performance measures under the annual bonus plan such that ESG can become a specific focus of the award, with a defined component of at least 10% of the total annual bonus, to be based on measures to be determined by the Committee, to ensure that the executive Directors are incentivised to deliver the Company's ESG strategy. This structure will provide the Committee with flexibility each year to set the factors that are most appropriate to the Company and its strategy, and, consistent with current market practice, will be disclosed retrospectively due to commercial sensitivity (consistent with the approach taken to the existing strategic element). The intention will be to increasingly align the ESG factors with performance against the Company's published targets in this area, as the quality of data in this area increases.

However, as set out in the 2023 Directors' Remuneration Policy on pages 135 to 144, even if this change to structure is approved by shareholders, the current executive Directors will remain on the current annual bonus structure and opportunity, with ESG performance forming part of the strategic factors, and a maximum opportunity of 100% of salary.

Single total figure of remuneration for the executive Directors for the 2022 financial year (audited)

The following chart summarises the single figure of remuneration for 2022 in comparison with 2021[(1)]:

Executive Director	Period	Total salary and fees £000	Taxable benefits £000	Bonus £000	LTIP £000[(2)]	Pension £000[(3)]	Total £000	Total Fixed £000	Total Variable £000
Christopher Miller	2022	567	2	n/a[(4)]	–	85	**654**	**654**	**–**
	2021	551	2	n/a	–	83	**635**	**635**	**–**
Simon Peckham	2022	567	1	567	–	85	**1,221**	**654**	**567**
	2021	551	2	551	–	83	**1,186**	**635**	**551**
Geoffrey Martin	2022	464	12	464	–	70	**1,008**	**545**	**464**
	2021	450	9	450	–	68	**977**	**527**	**450**
Peter Dilnot	2022	464	2	464	–	70	**998**	**535**	**464**
	2021	450	15	450	–	68	**983**	**533**	**450**

(1) The "Total" figures in the above table may not add up to the sum of the component parts due to rounding.
(2) The 2020 Employee Share Plan, which has a commencement date of 31 May 2020, is expected to be a six-year plan in total (comprised of a four-year performance period (subject to shareholder approval at the Demerger GM and completion of the Demerger) and a two-year holding period). Accordingly, no value was vested to participants under the 2020 Employee Share Plan in respect of the year to 31 December 2021 or the year to 31 December 2022.
(3) All amounts attributable to pension contributions were paid as a supplement to base salary in lieu of pension arrangements.
(4) The Executive Vice-Chairman does not participate in the annual bonus scheme.

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

Ms Liz Hewitt retired as the Senior Independent Director and as Chairman of the Audit Committee of Melrose on 5 May 2022. She received her Non-executive Director fees from 1 January 2022 up to and including 5 May 2022. Non-executive Directors do not receive any taxable benefits, pension contributions or variable remuneration. Other than the amounts disclosed on page 131, no other remuneration payment was made to Liz Hewitt in the year and therefore no payment was made for loss of office.

No other payments to past Directors or for loss of office 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 2022 pay against the most recent available remuneration information from our FTSE 100 peers, being 2021[(1)].

As the table below shows, the single total figure of remuneration for the Melrose Chief Executive in 2022 was less than half, and over £1 million less than, the FTSE 100 average in 2021. 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 Company's long-term incentive arrangements, which are 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	1,221	1,772	2,579	3,421

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.

Base Salary

The Chief Executive's salary is 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 2022.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Annual Salary	568	721	952	1,082

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	85	98	162	192
Pension Contribution %	15%	10%	15%	18%

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.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Benefits	1	20	75	82

Annual Bonus

Annual bonuses are entirely performance driven and for 2022 were calculated by the Committee using two elements: 80% being based on adjusted diluted earnings per share growth; and 20% based on the achievement of strategic elements. The maximum bonus opportunity is currently 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.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Annual Bonus	567	903	1,524	1,835
Max bonus opportunity %	100%	150%	207%	224%

(1) The peer group for comparison includes the FTSE 100 constituents as at 31 December 2022, with financial year ends between 1 January 2021 and 31 December 2021, excluding joiners and leavers over the period. 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 2022.
(2) All of the amounts attributable to pension contributions were paid as supplements to base salary in lieu of pension arrangements.

Directors' Remuneration report

Continued

2022 Annual Bonus (audited)

The 2022 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 2022 base salary, based on 2022 performance, with the full breakdown of the award calculation set out below.

As is shown by the table, the financial element of the 2022 annual bonus, growth in adjusted diluted earnings per share, was satisfied in full and therefore a full award was made for this part of it, being 80% of the total bonus. The Committee did not seek to exercise any discretion to adjust for this. With respect to the strategic element, which included ESG objectives, having given detailed and thorough consideration to each of the strategic objectives and management's performance against them during 2022, the Committee determined that each of the strategic objectives was fully met during 2022 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 the wider stakeholder experience, including shareholders and employees.

In determining the 2022 annual bonus award, the Committee was mindful of the evolving macroeconomic challenges impacting the global economy, and aware of the guidance published by the Investment Association at the end of 2022 setting out the issues that remuneration committees should consider as they assess 2022 remuneration outcomes and set remuneration for 2023. In light of the Company's performance during 2022, and that the bonus award (both as a percentage of salary and as an absolute figure) is well below the lower quartile of the FTSE 100, the Committee believes that the annual bonus awarded for 2022 is appropriate and in line with that guidance.

As mentioned on page 122, the Committee's view is that the annual bonus plan is the appropriate place within the Melrose executive remuneration structure to incorporate progress on ESG matters, although is proposing to amend this in the 2023 Directors' Remuneration Policy. Specific objectives for ESG were included in the 2022 annual bonus scheme as part of the strategic objectives.

Financial Objectives (80%)					Percentage of maximum bonus earned
	Threshold	**Target**	**Maximum**	**Actual Performance**	
Growth in adjusted diluted earnings per share	**5%**	**10%**	**20%**	**71%**[1]	
% award	20%	40%	80%	80%	
Growth in adjusted diluted earnings per share sub-total:					**80%**

Strategic Objectives (20%)		Percentage of maximum bonus earned
Significantly offset inflationary headwinds – maximum 4%	All of the Group's businesses faced significant inflationary pressures in 2022, across labour, energy, logistics and raw materials. Management acted swiftly to work with the businesses to devise and implement effective strategies with the objective of offsetting, to the fullest extent possible, such inflationary pressures by the end of the period. Such strategies included a mix of commercial and operational initiatives, including customer agreements (both one-off base price adjustments and pass-through agreements), continuous operational improvement and proactive management of cost bases. By the end of 2022, the Group had fully offset all of these inflationary headwinds.	4%
Execution of GKN Aerospace enterprise project plan – maximum 3%	Management have continued to work with GKN Aerospace to ensure that its ambitious and comprehensive restructuring projects in North America and Europe are executed efficiently and effectively. Some projects have been completed ahead of schedule and are delivering the anticipated benefits, while the rest remain on track. All enterprise projects required to achieve the business's stated operating margin target of 14%+ are under way and are expected to be substantially complete by the end of 2023.	3%
Completion of GKN Automotive and GKN Powder Metallurgy enterprise projects – maximum 3%	With Melrose support, GKN Automotive has now completed the restructuring required to achieve its stated adjusted operating margin target of 10%+ pending the expected market recovery, and has substantially de-risked its balance sheet by implementing restructuring projects, such as site closures and renegotiating or terminating loss-making contracts. This has successfully streamlined the business in preparation for the Demerger.	3%
Realignment of capital structure to enable further value creation in the GKN businesses – maximum 6%	Recognising ongoing market valuation challenges, management have remained intensely focused on the creation and execution of the plan to unlock value for shareholders across the Group. This has been fully delivered through the sale of the last non-GKN business, Ergotron, and the creation of a conservative balance sheet, before devising and executing the proposed Demerger, which will create separate platforms and currencies for further value creation in each of the GKN businesses.	6%
ESG – maximum 4%	***Publish climate transition plan:*** In 2022, the Group adopted its inaugural Net Zero Transition Plan, prepared in accordance with the UK Transition Plan Taskforce's guidance, which sets out the actions that Melrose intends to take in the transition to a net zero economy, how it plans to execute on our interim and long-term emissions reduction targets, and how we plan to achieve Net Zero across the Group by 2050. ***Publish water target:*** Management have worked closely with the businesses to set a meaningful water target in 2022, which is to reduce water withdrawal intensity by 25% by 2030, underpinned by the Group's first Group Water Stewardship Programme, that has been launched across the businesses. ***Initiate SBTi validation for business units:*** Management have supported the businesses in their progress towards setting Science Based Targets for their emissions and having these validated with the SBTi, in line with increasing investor expectations in this regard. GKN Automotive is the furthest progressed business with this, and set Science Based Targets for its emissions in 2022, which will be validated with the SBTi in 2023. ***Improve sustainability benchmarking scores and external disclosure:*** The Group has continued to maintain its sustainability scores with the relevant agencies, due to both continued improved underlying performance as well as the level and detail of reporting. In line with the approved strategy, the Company's MSCI score remained at "A" in 2022, keeping it above average for Global Industrial Conglomerates, and its ESG Risk Management score with Sustainalytics improved to place it in the top 10% of peers.	4%
Strategic Objectives sub-total:		**20%**
Total annual bonus for 2022:		**100%**

(1) The 2021 audited results have been restated to account for discontinued businesses. As a result, adjusted diluted earnings per share for 2021 has been restated from 4.1 pence to 3.1 pence. However, the Committee has taken the conservative approach of using the original figure for 2021 when calculating growth in adjusted diluted EPS between 2021 and 2022.

The 2022 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 2022 annual bonus payments. In accordance with the terms of the Directors' Remuneration Policy, 50% of the 2022 bonus (post-tax) payment to the Chief Operating Officer will be required to be deferred into shares for two years. Such shares will be subject to leaver and clawback conditions. No further performance conditions will apply.

Long-term incentive arrangements (audited)

As at the end of the period, the Company's long-term incentive arrangements comprised the 2020 Melrose Employee Share Plan (the "MESP"). The MESP was approved by shareholders at the general meeting that was held on 21 January 2021. Full details of the MESP, including the participation rate percentages of the executive Directors, are set out in the circular dated 29 December 2020[1]. Participants in the MESP share in 7.5% of the increase in invested capital above a 5% annual charge, measured at the end of a 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. The awards under the MESP 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 MESP were made in one grant on 29 December 2020, subject to approval by shareholders, which was granted on 21 January 2021. No long-term incentives were either granted or crystallised during the 2022 financial year under the MESP. 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 MESP.

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 MESP, as if the crystallisation date was as at the end of the period. As this table demonstrates, as at 31 December 2022, the minimum return hurdle of £892,069,642 had not been achieved and therefore no value had accrued to the MESP. We note that this disclosure does not take into account the proposed adjustments to the Company's long-term incentive arrangements as part of the Demerger which, if approved, will become effective from completion of the Demerger.

In connection with the Demerger, three key adjustments are required to appropriately reflect the Demerger in the existing Melrose incentive arrangements, which as at the end of the period, comprised only the MESP. The full details of the proposed adjustments are set out in the Circular. In summary:

- the total invested capital of the Group will be split between the continuing Melrose Group and the Dowlais group according to a fixed ratio, to match the separation of the businesses themselves under the Demerger, so that any increase in value from completion of the Demerger is measured against the invested capital relating to the relevant businesses. The amount allocated to the Dowlais group will form the invested capital under the MASP (see below);
- the performance period of the MESP will be extended by 12 months to 31 May 2024, to mitigate any potential initial market volatility on the measurement of long-term performance in creating value in GKN Aerospace, the only business that will be left in the continuing Melrose Group following the Demerger; and
- the terms for Melrose senior management to reward further value creation in the businesses separated into the Dowlais group will be set under a separate plan, the Melrose Automotive Share Plan (the "MASP"). The MASP will measure the creation of shareholder value in Dowlais above a threshold invested capital over a performance period to 31 May 2025, with participants being granted options to acquire ordinary shares in Dowlais for nil consideration, subject to achieving the necessary performance. Following completion of the Demerger, 2% of the Dowlais shares will be placed on trust with an ESOT, which shall be used to satisfy the exercise of these options where the vesting conditions have been met. On the crystallisation date, to the extent the vesting conditions have not been met, the ESOT will transfer the relevant shares back to Dowlais (or its nominee) to be cancelled.

There will only be one MASP, and it will not be renewed or replaced on crystallisation. It will be governed by the standard terms that apply to the MESP, such as malus and clawback and cessation of employment, and will be overseen by the Committee.

Theoretical value under the MESP if crystallised on 31 December 2022 (rather than on the scheduled payment date)
2020
Invested capital from (and including) May 2020 up to (and including) 31 December 2022 £5,759,321,924 Index adjustment/minimum return £892,069,642
Indexed capital £6,651,391,566
2022
Number of issued ordinary shares on 31 December 2022[2] 4,054,425,961
Average price of an ordinary share for 40 business days prior to and including 30 December 2022[3] 128.52p
Deemed market capitalisation of Melrose based on average price of an ordinary share for 40 business days prior to 30 December 2022[3] £5,210,798,884
Overall change in value for shareholders since 31 May 2020 (£1,440,592,682)

Theoretical value to management and shareholder dilution calculated at 31 December 2022
7.5% of change in value 0
Total number of new shares issued under the MESP 0
Theoretical dilution to shareholders due to the MESP 0
Break-even price of an ordinary share at 31 December 2022 for the MESP to start to deliver value 164.00p

(1) Available at www.melroseplc.net/media/2587/291220-melrose-circular.pdf.
(2) Following the share buyback, which completed on 1 August 2022.
(3) Being the last business day of the 2022 financial year.

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 MESP (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 Mr David Roper following his retirement as an executive Director on 31 May 2021, and he remains in compliance with them.

In reality, the executive Directors generally hold well in excess of these minimum amounts, 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 2022, 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 2021 and 2022 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 31 December 2022	Shares beneficially held on 31 December 2021(4)	Shares beneficially held on 31 December 2022(4)	Value of shares on 31 December 2021(5) £	Value of shares on 31 December 2022(3) £	Difference in value of shares between 31 December 2021 and 31 December 2022(6) £
Christopher Miller	300%	5,399%	Yes	0.562%	22,777,659	22,777,659	36,421,477	30,635,951	(5,785,525)
Simon Peckham	300%	2,862%	Yes	0.298%	12,071,895	12,071,895	19,302,960	16,236,699	(3,066,261)
Geoffrey Martin	300%	1,931%	Yes	0.164%	6,655,730	6,655,730	10,642,512	8,951,957	(1,690,555)
Peter Dilnot	300%(7)	29%	No	0.002%	100,000	100,000	159,900	134,500	(25,400)

(1) In addition to the share interests set out in the table, each of the executive Directors as at 31 December 2022 has an additional exposure by virtue of their conditional awards under the MESP (see "Long-term incentive arrangements" on page 125).
(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 134.50 pence, being the closing mid-market price on 30 December 2022, being the last business day of the 2022 financial year, and salary is 2022 base salary as set out in the single figure table on page 122.
(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) 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.
(6) The figures in this column may not add up to the sum of the component parts due to rounding.
(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.

There have been no changes in the ordinary shareholdings of the executive Directors between 31 December 2022 and 2 March 2023 (the date of this report).

Please see page 131 for a table setting out the equity interests of the Non-executive Directors as at 31 December 2022.

Key decisions and statement of implementation for 2023

Salary review

We note that the Company has historically followed the guidance of the Investment Association in limiting salary increases for the executive Directors, in normal circumstances, to the level of inflation or the salary increases given to all employees. The Committee has taken on board the Investment Association's recent guidance in November 2022 and has awarded salary increases to the executive Directors of 5% for 2023, which is below the rate of salary increases made to the wider workforce. The executive Director salary increases were determined to be appropriate in light of the Company's performance in 2022, whilst recognising and balancing the need to appropriately remunerate and incentivise the executive team to continue to deliver value to shareholders. It is also noted that the Chief Executive's and Group Finance Director's salaries remain well below the lower quartile of the FTSE 100. The Committee therefore feels that it has been able to balance all relevant stakeholder considerations when setting salaries for 2023.

The executive Directors' salaries for 2023 are as follows:

Executive Directors	Position	Salary with effect from 1 January 2023 £000
Christopher Miller	Executive Vice-Chairman	596
Simon Peckham	Chief Executive	596
Geoffrey Martin	Group Finance Director	487
Peter Dilnot	Chief Operating Officer	487

Pensions and benefits

For 2023, 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 and therefore aligned with the workforce.

Annual bonus

The Committee is proposing to make some changes to the overall framework for the executive Director annual bonus arrangements as part of the renewal of the Directors' Remuneration Policy, which will be put forward for shareholder approval at the 2023 AGM. However, even if approved, these will not apply to the 2023 annual bonus for the current executive Directors. Although we are seeking approval to increase the maximum bonus opportunity to 200% of salary, this will not apply to the current executive Directors for the duration of the 2023 Directors' Remuneration Policy, who will continue on the current arrangements, with a maximum opportunity of 100% of salary, split between financial performance metrics (at least 50%) and strategic and/or personal objectives (which will continue to include ESG).

The proposed increase will, however, provide the Committee with flexibility in succession planning, and is considered necessary and appropriate. Subject to shareholder approval, the 2023 Directors' Remuneration Policy will enable the award of a maximum bonus opportunity of 200% of salary, based on financial performance metrics of at least 50%, ESG performance metrics of at least 10%, and the remainder based on strategic and/or personal objectives. However, to the extent that the increased maximum bonus opportunity of 200% is not utilised, the structure of the award shall remain as it is currently, being financial performance metrics of at least 50%, and the balance of the award based on strategic measures and/or personal objectives. The financial performance metric will remain consistent with prior years as adjusted diluted earnings per share growth, which the Committee considers remains the appropriate metric for the Company. The Committee considers that the details of the strategic and ESG performance measures are commercially sensitive, but will disclose the nature of all measures on a retrospective basis, where appropriate, on a similar basis to the disclosure on page 124 in respect of the annual bonus for the year ending 31 December 2022.

Long-term incentive arrangements

Given the nature of the MESP (see "Long-term incentive arrangements" on page 125), no grants were made to the executive Directors under the MESP in 2022, nor will any be made to them in 2023. Subject to shareholder approval at the Demerger GM and completion of the Demerger, grants will be made to the executive Directors under the MASP in 2023. Details on such proposed grants are set out in the Circular.

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 2012 Incentive Plan which crystallised in May 2017 is shown for the year ended 31 December 2017, although this represents rewards earned over the previous five years. The 2017 Incentive Plan crystallised in May 2020 for no value. Per the terms of the Company's current long-term incentive arrangements, subject to shareholder approval at the Demerger GM and completion of the Demerger, any award in relation to the MESP is not scheduled until May 2024, and only then 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 2022	Simon Peckham	1,221,011	–	1,221,011	100%	–
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%	–

(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.

CEO pay ratio

Our median CEO to employee pay ratio for 2022 continued to be low at 26:1. 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	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Year ended 31 December 2022	Option A	32:1	26:1	20:1
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

Directors' Remuneration report
Continued

The employees used for the purposes of calculating the pay ratios in the table on page 127 were those employed in the UK by any business within the Group on 31 December 2022 (for the avoidance of doubt, including the Chief Executive), and the remuneration figures were determined with reference to the financial year ending 31 December 2022. 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 2021 financial year bonuses (which were paid during 2022) where the 2022 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.

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

Financial year	Element of pay	25th percentile pay employee	Median employee	75th percentile pay employee
Year ended 31 December 2022	Salary and wages[1]	£35,000	£42,000	£52,000
	Total pay and benefits	£38,000	£47,000	£60,000

(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 fallen slightly since last year, reflecting that for 2022 compared to 2021, although there was an increase in the Chief Executive's total remuneration linked to a 3% salary increase, there was a more significant percentage increase in remuneration at all three quartiles for the Group's UK employees.

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 123 of this report.

To give context to the Chief Executive's 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 opposite 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 interests 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.

We are required to report on this change based on actual amounts received by the Directors. The percentage increases for 2021 vs 2020 and for 2020 vs 2019 were naturally impacted by the pandemic, which included temporary salary and fee reductions and reduced annual bonuses for the executive Directors in 2020.

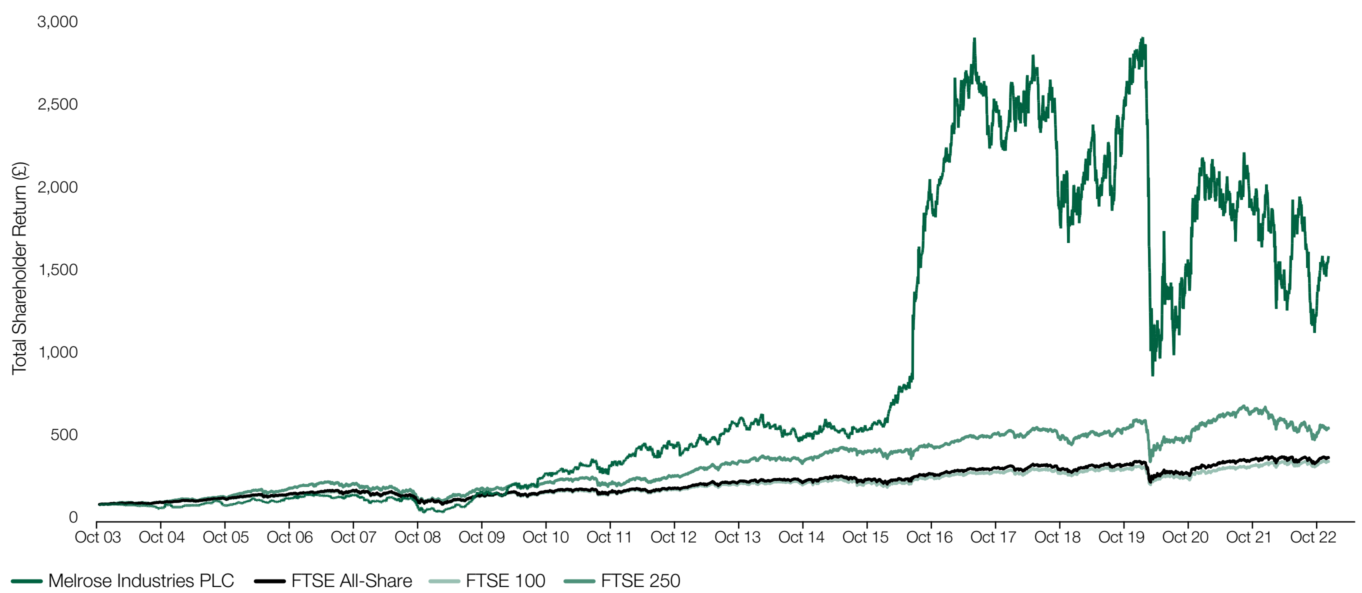
	2022 vs 2021			2021 vs 2020			2020 vs 2019		
Element of remuneration	Basic salary/fee percentage change[1]	Benefits percentage change/ amount £000[2]	Annual bonus percentage change[3]	Basic salary/fee percentage change[1]	Benefits percentage change/ amount £000[2]	Annual bonus percentage change[3]	Basic salary/fee percentage change[1]	Benefits percentage change/ amount £000[2]	Annual bonus percentage change[3]
Executive Directors									
Christopher Miller	3%	15% / 2	n/a	12%	-30% / 2	n/a	-6%	-20% / 2	n/a
Simon Peckham	3%	-45% / 1	3%	12%	-26% / 2	415%	-6%	-2% / 3	-71%
Geoffrey Martin	3%	31% / 12	3%	14%	-6% / 9	422%	-6%	7% / 10	-72%
Peter Dilnot[4]	3%	-88% / 2	3%	–	– / 15	–	–	– / –	–
Non-executive Directors									
Justin Dowley	3%	n/a	n/a	12%	n/a	n/a	-6%	n/a	n/a
Liz Hewitt[5]	-63%	n/a	n/a	8%	n/a	n/a	5%	n/a	n/a
David Lis[6]	16%	n/a	n/a	10%	n/a	n/a	-4%	n/a	n/a
Charlotte Twyning[7]	22%	n/a	n/a	12%	n/a	n/a	-6%	n/a	n/a
Funmi Adegoke	3%	n/a	n/a	12%	n/a	n/a	278%	n/a	n/a
Heather Lawrence[8]	119%	n/a	n/a	–	–	–	–	–	–
Victoria Jarman[9]	77%	n/a	n/a	–	–	–	–	–	–
Senior employees[10]	**4%**	**2%**	**2%**	**6%**	**92%**	**167%**	**-1%**	**11%**	**45%**

(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 compared to that paid for the prior financial year. For the Non-executive Directors, this fee includes both their basic fee and any additional fee received for holding the position of the Senior Independent Director, and for holding the Chairmanship of the Audit Committee, the Remuneration Committee and the Nomination Committee.
(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. Given that the executive Director benefits are minimal, a small change to the amount of those benefits (for example, an annual increase to the premium charged for private medical insurance) will necessarily result in a large increase. To provide comfort that these are not large increases in quantum, the benefits data as provided in the single total figure table is included, for context.
(3) The annual percentage change in bonus is calculated by reference to the bonus payable in respect of the financial year compared to the prior financial year, in each case 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.
(4) Peter Dilnot was appointed to the Board with effect from 1 January 2021 and therefore no prior year comparisons are possible.
(5) Liz Hewitt retired from the Board with effect from 5 May 2022. The decrease in her basic fee from 2021 to 2022 reflects the fee actually received for the pro-rated period of directorship in 2022 for the period 1 January 2022 to 5 May 2022 versus a full year for 2021, so is not a meaningful comparison.
(6) David Lis was appointed as the Senior Independent Director with effect from 5 May 2022. The increase in his basic fee from 2021 to 2022 reflects the additional fee received in respect of being appointed to this role for the period 5 May 2022 to 31 December 2022 which was not applicable to 2021, so is not a meaningful comparison.
(7) Charlotte Twyning was appointed as the Chairman of the Nomination Committee with effect from 1 January 2022. The increase in her basic fee from 2021 to 2022 reflects the additional fee received in respect of being appointed to this role for 2022 which was not applicable to 2021, so is not a meaningful comparison.
(8) Heather Lawrence was appointed to the Board with effect from 1 June 2021, and as Chairman of the Audit Committee with effect from 5 May 2022. The increase in her basic fee from 2021 to 2022 reflects the fee actually received for the pro-rated period of directorship in 2021 for the period 1 June 2021 to 31 December 2021 versus a full year for 2022, and reflects the additional fee received in respect of being appointed to the role of Chairman of the Audit Committee for the period 5 May 2022 to 31 December 2022 which was not applicable to 2021, so is not a meaningful comparison.
(9) Victoria Jarman was appointed to the Board with effect from 1 June 2021. The increase in her basic fee from 2021 to 2022 reflects the fee actually received for the pro-rated period of directorship in 2021 for the period 1 June 2021 to 31 December 2021 versus a full year for 2022, so is not a meaningful comparison.
(10) 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.

Total Shareholder Return

The total shareholder return graph below shows the value as at 31 December 2022 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 1,481% (compared to the FTSE 100 Index TSR of 255%) 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 2022 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, wider Melrose workforce or 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. On this basis, the Melrose Chief Executive is responsible for engaging with the Melrose workforce in relation to remuneration, and the businesses are responsible for engaging with their respective workforces in relation to remuneration, and each do so throughout the year. 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 to ensure that this is consistent with the remuneration of the executive Directors. It also receives an annual confirmation from each business, via the Workforce Advisory Panel, that the remuneration provided by that business to its executive team is consistent with the remuneration that the business provides to its wider workforce, and that the incentives it operates align with the business's culture and strategy. This provides the Committee with comfort that it is discharging its obligations under the Code, and that there is consistency and engagement across all levels of the Group. 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.

In 2022, the Committee was particularly aware of the quickly evolving macroeconomic challenges impacting the global economy, including the impact of the conflict in Ukraine and the resulting impact on energy prices, supply chain issues, the wider cost of living crisis, and high inflationary pressures, all of which continue to contribute to a challenging economic environment with general uncertainty. The Committee has sought to ensure that executive pay decisions in respect of 2022 and 2023 have been taken with this background in mind, and with the benefit of the oversight described above and advice from its external remuneration advisors. In our decentralised model, the salary management approach varies from business to business, and is the responsibility of the divisional executive teams, but all of our businesses have generally chosen to award significantly higher salary increases for their employees than in previous years. The Committee took this into consideration when making its decision for the executive Director salary increases for 2023, which it decided to make below the rate of those made to the wider workforce, in consideration of the wider stakeholder experience.

Melrose and each of its businesses continue to pay all UK employees at least the real living wage, and 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.

Melrose is rightly proud of its track record in addressing pensions challenges in the businesses that we buy, and GKN has been no different. For GKN, we have delivered on our commitments to trustees ahead of schedule, overcoming the large funding pension deficit we inherited of almost £1 billion to bring the UK schemes to being materially fully funded as at the end of 2022, despite the challenges of COVID-19 and without detracting from our investment in the businesses. With the Demerger, the schemes attached to GKN Automotive will transfer to Dowlais benefiting from their much improved position, leaving the continuing Melrose Group with the pension schemes attached to GKN Aerospace. As the next step in securing the future for members, we have recently agreed a buyout of half of the remaining GKN Aerospace UK pension liabilities, further reducing the pension exposure for the Group, and giving certainty to the members of the scheme. This is a complete transformation from the situation inherited in 2018 and is a further testament to the strong Melrose track record in respect of pension schemes.

Long-term incentives

Participation in the Melrose long-term incentive arrangements (being the MESP and, subject to shareholder approval at the Demerger GM and completion of the Demerger, the MASP) 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 31 December 2021 £ million	Year ended 31 December 2022 £ million	Percentage change
Remuneration paid to all employees(1)	2,020	2,127	5%
Distributions to shareholders by way of dividend and share buy back	798(2)	577(3)	-28%

(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) The figure for the year ended 31 December 2022 includes the amount returned to shareholders by way of the share buyback in 2022.

Non-executive Directors

Single figure table and share interests (audited)

The following table sets out the single figure of remuneration for 2022 in comparison with 2021 for the Company's Non-executive Directors(1):

Non-executive Directors	Period	Total basic fees £000	Total other fees £000(2)	Other (bonus, pension, LTIP, taxable benefits) £000	Total £000	Total Fixed £000	Total Variable £000
Justin Dowley (Chairman)	2022	383	–	n/a	**383**	**383**	–
	2021	371	–	n/a	**371**	**371**	–
Liz Hewitt (Senior Independent Director to 5 May 2022)(3)	2022	29	17	n/a	**46**	**46**	–
	2021	80	45	n/a	**125**	**125**	–
David Lis (Senior Independent Director from 5 May 2022)	2022	82	33	n/a	**115**	**115**	–
	2021	80	20	n/a	**100**	**100**	–
Charlotte Twyning	2022	82	15	n/a	**97**	**97**	–
	2021	80	–	n/a	**80**	**80**	–
Funmi Adegoke	2022	82	–	n/a	**82**	**82**	–
	2021	80	–	n/a	**80**	**80**	–
Heather Lawrence(4)	2022	82	20	n/a	**102**	**102**	–
	2021	46	–	n/a	**46**	**46**	–
Victoria Jarman(5)	2022	82	–	n/a	**82**	**82**	–
	2021	46	–	n/a	**46**	**46**	–

(1) The "Total" figures in the above table may not add up to the sum of the component parts due to rounding.
(2) These are additional fees for holding the Chairmanship of the Audit Committee, the Remuneration Committee and the Nomination Committee, and for holding the position of the 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.
(3) Liz Hewitt retired as a Non-executive Director of the Company on 5 May 2022 and the fees referred to above for 2022 reflect her fees for the period 1 January 2022 to 5 May 2022.
(4) 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.
(5) 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 2022, 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 2022(1)	Shareholding (% ordinary share capital) as at 31 December 2022
Justin Dowley	1,523,844	0.0376%
David Lis	448,052	0.0111%
Charlotte Twyning	86,842	0.0021%
Funmi Adegoke	11,556	0.0003%
Heather Lawrence	45,000	0.0011%
Victoria Jarman	33,500	0.0008%
Total	**2,148,794**	**0.0530%**

There have been no changes in the ordinary shareholdings of the Non-executive Directors between 31 December 2022 and 2 March 2023 (the date of this report).

(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 5% with effect from 1 January 2023, in line with increases made to the executive Directors. 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 2022 and 2023 are set out in the table below.

Fee element	Fee with effect from 1 January 2022 £	Fee with effect from 1 January 2023 £
Non-executive Chairman fee	382,500	401,650
Basic Non-executive Director fee	82,000	86,100
Additional fee for holding the position of the Senior Independent Director	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 Remuneration Committee	20,000	20,000
Additional fee for holding the Chairmanship of the Nomination Committee	15,000	15,000

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.

Directors' Remuneration report
Continued

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	2025
David Lis (Senior Independent Director)	12 May 2016	2025
Charlotte Twyning	1 October 2018	2024
Funmi Adegoke	1 October 2019	2025
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 the divisional executive teams, 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 130, although it retains oversight, the Committee is not responsible for setting and managing the remuneration of the Melrose senior management team, the wider Melrose workforce, or the 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 of the Board) 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 2022, 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 2022 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 page 107 for further details.

Attendance at meetings

The attendance of the Non-executive Directors at the scheduled meetings of the Committee in 2022 was as follows:

Member	No. of meetings(1)
David Lis (Chairman)	●● 2/2
Justin Dowley	●● 2/2
Liz Hewitt(2)	● 1/1
Charlotte Twyning	●● 2/2
Victoria Jarman	●● 2/2

(1) Reflects regularly scheduled meetings of the Committee that took place in 2022.
(2) Retired from the Board and the Committee on 5 May 2022 and attended all Committee meetings held during the period 1 January 2022 to 5 May 2022.

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 121, 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	The Company's performance remuneration is based on supporting the implementation of the Company's strategy, which is primarily to create sustainable long-term shareholder value. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid. The Company seeks to present its remuneration arrangements to investors in the clearest and most transparent way possible. We also remain committed to maintaining an open and transparent dialogue with our investors, both through formal engagement processes and ad-hoc discussions, and through the disclosures in our annual reports.
Simplicity	The fixed elements of remuneration are limited to base salary, pension contribution and benefits, all below the lower quartile of FTSE 100 peers for the Chief Executive and the Group Finance Director and in the case of pension contributions, the same as the rest of the Melrose head office employees, and therefore aligned with the workforce. There are only two variable elements of remuneration: the annual bonus and the long-term incentive arrangements (comprising the MESP and, subject to shareholder approval at the Demerger GM and completion of the Demerger, the MASP), both of which are based on simple and transparent metrics. The operation of the Annual Bonus Plan is linked to financial performance metrics (at least 50%) and the achievement of strategic and ESG factors. The Company operates long-term incentive arrangements for the Melrose Group, which simply reward the creation of shareholder value over a performance period above a minimum level of return for shareholders. In the Committee's view, this provides a very simple incentive framework which can be understood by all of the Company's stakeholders.
Risk	The Directors' Remuneration Policy includes the following elements to mitigate against the risk of target-based incentives: • Setting defined limits on the maximum award that can be earned, including capping the annual bonus to a proposed maximum of 200% of base salary, subject to shareholder approval at the 2023 AGM (and noting that, even if approved, the current executive Directors will continue on the current maximum of 100% of base salary for the duration of the 2023 Directors' Remuneration Policy), and the application of the annual rolling cap to the MESP. • 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 MESP (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	Fixed remuneration for the Chief Executive and the Group Finance Director is set below the lower quartile of FTSE 100 peers to limit fixed costs for the Group, to provide certainty and to incentivise executive Directors. Variable remuneration is limited to: (i) the annual bonus, which is proposed to be capped at 200% of salary, subject to shareholder approval of the 2023 Directors' Remuneration Policy at the 2023 AGM (remaining at 100% of salary for the current executive Directors for the duration of the 2023 Directors' Remuneration Policy) and performance-driven based on financial growth, and strategic and ESG factors; and (ii) the long-term incentive arrangements, being the MESP and, subject to shareholder approval at the Demerger GM and completion of the Demerger, the MASP. The method of calculation, limits and discretions under the Directors' Remuneration Policy are clearly set out.
Proportionality	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 MESP and, subject to shareholder approval at the Demerger GM and completion of the Demerger, the MASP, that support the Company's value creation strategy.
Alignment to culture	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 current Chief Executive and the Group Finance Director to the lower quartile of the FTSE 100.

Directors' Remuneration report
Continued

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 reward advice and advice on the remuneration reporting regulations from PwC LLP. PwC LLP's fees for this advice were £73,563 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.

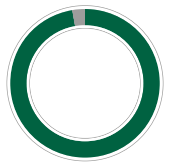
The Committee appointed PwC LLP to act as its remuneration consultants and the Committee determined to reappoint PwC LLP to act for the period under review. PwC LLP is a member of the Remuneration Consultants Group, and as such chooses to operate pursuant to a code of conduct that requires remuneration 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.

PwC LLP will stand down as the Committee's remuneration consultants effective 30 June 2023, in anticipation of PwC becoming the external auditors for the Melrose Group for the reporting period ending 31 December 2024. The Committee is in the process of appointing replacement remuneration consultants to advise the Committee from 1 July 2023.

The Company Secretary, Mr Warren Fernandez, acts as secretary to the Committee and attends Committee meetings.

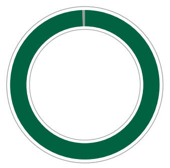
Statement of voting at general meetings
The charts below set out the votes on the 2021 Directors' Remuneration Report at the 2022 AGM, on the Directors' Remuneration Policy at the 2020 AGM, on the MESP at the January 2021 general meeting, and on the consequential amendments to the Directors' Remuneration Policy at the January 2021 general meeting.

Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2021 (5 May 2022)



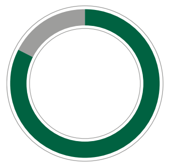
Percentage of votes cast for the resolution	97.34%
Percentage of votes cast against the resolution	2.66%
Votes withheld 24,369,433	

Resolution to approve the Directors' Remuneration Policy (7 May 2020)



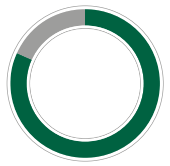
Percentage of votes cast for the resolution	98.40%
Percentage of votes cast against the resolution	1.60%
Votes withheld 422,042,417	

Resolution to approve and implement the MESP (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 MESP (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 Annual Report on Remuneration will be put to an advisory vote at the 2023 AGM on 8 June 2023.

2023 Directors' Remuneration Policy[1]

This Directors' remuneration policy (the "2023 Directors' Remuneration Policy") shall, subject to shareholder approval at the 2023 Annual General Meeting ("AGM"), take binding effect from the conclusion of that meeting. The Company's current Directors' Remuneration Policy was approved by shareholders in 2020, with subsequent adjustments relating to the Company's long-term incentive arrangements and consequential amendments to the Directors' Remuneration Policy being approved in January 2021 and March 2023. The main difference between the current Directors' Remuneration Policy and the 2023 Directors' Remuneration Policy set out below is the amendment to the maximum bonus opportunity under the Annual Bonus Plan to 200% of salary and to adjust the weightings of the performance measures in the Annual Bonus Plan to include a defined component for ESG.

The proposal seeks to maintain a very successful Melrose remuneration structure that is critical to its "Buy, Improve, Sell" model. This remuneration structure and the Directors' Remuneration Policy is based around four key principles as set out on page 121 – namely, that executive remuneration should be simple, transparent, support the value creation strategy and pay only for performance. Details are set out below.

To place the current Directors' Remuneration Policy in context, the table on page 123 shows that the single total figure of remuneration for the Chief Executive in 2022 was less than half, or over £1 million less than, the average of FTSE 100 peers in 2021 (being the most recent available remuneration information from our FTSE 100 peers). This demonstrates in practice the Company'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 long-term incentive plan, which is entirely performance based and ensures that executive Directors only receive substantial rewards when they have outperformed and created very significant value for shareholders. This will continue to be the case under the 2023 Directors' Remuneration Policy.

How did the Remuneration Committee determine the 2023 Directors' Remuneration Policy?
In determining the 2023 Directors' Remuneration Policy, the Remuneration Committee:

- considered the Company's strategy, how the current Directors' Remuneration Policy related to and supported the strategy, and formed its own views on the changes (if any) required to the current Directors' Remuneration Policy to align with the strategy;
- considered feedback from shareholders and investor bodies on the 2020 and 2021 Directors' Remuneration Reports;
- sought advice from its independent remuneration consultants on the impact of the UK Corporate Governance Code (the "Code"), applicable law and regulations and current investor sentiment in formulating the 2023 Directors' Remuneration Policy;
- considered the disclosures it receives on wider workforce remuneration to ensure the approach to executive remuneration is consistent;
- consulted with the executive Directors and other relevant members of Melrose senior management on the proposed changes to the current Directors' Remuneration Policy; and
- will seek to engage with key shareholders and investor bodies on the changes prior to the 2023 AGM.

The Remuneration Committee was mindful in its deliberations on the 2023 Directors' Remuneration Policy of any potential conflicts of interest and sought to minimise them through an open and transparent internal consultation process, by seeking independent advice from its external advisors. In the last six months, the Company has engaged both significantly and intensively with its key shareholders in preparation for the Demerger. Recognising the timetable for the Demerger, and the overlap with the publication of the 2023 Directors' Remuneration Policy, we envisage that a further round of engagement with key shareholders on the 2023 Directors' Remuneration Policy may be possible in due course, once the Demerger has completed and prior to the 2023 AGM.

Salary, bonus and benefits
Base Salary

Purpose and link to strategy
Core element of fixed remuneration, reflecting the size and scope of the role, designed to attract and retain executive Directors of the calibre required for the Group.

Operation
Normally reviewed annually and fixed for 12 months from 1 January, although salaries may be reviewed more frequently or at different times of the year if the Remuneration Committee determines this to be appropriate. The individual's contribution and overall performance is one of the considerations in determining the level of any salary increase.

Salaries are paid in cash and levels are determined by the Remuneration Committee taking into account a range of factors including:

- role, experience and performance;
- prevailing market conditions;
- external benchmarks for similar roles at comparable companies; and
- salary increases awarded for other employees in the Group.

Opportunity
To avoid setting expectations of executive Directors and other employees, no maximum has been set under the 2023 Directors' Remuneration Policy. Salary increases will take into account the average increase awarded to other Melrose employees and the wider Group workforce.

Increases may be made to salary levels in certain circumstances as required, for example to reflect:

- an increase in scope of role or responsibility; and
- performance in role.

Changes proposed for 2023 Directors' Remuneration Policy
No change to policy.

(1) This 2023 Directors' Remuneration Policy as set out on pages 135 to 144 assumes that the adjustments to the Company's long-term incentive arrangements (and consequential revisions to the 2020 Directors' Remuneration Policy) proposed as part of the demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger") have been approved by shareholders at the general meeting that is scheduled for 30 March 2023 (the "Demerger GM") and that completion of the Demerger has taken place.

Annual Bonus

Purpose and link to strategy

Rewards performance against annual targets which support the strategic direction of the Company.

Operation

Targets are set annually and payout is determined by the Remuneration Committee after the year-end based on performance against those targets. The Remuneration Committee has discretion to vary the bonus payout (upwards or downwards) should any formulaic output not produce a fair result for either the individual executive Director or the Company, taking account of overall business performance. The treatment of bonus payments upon cessation of employment is described on page 143.

Annual bonus awards are discretionary and, accordingly, are subject to a "malus" provision over the course of the relevant year. The annual bonus award is also subject to a clawback arrangement that may be applied by the Remuneration Committee at any time up until the Annual General Meeting held in the second year following the payment of the bonus.

The Remuneration Committee may apply these malus or clawback provisions in the event of: (1) material misstatement of financial results that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (2) material miscalculation of any performance measure on which the bonus earned was calculated; (3) gross misconduct by the relevant executive Director; (4) events or behaviour of an executive Director that have led to the censure of the Company by a significant regulatory authority or have had a significant detrimental impact on the reputation of the Company, provided that the Board is satisfied that the relevant executive Director was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to them; and/or (5) the Company becoming insolvent or otherwise suffering a corporate failure so that the bonus earned is materially reduced, provided that the Board determines, following an appropriate review of accountability, that the executive Director should be held responsible (in whole or in part) for that insolvency or corporate failure.

If an executive Director does not satisfy the minimum shareholding requirement (see page 141), up to 50% of any bonus award may be deferred into shares for up to two years.

Opportunity

Maximum opportunity is 200% of base salary.

However, the executive Directors as of the date on which the 2023 Directors' Remuneration Policy is approved by shareholders will not receive the benefit of such increase to the annual bonus maximum entitlement for the duration of the 2023 Directors' Remuneration Policy, and will remain on a maximum opportunity of 100% of salary.

Performance metric

The Remuneration Committee will have regard to various performance metrics (which will be determined by the Remuneration Committee) measured over the relevant financial year, when determining bonuses. For executive Directors with a maximum opportunity of 200% of salary, at least 50% of the award will be based on financial measures, at least 10% will be based on ESG measures, and the balance of the award will be based on strategic measures and/or personal objectives, as determined by the Remuneration Committee:

- **Financial metrics:** The element of the bonus subject to a financial metric will be determined between 0% and 100% for performance between "threshold" performance (the minimum level of performance that results in any level of payout), "target" performance, and "maximum" performance, with a linear line for achievement between the threshold and the maximum.
- **Strategic element:** The strategic element of an award will be determined to the extent assessed by the Remuneration Committee between 0% and 100% based on the Remuneration Committee's assessment of a range of financial and non-financial metrics and/or personal objectives.
- **ESG element:** The ESG element of an award will be determined to the extent assessed by the Remuneration Committee between 0% and 100% based on the Remuneration Committee's assessment of a range of ESG metrics that are most closely aligned to the Company's strategy.

Where an executive Director has a maximum opportunity of 100% of salary, the ESG element will continue to be included as part of the strategic measures.

Stretching performance targets are set each year for the annual bonus, to reflect the key financial, strategic and ESG objectives of the Company and to reward for delivery against these targets. When setting the targets, the Remuneration Committee will take into account a number of different reference points, including the Company's plans and strategy and the market environment.

Changes proposed for 2023 Directors' Remuneration Policy

Maximum opportunity has been increased from 100% to 200% of base salary. This decision has been made to provide the Remuneration Committee with the ability to create a competitive executive remuneration package to attract the best talent in the context of succession planning. However, the executive Directors as of the date on which the 2023 Directors' Remuneration Policy is approved by shareholders will not receive the benefit of such increase to the annual bonus maximum entitlement for the duration of the 2023 Directors' Remuneration Policy, and will remain on a maximum opportunity of 100% of salary.

A standalone ESG element has been introduced into the annual bonus structure. As a result, at least 50% of the award will be based on financial measures, at least 10% will be based on ESG measures, and the balance of the award will be based on strategic measures and/or personal objectives, as determined by the Remuneration Committee. Where an executive Director has a maximum opportunity of 100% of salary, the ESG element will continue to be included as part of the strategic measures.

Rationale for change

The Remuneration Committee is proposing to increase the maximum opportunity from 100% to 200% of salary. With increasing focus on succession planning, this will allow the Remuneration Committee the ability to create a competitive executive remuneration package and to attract the best talent.

In addition, ESG can become a specific focus of the award with a defined component, to ensure that executive Directors are incentivised to deliver the Company's ESG strategy.

Retirement benefits

Purpose and link to strategy

Provides market competitive post-employment benefits (or cash equivalent) to recruit and retain executive Directors of the calibre required for the Group.

Operation

The executive Directors may elect to receive a Company contribution to an individual defined contribution pension arrangement or a supplement to base salary in lieu of a pension arrangement. Any new executive Director will be entitled to receive an equivalent pension contribution.

Opportunity

15% of base salary, the same percentage of salary as the rest of the Melrose employees and within the range of the wider Group workforce, thereby providing alignment with the workforce. This percentage contribution has remained unchanged since the Company was floated in 2003 and importantly remains consistent with the Melrose workforce.

Changes proposed for 2023 Directors' Remuneration Policy

No change to policy.

Other benefits

Purpose and link to strategy

Ensures the overall package is competitive to enable the Company to recruit and retain executive Directors of the calibre required for the Group.

Operation

Executive Directors receive benefits consistent with other Melrose employees and market practice, which may include a fuel allowance, private medical insurance, life insurance and group income protection. Other benefits may be provided based on individual circumstances, such benefits may include (but are not limited to) travel costs to and from London, accommodation in London for executive Directors who are not based in London but who are required to work there, and relocation allowances.

Opportunity

Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits that executive Directors may receive, the value of benefits is set at a level that the Remuneration Committee considers appropriate against the market and to support the ongoing strategy of the Company.

Changes proposed for 2023 Directors' Remuneration Policy

No change to policy.

Long-term incentive arrangements

The long-term incentive arrangements that are operated by the Company are directly linked to the value created for shareholders. In order to appropriately reflect the Demerger on the long-term incentive arrangements, the Company has split its long-term incentive arrangements into two with effect from completion of the Demerger. The 2020 Employee Share Plan relates to the continuing Melrose Group following the Demerger, which includes the retained GKN Aerospace business (the "Continuing Melrose Group"), and the Melrose Automotive Share Plan relates to the GKN Automotive and GKN Powder Metallurgy businesses separated out into the Dowlais Group. The Melrose Automotive Share Plan is a one-off plan and will not be renewed or replaced. Both the 2020 Employee Share Plan (as amended) and the Melrose Automotive Share Plan have already been approved at the Demerger GM.

Grants under the MESP will be made to executive Directors in 2020 and no further grants are expected to be made to them during the MESP Performance Period. Grants under the MASP were made to executive Directors shortly after completion of the Demerger. Further details are described in the circular to shareholders and notice of general meeting dated 3 March 2023, which is available on our website.

2020 Melrose Employee Share Plan

As approved by shareholders at the General Meeting on 21 January 2021, the 2020 Melrose Employee Share Plan (the "MESP") was deemed to commence on 31 May 2020, being the crystallisation date of the 2017 Incentive Plan, and is governed by the plan rules originally adopted from commencement of the MESP, as amended per the version tabled at the Demerger GM (the "MESP Rules"). Although it is now a contractual plan, rather than contained within the Articles of Association, the MESP is a continuation of the long-term incentive arrangements for executive Directors that have applied since the Company was established in 2003. It incentivises executive Directors over the longer-term and aligns their interests with those of shareholders by linking the level of reward to the value delivered to shareholders.

Purpose and link to strategy

Incentivises executive Directors over the longer term and drives the Company's value creation strategy. It aligns the interests of executive Directors with those of shareholders by linking the level of reward to the value delivered. Incentive plans are regularly renewed on consistent terms to provide continuity and to incentivise long-term performance.

Operation

Awards

Conditional awards under the MESP ("Conditional Awards") were granted with effect from the deemed commencement date of 31 May 2020 (the "MESP Commencement Date"), and performance will be measured by the increase in value of invested capital of the GKN Aerospace business to be retained by the Company (the "Continuing Melrose Group") over a four-year period to (but excluding) the crystallisation date (the "MESP Crystallisation Date") on 31 May 2024 or, where an exceptional corporate event affecting the Company occurs prior to that event (such as a change of control or winding up), an earlier date as determined in accordance with the MESP Rules (the "MESP Performance Period").

The invested capital of the Continuing Melrose Group is calculated by allocating the total invested capital of the Company between the Continuing Melrose Group and the GKN Automotive and GKN Powder Metallurgy businesses that were demerged pursuant to the Demerger (the "Dowlais Group"), resulting in an allocation of £3,126,154,036 of invested capital to the Continuing Melrose Group as at 31 December 2022.

On the MESP Crystallisation Date, if performance conditions are met, the Conditional Awards will convert into a share award (a "Share Award") with an entitlement to ordinary shares in the Company ("Ordinary Shares") and, in circumstances where the cap based on the Maximum Annual Share Entitlement (as defined below) applies (the "Cap"), an option or options carrying a right to acquire Ordinary Shares for no payment shall be issued in addition to the Share Award, which option or options shall also be subject to the Cap (a "Nil Cost Option").

Directors' Remuneration report
Continued

To determine the application of the Cap, the Remuneration Committee shall calculate the maximum number of Ordinary Shares (subject to adjustment for Ordinary Share Costs and Returns in accordance with the MESP Rules) that an executive Director is able to receive in any calendar year under the MESP, by (i) in the case of an executive Director holding 16% of Conditional Awards, dividing £10 million by 150 pence, being approximately 6.7 million Ordinary Shares (the "Maximum Cap"), and adjusting such number to take into account Ordinary Share Costs, Returns, the Melrose Share Consolidation (as defined in the Circular) and the Demerger; and (ii) for each other executive Director holding above 1% of Conditional Awards, calculating such lower number as reflects a pro rata reduction to the Maximum Cap, based on the number of Conditional Awards held by that executive Director (the "Reduced Cap"), such resulting number in each case being the "Maximum Annual Share Entitlement" or the "MASE".

If, on the MESP Crystallisation Date, the calculation to convert the Conditional Award would result in an executive Director becoming entitled to receive a Share Award for more Ordinary Shares than the Maximum Cap, then his entitlement to receive Ordinary Shares in respect of the conversion shall be reduced to the Maximum Cap, and the executive Director shall be issued with a Nil Cost Option exercisable in the first calendar year following the MESP Crystallisation Date or at any time thereafter during the period of 10 years from the MESP Crystallisation Date for the balance of his entitlement under the Share Award, PROVIDED THAT if the number of Ordinary Shares the subject of the Nil Cost Option exceeds that executive Director's MASE, then such number of Ordinary Shares shall be reduced to that executive Director's MASE and the executive Director will be issued with a second Nil Cost Option on the MESP Crystallisation Date for the balance of his entitlement to Share Awards, such second Nil Cost Option being exercisable in the second calendar year following the MESP Crystallisation Date or at any time thereafter during the period of 10 years from the MESP Crystallisation Date, PROVIDED FURTHER THAT if the number of Ordinary Shares the subject of the second Nil Cost Option exceeds that executive Director's MASE, then such number of shares shall be reduced to that executive Director's MASE and the executive Director shall not be entitled to any further shares to which he would otherwise have been entitled under the Share Award on the MESP Crystallisation Date, which entitlement shall be permanently cancelled, PROVIDED FURTHER THAT, for any executive Director to whom the Reduced Cap applies, Ordinary Shares in respect of which Nil Cost Options would otherwise have become exercisable in the two calendar years following the MESP Crystallisation Date may be issued on the MESP Crystallisation Date, provided that such executive Director cannot receive more than the Maximum Cap on the MESP Crystallisation Date. The number of Ordinary Shares that are issued (or in respect of which cash settlement proceeds are paid in lieu) on the MESP Crystallisation Date in excess of such executive Director's Reduced Cap, shall be deducted from the number of Awards to be issued (or the cash settlement proceeds in lieu of receiving such Awards) to that executive Director in the two calendar years following the MESP Crystallisation Date (starting with the latest calendar year first), such that the executive Director does not receive more than three times their Reduced Cap.

At each date when shares subject to awards under the MESP are capable of vesting and becoming exercisable, the Remuneration Committee shall conduct a performance assessment to ensure that the number of shares vesting and becoming exercisable does not appear anomalous or where there is quantified material information known to the Remuneration Committee in relation to the current financial position of the Company that is not in the public domain, the result would not be anomalous if the information were in the public domain. The Remuneration Committee will disclose its assessment in the relevant Annual Report on Remuneration covering the period which includes the date when the shares subject to awards vest and become exercisable.

Notwithstanding the above provisions, where the executive Director is resident in the United States for tax purposes the MASE applicable on the MESP Crystallisation Date shall (where applicable) be increased by the Remuneration Committee to a number equal to 50% of such executive Director's total entitlement to the Company's Ordinary Shares on crystallisation as if all Awards were to vest on that date or such lesser percentage as shall enable the executive Director to use the proceeds of the sale of such increased entitlement to the Company's Ordinary Shares (or the cash settlement proceeds in lieu of receiving such shares) to settle any taxes arising in respect of the crystallisation. Where this provision applies, the number of Ordinary Shares that are issued (or in respect of which cash settlement proceeds are paid in lieu) on the MESP Crystallisation Date that are in excess of that participant's Reduced Cap on the MESP Crystallisation Date shall be deducted from the number of Awards to be issued (or the cash settlement proceeds in lieu of receiving such Ordinary Shares) to that participant in the two calendar years following the MESP Crystallisation Date (starting with the latest calendar year first), such that the participant does not receive more than the aggregate of their Reduced Cap in respect of each calendar year in which Awards are payable.

The above provisions related to the Cap are without prejudice to the Company's ability to settle any entitlement to Ordinary Shares under the Share Award or a Nil Cost Option by way of a cash payment calculated in accordance with the MESP Rules, to the provisions of the MESP Rules permitting the early exercise of the Nil Cost Options in the circumstances specified in those rules, and to the provisions of the MESP Rules giving the Remuneration Committee the power to adjust the number of shares the subject of the Nil Cost Options.

The Remuneration Committee recognises that corporate events that are rare for other companies are a standard and regular part of the Company's "Buy, Improve, Sell" model, and that executive Directors should not be penalised for them. Therefore, if there is a corporate event of the Group (including, for the avoidance of doubt, any Ordinary Share Costs or Returns) or any variation of the share capital of the Company (whether by rights issue, open offer, consolidation, subdivision, demerger, reduction of capital or otherwise), the Remuneration Committee shall adjust the application of the Cap in the manner that it considers to be fair and reasonable.

Holding Period
Any Ordinary Shares awarded pursuant to the MESP, excluding any sold to fund the amount of tax payable in respect of the receipt of such shares, must be held by executive Directors for two years after the MESP Crystallisation Date (the "Holding Period").

Cash Settlement
The MESP Rules provide that the Remuneration Committee may, with the agreement of the executive Director, cash settle all or part of the participant's entitlement to Ordinary Shares on the conversion of a Conditional Award or the exercise of a Nil Cost Option in full and final settlement of the executive Director's rights under the relevant Award.

Leavers
The treatment of an executive Director's participation in the MESP if he is a 'leaver' is described on pages 143 to 144.

Other
The other operative provisions of the MESP are set out in the MESP Rules.

Opportunity
Participants in the MESP share in 7.5% of the increase in value of invested capital (as calculated below) of the Continuing Melrose Group between the MESP Commencement Date and the MESP Crystallisation Date in excess of a 5% annual charge, calculated in accordance with the MESP Rules.

The invested capital of the Continuing Melrose Group is calculated by allocating the total invested capital of the Company between the Continuing Melrose Group and the businesses comprising the Dowlais Group, resulting in an allocation of £3,126,154,036 of invested capital to the Continuing Melrose Group as at 31 December 2022.

If the sales for the Aerospace division return to substantially 2019 levels before 31 May 2023, there will be an adjustment by increasing the effective Start Price through adding an amount to Invested Capital, based on half of the post-tax effect of these additional sales as set out below.

The amount of any adjustment, should it be necessary, will equal half of the figure reached by calculating Audited 2022 Aerospace Sales (re-calculated using average foreign exchange rates applicable for the financial year ended 31 December 2019) minus £3,274 million (being 85% of the Audited 2019 Aerospace Sales), multiplied by a net margin of 12%, net of tax at our Group rate, multiplied by a price to earnings ratio of 15x.

For this purpose:

"Start Price" means the minimum Share Price of the Company's Ordinary Shares which is required to be met on 31 May 2023 in order for Awards to be granted under the MESP, being 170 pence, adjusted to take into account any dividend, distribution, capital return or reduction, share repurchase, bonus issue, subdivision or consolidation of the Ordinary Shares, rights issue, demerger or any other variation of share capital; and

"Share Price" means the average market value (in pounds sterling) of an Ordinary Share for the 40 Business Days prior to 31 May 2023.

Each individual's Conditional Awards granted in respect of the MESP shall be determined by reference to a percentage entitlement to the overall available amount (which shall be subject to adjustment in accordance with the MESP Rules).

Initial Conditional Awards with the following percentage entitlements were granted to the executive Directors on the MESP Commencement Date:

- Christopher Miller: 14% of total
- Simon Peckham: 16% of total
- Geoffrey Martin: 16% of total
- Peter Dilnot: 12% of total

The maximum number of new Ordinary Shares in the Company that may be issued in relation to the MESP is 5% of the aggregate number of Ordinary Shares in issue on 31 May 2020, plus 5% of any additional Ordinary Shares issued or created by the Company after that date and prior to the MESP Crystallisation Date. However, this limit will not apply in the event of a change of control or winding up of the Company, as provided for in the MESP Rules. Further, to the extent it would be exceeded on crystallisation, the excess shall be paid to participants in cash, subject always to the Cap.

Performance metric
The value that may be delivered under the MESP will be determined by reference to the growth in value of the Company (based on the invested capital of the Continuing Melrose Group) from and including the MESP Commencement Date of 31 May 2020 to (but excluding) the MESP Crystallisation Date of 31 May 2024 (or an earlier date in the event of acceleration because of an exceptional corporate event affecting the Company (other than the Demerger)), calculated in accordance with the MESP Rules.

Discretion
The Committee may make such adjustments as it deems to be fair and reasonable so far as the holders of Ordinary Shares are concerned (having taken such advice that it deems appropriate in the circumstances, including from an investment bank of repute) to the calculation of the number of Ordinary Shares and/or cash to which the holders of Conditional Awards or Nil Cost Options shall be entitled in certain circumstances where the application of a provision of the MESP Rules produces, or is likely to produce, an anomalous result or where there is quantified material information known to the Remuneration Committee in relation to the current financial position of the Company that is not in the public domain that would, in the reasonable opinion of the Remuneration Committee, produce an anomalous result if such information were in the public domain.

Melrose Automotive Share Plan
The Melrose Automotive Share Plan commenced on the date of completion of the Demerger (the "MASP Commencement Date") and is governed by the plan rules tabled at the Demerger GM (the "MASP Rules"). The MASP rewards participants in respect of any increase in the value attributable to the businesses comprising the Dowlais Group (which is proposed to be carved out from the MESP).

Purpose and link to strategy
The MASP aligns the interests of executive Directors with those of shareholders in Dowlais, who, immediately following the Demerger, will be substantially the same as Melrose's shareholders, by linking the level of reward to the value delivered.

Operation
MASP Options
A certain number of ordinary shares in Dowlais (the "MASP Shares") are to be held by an employee share ownership trust established by Melrose for the purposes of satisfying awards under the MASP (the "MASP ESOT"). Options over the MASP Shares were granted shortly after the MASP Commencement Date and performance will be measured by the increase in value of invested capital over the period up to (but excluding) the crystallisation date on 31 May 2025 (the "MASP Crystallisation Date") or, where an exceptional corporate event affecting the Company or Dowlais occurs prior to that event (such as a change of control or winding up), an earlier date as determined in accordance with the MASP Rules (the "MASP Performance Period").

The invested capital of the businesses comprising the Dowlais Group for the purposes of the MASP will be equal to £3,525,237,530 (the "Threshold MASP Crystallisation Value"), being equal to the amount of invested capital deducted from the MESP as a result of the allocation of the total invested capital of the Company between the Continuing Melrose Group and the businesses comprising the Dowlais Group, as described above.

Any increase in value over the Threshold MASP Crystallisation Value will be calculated by reference to the average market capitalisation of Dowlais for the 40 Business Days prior to (but excluding) the MASP Crystallisation Date (the "MASP Crystallisation Value").

The MASP Options shall vest in full and become immediately exercisable if, on the MASP Crystallisation Date, the MASP Crystallisation Value is equal to or more than £4,500,000,000 (the "Target MASP Crystallisation Value"). If, on the MASP Crystallisation Date, the MASP Crystallisation

Value is less than or equal to the Threshold MASP Crystallisation Value, then none of the MASP Options shall vest and they shall lapse with immediate effect. The MASP Options shall vest on a straight-line basis if the MASP Crystallisation Value exceeds the Threshold MASP Crystallisation Value but is less than the Target MASP Crystallisation Value.

Notwithstanding the vesting provisions described above and on page 139, the MASP Options shall vest in full and become immediately exercisable if, at any time following the MASP Commencement Date and prior to the MASP Crystallisation Date, the average market capitalisation of Dowlais for a period of 40 Business Days is equal to the Target MASP Crystallisation Value (as adjusted to take into account Dowlais Ordinary Share Costs and Dowlais Returns, in accordance with the MASP Rules).

Any MASP Options which have not vested on or prior to the MASP Crystallisation Date shall lapse with immediate effect.

For the purposes of the vesting provisions, the market capitalisation of Dowlais on a given date shall be calculated by multiplying Dowlais Share Price by the number of Dowlais Shares in issue at close of trading on such date (excluding treasury shares). "Dowlais Share Price" for this purpose shall be the closing middle market quotation for a Dowlais Share (as derived from the Daily Official List of the London Stock Exchange or the equivalent list or record for the recognised stock exchange on which the Dowlais Shares are listed) on the relevant date.

Each of the Threshold MASP Crystallisation Value and the Target MASP Crystallisation Value shall be adjusted to take into account any dividend, distribution, capital return or reduction, share repurchase, bonus issue, subdivision or consolidation, rights issue, demerger or any other variation of share capital undertaken by Dowlais in relation to the Dowlais Shares held by the MASP ESOT, including amounts paid up on any Dowlais Shares held by the MASP ESOT (subject to certain exceptions), "Dowlais Ordinary Share Costs" and "Dowlais Returns" (as applicable), in accordance with the MASP Rules.

In the event of a change of control, scheme of arrangement or winding up of Melrose (or, at the discretion of the Remuneration Committee, a demerger, distribution or other corporate event of the Melrose Group), the date of the event shall be treated as the MASP Crystallisation Date and the MASP Crystallisation Value shall be calculated accordingly, provided that, if the MASP Crystallisation Value as a result of such calculation is less than the mid-point between the Threshold MASP Crystallisation Value and the Target MASP Crystallisation Value (each as adjusted to take into account Dowlais Ordinary Share Costs and Dowlais Returns) (the "MASP Crystallisation Value Mid-Point"), it shall be deemed to be the MASP Crystallisation Value Mid-Point. The appropriate portion of the MASP Options shall vest on the basis of such calculation and shall become immediately exercisable, and shall be deemed automatically exercised, on the date of and immediately prior to such event.

In the event of a change of control, scheme of arrangement or winding up of Dowlais (a "Dowlais Trigger Event"), the MASP Options shall vest in full and become immediately exercisable (and shall be deemed to be automatically exercised) upon the date of, and immediately prior to, the Dowlais Trigger Event.

Upon exercise of a MASP Option (which exercise is subject to satisfaction of the vesting conditions described above and on page 139), the Company shall arrange for the transfer to the optionholder (or as it may direct) of the Dowlais Shares to which the MASP Option relates, together with all dividends, other distributions and any additional Dowlais Shares received by the MASP ESOT in respect of such Dowlais Shares from the date of grant of the relevant MASP Option, after deducting such amount as is necessary to allow the Company or the trustees of the MASP ESOT to account for any tax arising on the payment to it in respect of such dividends, returns of capital or other distributions and any reasonable costs and expenses incurred by the trustees of the MASP ESOT.

Leavers
The treatment of an executive Director's participation in the Melrose Automotive Share Plan if he is a 'leaver' is described on pages 143 to 144.

Other
The other operative provisions of the MASP are set out in the MASP Rules.

Opportunity
Participants in the MASP share in the increase in value of invested capital during the MASP Performance Period, up to and including the Target MASP Crystallisation Value, calculated in accordance with the MASP Rules.

The invested capital for the purposes of the MASP will be £3,525,237,530 as at 31 December 2022, being equal to the amount of invested capital deducted from the MESP as a result of the allocation of the total invested capital of the Company between the Continuing Melrose Group and the businesses comprising the Dowlais Group, as described above and on page 139.

MASP Options will be granted to the executive Directors shortly after the MASP Commencement Date, in respect of the following percentage proportions of ordinary shares in Dowlais held by the MASP ESOT for this purpose:

- Christopher Miller: 14%
- Simon Peckham: 16%
- Geoffrey Martin: 16%
- Peter Dilnot: 12%

The maximum number of Dowlais Shares to which all MASP Options in issue relate may not exceed 27,865,471, being 2% of the total issued ordinary shares of Dowlais as at the MASP Commencement Date, provided that, if there is any variation of the share capital of Dowlais (whether by rights issue, open offer, consolidation, sub-division, demerger, reduction of capital or otherwise), the Remuneration Committee may adjust such number in any manner that the Remuneration Committee, in its reasonable opinion, considers to be fair and appropriate.

Performance metric
The value that may be delivered under the MASP will be determined by reference to the growth in value of Dowlais up to (but excluding) 31 May 2025 (or an earlier date in the event of acceleration because of an exceptional corporate event affecting the Company or Dowlais), calculated in accordance with the MASP Rules. The maximum crystallisation value is £4,500,000,000. To the extent that greater value is created, no additional award can accrue.

Discretion
The Remuneration Committee may make such adjustments as it deems to be fair and reasonable so far as the holders of MASP Options are concerned (having taken such advice that it deems appropriate in the circumstances, including from an investment bank of repute) to the number or description of Dowlais Shares subject to a MASP Option, the terms or number of MASP Options granted to a participant, the Threshold MASP Crystallisation Value or the Target MASP Crystallisation Value in certain circumstances where the application of a provision of the MASP Rules produces, or is likely to produce, an anomalous result.

Terms applying to both the 2020 Employee Share Plan and the Melrose Automotive Share Plan

Malus
In the event of (1) material misstatement of financial results that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (2) gross misconduct by the relevant executive Director; (3) events or behaviour of an executive Director that have led to the censure of the Company by a significant regulatory authority or have had a significant detrimental impact on the reputation of the Company, provided that the Remuneration Committee is satisfied that the relevant executive Director was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to them; and/or (4) the Company becoming insolvent or otherwise suffering a corporate failure so that the value of the Company's Ordinary Shares is materially reduced, provided that the Remuneration Committee determines, following an appropriate review of accountability, that the executive Director should be held responsible (in whole or in part) for that insolvency or corporate failure prior to the MESP Crystallisation Date or the MASP Crystallisation Date (as applicable), the Conditional Awards or the MASP Options (as applicable) held by the executive Director may be cancelled in whole or in part for nil consideration.

Clawback
In the event of (1) material misstatement of financial results that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (2) material miscalculation of any performance measure on which the crystallisation of the Conditional Awards or the MASP Options (as applicable) was based; (3) gross misconduct by the relevant executive Director; (4) events or behaviour of an executive Director that have led to the censure of the Company by a significant regulatory authority or have had a significant detrimental impact on the reputation of the Company, provided that the Remuneration Committee is satisfied that the relevant executive Director was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to them; and/or (5) the Company becoming insolvent or otherwise suffering a corporate failure so that the value of the Company's Ordinary Shares is materially reduced, provided that the Remuneration Committee determines, following an appropriate review of accountability, that the executive Director should be held responsible (in whole or in part) for that insolvency or corporate failure, following the MESP Crystallisation Date or the MASP Crystallisation Date (as applicable) but prior to 31 May 2026, the executive Director may be required to transfer (for nil consideration) the number of Ordinary Shares or Dowlais Shares (as applicable) arising from the relevant crystallisation, less the number of Ordinary Shares or Dowlais Shares (as applicable) sold to fund the tax liability arising from the relevant crystallisation, and/or, in the case of the MESP, to pay to the Company the amount of any cash received on or following crystallisation less the amount of any tax paid in relation to that cash, and any Nil Cost Options held by such executive Director may be cancelled in whole or in part for no payment to the executive Director.

Changes proposed for 2023 Directors' Remuneration Policy
No change to policy.

Shareholding obligations
Executive Directors are subject to minimum and post-cessation shareholding requirements as set out below. They are also subject to holding periods under the terms of the MESP.

Component of remuneration	Purpose and link to strategy	Operation
Minimum shareholding requirements	To align the interests of executive Directors with shareholders	There is a minimum shareholding requirement for executive Directors of 300% of salary. New executive Directors will be given a period of five years from appointment to build up this shareholding.
Post-cessation minimum shareholding requirements	To ensure alignment of interests following the departure of an executive Director	The executive Directors are required to retain a shareholding equal to 300% of base salary, or their actual shareholding at the date of departure, if lower, for a period of two years after cessation of employment.

Non-executive Directors
Non-executive Director fees are set out as follows:

Purpose and link to strategy	Operation	Opportunity
Set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and expertise	Fees are reviewed periodically and amended to reflect market positioning and any change in responsibilities Fees for Non-executive Directors are determined by the Board	Fees are based on the level of fees paid to non-executive directors serving on boards of similar-sized UK-listed companies and the time commitment and contribution expected for the role. Non-executive Directors receive a basic fee and a further fee for the Chairmanship of a committee of the Board or for holding the office of the Senior Independent Director. Non-executive Directors may be eligible to receive benefits such as use of secretarial support, reimbursement of travel costs and other benefits that may be appropriate.

Changes proposed for 2023 Directors' Remuneration Policy
No change to policy.

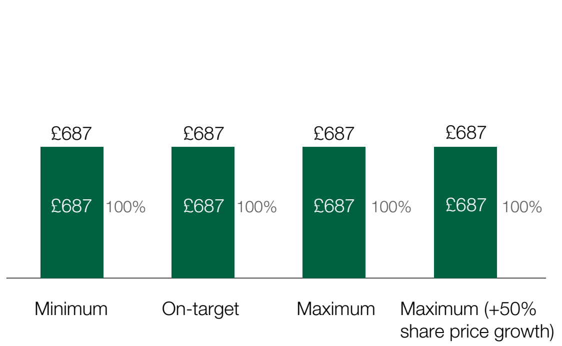
Illustration of the application of the 2023 Directors' Remuneration Policy
In illustrating the potential reward under the 2023 Directors' Remuneration Policy, the following assumptions have been made:

- **Minimum performance:** fixed elements of remuneration only (base salary effective from 1 January 2023, benefits as set out in the single figure table in the Company's Directors' Remuneration Report for the year ended 31 December 2022, and a pension contribution of 15% of base salary).
- **Performance in line with expectations:** fixed elements of remuneration as above, plus bonus of 50% of salary (other than in the case of Christopher Miller, who does not participate in the annual bonus arrangements).
- **Maximum performance:** fixed elements of remuneration as above, plus bonus of 100% of salary (other than in the case of Christopher Miller, who does not participate in the annual bonus arrangements).
- **Maximum performance +50% share price growth:** fixed elements of remuneration as above, plus bonus of 100% of salary (other than in the case of Christopher Miller, who does not participate in the annual bonus arrangements). This is no different from the maximum performance scenario.

Directors' Remuneration report
Continued

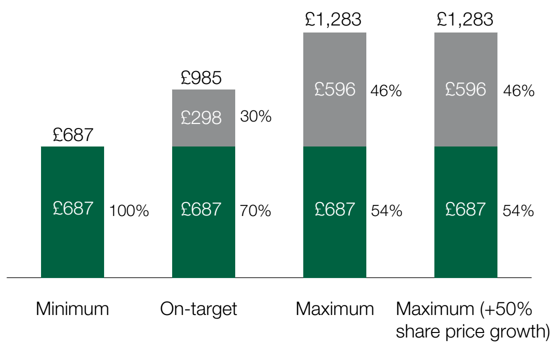
Christopher Miller

(£'000)



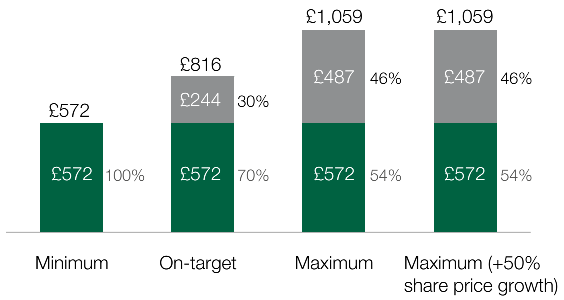
Simon Peckham

(£'000)



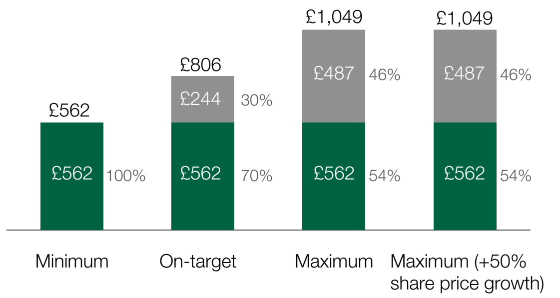
Geoffrey Martin

(£'000)



Peter Dilnot

(£'000)



● Fixed ● Annual Variable ● LTI

In connection with the Demerger, the Company has split its long-term incentive arrangements into two, to appropriately reflect the Demerger in the Melrose long-term incentive arrangements. The two such arrangements are the MESP and the MASP, which have both been approved by shareholders.

For completeness, it is noted that, in addition to the potential reward that can be earned on a going forward basis under the 2023 Directors' Remuneration Policy as illustrated above, the executive Directors maintain their exposure to the in-flight Conditional Awards granted under the MESP and the MASP Options under the MASP.

Recruitment remuneration policy

When agreeing a remuneration package for the appointment of a new executive Director, the Remuneration Committee will apply the following principles:

- the package will be sufficient to attract the calibre of executive Director required to deliver the Company's strategy;
- the Remuneration Committee will seek to ensure that no more is paid than is necessary; and
- in the next Directors' Remuneration Report after an appointment, the Remuneration Committee will explain to shareholders the rationale for the arrangements implemented.

In addition to the policy elements set out in this 2023 Directors' Remuneration Policy, the Remuneration Committee retains discretion to make appropriate remuneration decisions outside of this to meet the individual circumstances of the recruitment, including discretion to include any other remuneration component or award, with the intention that the outcome of the relevant remuneration package for the new executive Director be broadly equivalent in all material respects to the remuneration packages of existing executive Directors who are governed by the policy. The Remuneration Committee has never used this discretion since the Company was founded in 2003, and does not intend to use this discretion to make a non-performance related incentive payment (for example, a "golden hello") during the period covered by this 2023 Directors' Remuneration Policy. Nonetheless, the Remuneration Committee considers it important to retain the ability to exercise such discretion in exceptional circumstances, notwithstanding that no such exceptional circumstances have arisen in the past.

In this regard, elements that the Remuneration Committee may consider for the purposes of a remuneration package for the recruitment of a new executive Director include but are not limited to the following:

Element	Approach
Incentive remuneration opportunity	The Remuneration Committee's intention is that a new executive Director's incentive remuneration opportunity will consist of: • an annual bonus opportunity of up to a maximum of 200% of base salary (i.e. in line with the ordinary opportunity under the policy); and • a pro-rata award of awards under the MESP in proportion to the date of joining to the MESP Crystallisation Date, at a level up to the level that applies to other executive Directors under the policy. If a new executive Director did not participate in the MESP, the Remuneration Committee may award a maximum annual bonus opportunity of up to 300% of salary until such time as that new executive Director participates in a Company long-term incentive arrangement.
Compensation for forfeited remuneration arrangements	The Remuneration Committee may make awards on hiring an external candidate to buy out remuneration arrangements forfeited on leaving a previous employer. In doing so, the Remuneration Committee will have regard to relevant factors, including any performance conditions attached to such arrangements, the form of those awards (e.g. cash or shares) and the time frame of such awards. While such awards are excluded from the maximum level of variable remuneration referred to above, the Remuneration Committee's intention is that the value awarded (as determined by the Remuneration Committee on a fair and reasonable basis) would be no higher than the expected value of the forfeited arrangements. Where considered appropriate, buyout awards will be subject to forfeiture or clawback on early departure.
Notice period	The notice period will be the same as the Company's ordinary policy of 12 months.
Relocation costs	Where necessary, the Company will pay appropriate relocation costs. The Remuneration Committee will seek to ensure that no more is paid than is necessary.
Retirement benefits	The maximum contribution of 15% of salary referred to on page 137 will apply to any new executive Director. This is the same level provided to the rest of the Melrose employees and is the level received by the incumbent executive Directors.

Incentive awards and "buyout" awards may be granted under new plans as permitted under the Listing Rules, which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of a Director. Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue in accordance with their subsisting terms.

The remuneration package for a newly appointed Non-executive Director would normally be in line with the structure set out in the policy table for Non-executive Directors.

Service contracts and policy on payments for cessation of employment

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 principles on which the determination of payments for cessation of employment will be approached are summarised below and on page 144.

Certain treatment is dependent on whether an executive Director is classified as a 'Good Leaver' on cessation of employment, which will occur if that executive Director ceases employment in the following circumstances: death; permanent ill-health; disability; retirement with the agreement of the Company; resignation in connection with a change of control; or otherwise at the discretion of the Remuneration Committee. An executive Director will be a 'Bad Leaver' if they cease employment other than as a Good Leaver.

Payment in lieu of notice

If the Company terminates an executive Director's employment with immediate effect, a payment in lieu of notice may be made. This may include base salary, pension contributions and benefits.

Annual bonus

Bonus in year of cessation

Performance conditions will be measured at the bonus measurement date for Good Leavers only, with the bonus normally to be pro-rated for the period worked during the financial year and paid in cash. No bonus will be payable to any executive Director other than a Good Leaver for the year of cessation.

Bonus from prior years deferred into shares

Good Leavers will be entitled to retain those shares awarded in prior years for a deferral of an annual bonus. For an executive Director other than a Good Leaver, any shares awarded for a deferral of a prior year's annual bonus and still subject to restrictions will be forfeited.

Discretion

The Remuneration Committee has the following elements of discretion with respect to the annual bonus and deferred share awards in the event of cessation of employment:

- to determine whether to pro-rate a cash bonus to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and
- to vest any annual bonus that has been deferred into shares at the end of the original deferral period or at the date of cessation. The Remuneration Committee will make this determination depending on the type of Good Leaver reason resulting in the cessation.

2020 Employee Share Plan and Melrose Automotive Share Plan

If an executive Director ceases to be employed by the Company, the treatment of the Awards or the MASP Options (as applicable) held by such executive Director will be determined depending on their classification as a 'Good Leaver' or a 'Bad Leaver' as defined and summarised below and on page 144.

Good Leavers

If an executive Director holding Conditional Awards or MASP Options (as applicable) ceases employment in circumstances where he is a 'Good Leaver' before the MESP Crystallisation Date or the MASP Crystallisation Date (as applicable), unless the Remuneration Committee decides otherwise, the participation percentage under his Conditional Award or the number of his MASP Options (as applicable) shall be reduced on a pro-rata basis to reflect the period from 31 May 2020 to the date on which he ceased employment as a proportion of the MESP Performance Period or the MASP Performance Period (as applicable). The Remuneration Committee may award such amount to other eligible employees in accordance with the MESP Rules or the MASP Rules (as applicable).

Directors' Remuneration report

Continued

In addition, the Remuneration Committee has the discretion (i) to vest any Conditional Awards held or received on the scheduled vesting dates or such earlier date, provided it is no earlier than the MESP Crystallisation Date, and is for no more Ordinary Shares than the cumulative number that would have been received on the normal application of the Cap; and (ii) to waive the Holding Period in respect of all or a portion of the executive Directors' Conditional Awards.

Bad Leavers

If an executive Director holding Conditional Awards or MASP Options (as applicable) ceases employment in circumstances where he is a 'Bad Leaver' before the MESP Crystallisation Date or the MASP Crystallisation Date (as applicable), every Conditional Award or MASP Option (as applicable) he holds shall lapse, and thereafter may be awarded to other eligible employees in accordance with the MESP Rules or the MASP Rules (as applicable).

If an executive Director ceases to be employed by the Company after the MESP Crystallisation Date for whatever reason, they shall be entitled to retain any outstanding Nil Cost Options held by them pursuant to the MESP Rules, which shall become exercisable in accordance with their terms and remain subject to the recovery provisions set out on page 141.

Other payments

The Remuneration Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of an executive Director's employment. In appropriate circumstances, payments may also be made in respect of legal fees.

The overall amount of any payment made in respect of a loss of office will not exceed the aggregate of any payment in lieu of notice and any payment made in respect of annual bonus, as referred to on page 143. Entitlements in respect of the MESP and the MASP will be dealt with in accordance with their terms and, were the Company to make an award on recruitment of an executive Director to buy out remuneration arrangements forfeited on leaving a previous employer, the leaver provisions for that award would be determined at the time of grant.

Other elements

The 2023 Directors' Remuneration Policy is based on the four key Melrose principles as set out on page 121, but is also wholly aligned with the Code factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture, as set out in the table on page 133, which sets out how the Remuneration Committee has addressed each factor of the Code and its link to strategy. The Committee ensured that it took all these elements into account when establishing the 2023 Directors' Remuneration Policy, as well as its application to executive Directors.

Differences between the Company's policy on Directors' remuneration and its policy on remuneration for other employees

Remuneration arrangements throughout the Group are determined based on the same principle that rewards should be sufficient as is necessary to attract and retain high calibre talent, without paying more than is necessary and should be achieved for delivery of the Company's strategy.

The Company has operations in various countries, with Group employees of differing levels of seniority. Accordingly, though based on the overarching principle above, reward policies vary to take account of these factors.

As with previous incentive plans, the Remuneration Committee considers it appropriate for participation in the MESP and the MASP to be extended to those members of Melrose senior management beyond the executive Directors as necessary to develop the business further.

The Company has also implemented divisional long-term incentive plans for senior managers of businesses within the Group to incentivise them to create value for the Company and its shareholders.

Statement of consideration of employment conditions elsewhere in the Company

Salary, benefits and performance-related awards provided to other employees in the Group are taken into account when setting policy for executive Director remuneration. Although there is no direct consultation by the Remuneration Committee with employees on Directors' remuneration, the Melrose Chief Executive is responsible for engaging with the Melrose workforce in relation to remuneration, and the divisions are responsible for engaging with their respective workforces in relation to remuneration, and each do so throughout the year. However, the pay and employment conditions of the wider workforce were taken into consideration by the Remuneration Committee when making decisions on Directors' remuneration in 2022, which will continue to be the case for the periods governed by the 2023 Directors' Remuneration Policy. For instance, the 2023 salary review for executive Directors was deliberately set at the bottom end of the range of salary increases received by other employees in the Group.

Statement of consideration of shareholder views

The Company is committed to regular and ongoing engagement and seeks the views of key shareholders and other stakeholders on the application of the Directors' Remuneration Policy and in advance of amending its Directors' Remuneration Policy. Further detail is included in the Chairman's Annual Statement on page 120. The policy is set to reflect the Company's commercial strategy.

Payments outside the policy in this report

The Remuneration Committee retains discretion to make any remuneration payments and payments for termination of employment outside this policy:

- where the terms of the payment were agreed before the policy came into effect;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration of the individual becoming a Director of the Company; and/or
- to satisfy contractual commitments under legacy remuneration arrangements.

For these purposes, "payments" includes the satisfaction of awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted. Any such payment shall include: (i) the conversion of any Conditional Award or the satisfaction of the exercise of any Nil Cost Option under the MESP Rules (or the cancellation of any such Conditional Award or Nil Cost Option in exchange for a cash payment, as described in the MESP Rules), or the exercise of any MASP Option under the MASP Rules (or the cancellation of any such MASP Option in exchange for a cash payment, as described in the MASP Rules); and (ii) the delivery of the value attributable to the Ordinary Shares issued upon the conversion of any Conditional Award or the exercise of any Nil Cost Option in accordance with the MESP Rules, or the delivery of the value attributable to the Dowlais Shares issued upon the exercise of any MASP Option in accordance with the MASP Rules.

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

David Lis

David Lis
Chairman, Remuneration Committee
2 March 2023

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable laws 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 laws 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 2 March 2023 and is signed on its behalf by:

Geoffrey Martin

Geoffrey Martin	**Simon Peckham**
Group Finance Director	**Chief Executive**
2 March 2023	2 March 2023

Independent auditor's report to the members of Melrose Industries PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Melrose Industries PLC (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 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 31 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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent 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: • Impairment of goodwill and acquired intangibles; • Classification of adjusting items; • Revenue recognition in respect of RRSPs; and • Completeness of loss-making contract provisions.	Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
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 16 reporting sites where we requested component auditors to perform a full scope audit of the site components' financial information. We also selected 10 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 22 reporting units. Coverage from full scope and SAB scope components totals 79% of the group's adjusted revenue, 81% 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 Ergotron business was 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 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 the recent economic downturn, including increased levels of inflation, the recovery 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. This was done through detailed assessment of the operating and non-operating cash flows for reasonableness and consistency with the underlying forecasts 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 evaluate whether 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.

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 2022 is £2,585 million (2021: £2,850 million), and the acquired intangible assets balance is £3,923 million (2021: £4,193 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 groups of Cash Generating Units ("CGUs"): • Aerospace (goodwill £990 million, other acquired intangible assets £2,499 million) • Automotive (goodwill £1,056 million, other acquired intangible assets £882 million) • Powder Metallurgy (goodwill £539 million, other acquired intangible assets £542 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 especially in the automotive industry; • the margin improvements as a result of restructuring programmes; and • determination of the appropriate discount and growth rates to be used in the model. Headroom available at 31 December 2022 has decreased for the Automotive and Powder Metallurgy groups of CGUs and increased for the Aerospace group of CGUs. Increases in discount rates driven by increases in risk free rates have impacted the impairment assessment. During the year the automotive industry has been adversely impacted by the continued shortage in semi-conductors, which disrupted the supply chain, and increased macro-economic uncertainty, such as cost inflation. Overall, we have identified a heightened risk in relation to the revenue and operating profit forecasts for the Automotive and Powder Metallurgy groups 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 11 of the Audit Committee report.

Independent auditor's report to the members of Melrose Industries PLC

Continued

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 controls over the forecasts that underpin the 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 IFRS 13 Fair value measurement and IAS 36 Impairment of assets; • performing sensitivity analysis to identify the key assumptions that have a significant effect on the estimate; • 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; as part of this work benchmarked against previous restructuring programmes; • benchmarking long term growth rates to applicable macro-economic and market data, also taking into account the assumed recovery from the Covid-19 pandemic; • involving our internal valuation specialists to challenge the discount rate applied; this was done 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; • with assistance from our internal valuation specialists, benchmarking management's estimate of recoverable amount against fair value implied from other sources, such as analyst reports and multiple-based valuation methods; and • assessing the appropriateness of the disclosures included by management in notes 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 £716 million have been made to the statutory operating loss of £236 million to derive adjusted operating profit of £480 million. Adjusting items included: • amortisation of acquisition-related intangible assets (£458 million); • restructuring costs (£144 million); • equity accounted investments adjustments (£29 million charges); • equity settled compensation scheme charges (£15 million); • acquisition and disposal related gains (£11 million); • impairment of assets (£20 million); • loss on movement in fair value of derivatives (£87 million); and • net income from releases and changes in discount rate of fair value items (£26 million). We identified a key audit matter 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 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, and also in note 3 to the group financial statements in relation to the critical judgements involved in determining adjusting items. Refer also to page 112 of the Audit Committee report.
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, the content and 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, acquisition and disposal costs, 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 reconcile 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.

5.3 Revenue Recognition in respect of RRSPs

Key audit matter description	The group has recognised total revenue of £7,537 million in 2022 (2021: £6,650 million). There are judgements taken within the revenue recognition of material Risk and Revenue Sharing Partnerships ("RRSPs") in the Aerospace division where revenue totals £2,954 million (2021: £2,538 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. This is because of the level of estimation and judgement required when applying the principles set out in IFRS 15 Revenue from contracts with customers, and recognising revenue from those contracts 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 the Group has a contractual right to aftermarket revenues because the requirements of IFRS 15 constrain the variable consideration recognised (referred to as 'unbilled work done' in the group financial statements). The amount of revenue recognised from RRSP contracts during the year was £547 million, which includes variable consideration of £106 million (2021: £402 million, which included variable consideration of £55 million). 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. Further details are included in notes 4 and 17 to the group financial statements, and also in note 3 to the group financial statements in relation to the key sources of estimation uncertainty for the variable consideration. Refer also to page 111 of the Audit Committee report.

Independent auditor's report to the members of Melrose Industries PLC
Continued

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the recognition of revenue for RRSP contracts. For each RRSP contract with material variable consideration, we recalculated the amount of revenue 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: • 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. In assessing the key assumptions in the revenue recognition model, we performed specific procedures that included: • obtaining an understanding of the relevant controls in place within the Aerospace businesses, that hold RRSP contracts, to review the underlying data; • challenging and assessing the position papers prepared by management, and the model prepared; • assessing the accuracy of the underlying data used in the determination of the assumptions, including usage profiles, industry data and customer correspondence; and • assessing the disclosure provided in the group financial statements in relation to the changes in these assumptions against the requirements of IFRS 15.
Key observations	• We are satisfied that the key assumptions made in determining the value of revenue recognised on RRSP contracts with variable consideration are within an acceptable range and that the overall position is reasonable. • 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.

5.4 Completeness of loss-making contract provisions

Key audit matter description	In 2018, upon acquisition of GKN, the group recognised provisions of £629 million in relation to loss-making contracts. At 31 December 2022, following utilisation and release in the period since acquisition, £108 million remained unutilised (2021: £167 million). The methodology supporting the provisions is inherently complex and involves a high level of judgement and estimation. We consider the following to be the key judgements and estimates in relation to these provisions: • accounting for the effect of negotiations and correspondence with customers on the existing loss-making contract provisions; • forecast cost projections including the level of material, direct labour, and contract-related overheads; • calculation of utilisation for the year; • changes in inputs and assumptions to evaluate the correct timing of releases; and • the classification of provision utilisation and release in the income statement. 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 risk of misstatement due to the wider macroeconomic factors that impact the valuation of the loss-making sales already identified, and a heightened risk that additional contracts may have now become loss-making within the Automotive division. Further details are included in note 21 to the group financial statements, and also in note 3 to the group financial statements in relation to the key sources of estimation uncertainty for the loss-making contract provisions. Refer also to page 112 of the Audit Committee report.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the review and estimation of loss-making contract provisions. For a sample of loss-making contract provision balances (including all material provisions) our work included, but was not limited to: • obtaining and checking supporting documentation for key assumptions and inputs, for example: – price data from corresponding contracts; – volumes from independent and recognised industry reports; – invoice and supplier documentation that supports costs; and – executed agreements for changes to pricing or early termination of contracts and other terms; • enquiry of legal, commercial, operational, programme and engineering management to understand any changes to the relevant programmes that would impact valuation and completeness of the loss-making contract provision (e.g. new tooling, manufacturing improvements and efficiencies, changes in raw material costs); • reviewing relevant correspondence with customers and suppliers; • 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 and examining 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	We are satisfied that the loss-making contracts provision at 31 December 2022 is recorded appropriately, that releases and utilisations recorded during the year are appropriate, and that key estimates are reasonable.

6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the 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 (2021: £30 million)	£15 million (2021: £15 million)
Basis for determining materiality	We considered the following metrics: • adjusted profit before tax; • revenue; and • net assets.	We determined materiality based on net assets, which was then capped at 50% (2021: 50%) of group materiality in order to address the risk of aggregation when combined with other businesses.
Rationale for the benchmark applied	In determining our benchmark for materiality, we considered a number of different metrics used by investors and other readers of the financial statements. This approach is consistent with the prior year to reflect the volatility in the results of the group arising from the impact of Covid-19 and the recovery thereof. Materiality for the current year represents: • 7.8% of adjusted profit before tax (2021: 11.9%); • 0.4% of revenue (2021: 0.4%); and • 0.4% of net assets (2021: 0.4%).	In our professional judgement we believe that use of a balance sheet measure is appropriate for a holding company. This is with reference to the net asset position of the company when compared to the net asset position of the group.

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	65% (2021: 60%) of group materiality	65% (2021: 60%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • the assessment of the complexity of the group and nature of the group's business model; • the de-centralised nature of the group's control environment and its variation across the group; and • our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.5m (2021: £1.5m), 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.

Independent auditor's report to the members of Melrose Industries PLC

Continued

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 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 operating segment consists of a number of reporting units and manages operations on a geographical and functional basis. There are 192 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 48 components (2021: 49), of which

- 14 relate to components that form part of the Aerospace segment;
- 18 relate to components that form part of the Automotive segment;
- 6 relate to components that form part of the Powder Metallurgy segment; and
- 10 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 £8 million to £11 million.

We selected 16 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 22 reporting units. Coverage from full scope and SAB scope components totals 79% of the group's adjusted revenue, 81% of adjusted operating profit and 84% of net assets.

Aerospace

In respect of the Aerospace segment, 8 components were subject to a full audit and 6 components were subject to SAB scope. These 14 components together accounted for 79% of the Aerospace segment's adjusted revenue and 77% of the Aerospace segment's adjusted operating profit.

Automotive

In respect of the Automotive segment, 7 components were subject to a full audit and 11 components were subject to SAB scope. These 18 components accounted for 85% of the Automotive segment's adjusted revenue and 89% of the Automotive segment's adjusted operating profit.

Powder Metallurgy

In respect of the Powder Metallurgy segment, 1 component was subject to a full audit and 5 components were subject to SAB scope. These 6 components together accounted for 56% of the Powder Metallurgy segment's adjusted revenue and 80% of the Powder Metallurgy segment's adjusted operating profit.

Corporate cost centres

In respect of the corporate cost centres, 10 components were subject to a full audit.

Company

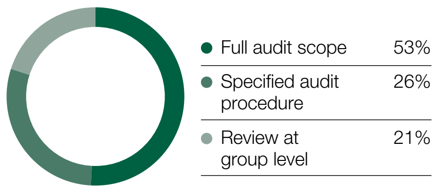
The audit of the Company was performed by the group engagement team based at the Company's head office.

Residual balances

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

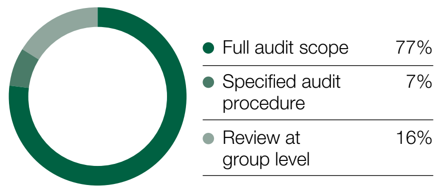
While we understood and tested design and implementation of relevant controls in key areas, given the number and diverse nature of the components of the group, we took controls reliance in certain limited areas of the audit only.

Adjusted revenue



Adjusted operating profit

Net assets



7.2. Our consideration of the control environment

The Group is reliant on the effectiveness of a number of IT applications and controls to ensure that financial transactions are processed and recorded completely and accurately. As part of our audit we have performed testing around certain key controls, such as general IT controls for relevant IT systems, revenue controls for significant and material components, controls over significant estimates and key financial reporting controls.

7.3. Our consideration of climate-related risks

The Group continues to develop its assessment of the potential impacts of climate change and the transition to a low carbon economy ("climate change"), as explained in the Sustainability review on page 55.

We obtained an understanding of management's process for considering the impact of climate-related risks. We evaluated these risks to assess whether they were complete and consistent with our understanding of the entity and our wider risk assessment procedures where they have the potential to directly or indirectly impact key judgements and estimates within the group financial statements. Our audit considered those risks that could be material to the key judgements and estimates made in the assessment of the carrying value of non-current assets and impact on future cashflows.

We also considered whether the Task Force on Climate-related Financial Disclosures ("TCFD") in the Annual Report were consistent with our understanding of the business and the financial statements with involvement of sustainability specialists.

7.4. Working with other auditors

More sites were visited for the 2022 audit due to the easing of restrictions to travel following the Covid-19 pandemic. Regular communication also 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, discussed and reviewed 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 directors' responsibilities statement, 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.

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, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sectors;
- 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

Independent auditor's report to the members of Melrose Industries PLC

Continued

- the matters discussed among the audit engagement team including significant component audit teams and 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: impairment of goodwill and acquired intangibles, classification of adjusting items, revenue recognition in respect of RRSPs and loss-making contract 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 Companies Act 2006, Listing Rules, UK Bribery Act, 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 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 impairment of goodwill and acquired intangibles, classification of adjusting items, revenue recognition in respect of RRSPs and completeness of loss-making contract provisions 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 and external 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 37;
- 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 37;
- the directors' statement on fair, balanced and understandable set out on page 145;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 39;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 114; and
- the section describing the work of the audit committee set out on page 111.

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 sites 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 20 years, covering the years ending 31 December 2003 to 31 December 2022.

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

2 March 2023

Consolidated Income Statement

Continuing operations	Notes	Year ended 31 December 2022 £m	Restated(1) Year ended 31 December 2021 £m
Revenue	4, 5	**7,537**	6,650
Cost of sales		**(6,458)**	(5,750)
Gross profit		**1,079**	900
Share of results of equity accounted investments	15	**49**	38
Net operating expenses	7	**(1,364)**	(1,431)
Operating loss	5, 6	**(236)**	(493)
Finance costs	7	**(104)**	(169)
Finance income	7	**33**	2
Loss before tax		**(307)**	(660)
Tax	8	**84**	180
Loss after tax for the year from continuing operations		**(223)**	(480)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	13	**(80)**	1,317
(Loss)/profit after tax for the year		**(303)**	837
Attributable to:			
Owners of the parent		**(308)**	833
Non-controlling interests		**5**	4
		(303)	837
Earnings per share			
Continuing operations			
– Basic	10	**(5.4)p**	(10.3)p
– Diluted	10	**(5.4)p**	(10.3)p
Continuing and discontinued operations			
– Basic	10	**(7.3)p**	17.7p
– Diluted	10	**(7.3)p**	17.7p
Adjusted(2) results from continuing operations			
Adjusted revenue	5	**8,191**	7,263
Adjusted operating profit	5, 6	**480**	317
Adjusted profit before tax	6	**384**	194
Adjusted profit after tax	6	**299**	151
Adjusted basic earnings per share	10	**7.0p**	3.1p
Adjusted diluted earnings per share	10	**7.0p**	3.1p

(1) Results for the year ended 31 December 2021 have been restated for discontinued operations (note 1).
(2) Defined in the summary of significant accounting policies (note 2).

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
(Loss)/profit after tax for the year		**(303)**	837
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement (loss)/gain on retirement benefit obligations	24	**(32)**	297
Fair value (loss)/gain on investments in equity instruments	12	**(34)**	43
Income tax charge relating to items that will not be reclassified	8	**(1)**	(71)
		(67)	269
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		**593**	(101)
Share of other comprehensive income from equity accounted investments	15	**13**	13
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	13	**(11)**	113
Derivative (losses)/gains on hedge relationships		**(39)**	54
Transfer to Income Statement on hedge relationships		**2**	46
Income tax credit/(charge) relating to items that may be reclassified	8	**5**	(19)
		563	106
Other comprehensive income for the year		**496**	375
Total comprehensive income for the year		**193**	1,212
Attributable to:			
Owners of the parent		**187**	1,208
Non-controlling interests		**6**	4
		193	1,212

Melrose Industries PLC Annual Report 2022

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Operating activities			
Net cash from operating activities from continuing operations	27	**187**	222
Net cash from operating activities from discontinued operations	27	**17**	41
Net cash from operating activities		**204**	263
Investing activities			
Disposal of businesses, net of cash disposed		**478**	2,703
Purchase of property, plant and equipment		**(271)**	(218)
Proceeds from disposal of property, plant and equipment[2]		**66**	13
Purchase of computer software and capitalised development costs		**(27)**	(18)
Dividends received from equity accounted investments	15	**59**	52
Purchase of investments		**–**	(10)
Acquisition of subsidiaries, net of cash acquired		**(4)**	–
Settlement of derivatives used in net investment hedging		**(109)**	–
Equity accounted investment additions	15	**(3)**	–
Interest received		**4**	2
Net cash from investing activities from continuing operations		**193**	2,524
Net cash used in investing activities from discontinued operations	27	**(1)**	(13)
Net cash from investing activities		**192**	2,511
Financing activities			
Repayment of borrowings		**(598)**	(1,555)
Drawings on borrowing facilities		**632**	–
Costs of raising debt finance		**–**	(4)
Repayment of principal under lease obligations		**(51)**	(53)
Settlement of interest rate swaps		**–**	(47)
Purchase of own shares, including associated costs		**(504)**	–
Return of capital		**–**	(729)
Return of capital costs		**–**	(1)
Dividends paid to owners of the parent	9	**(77)**	(69)
Net cash used in financing activities from continuing operations		**(598)**	(2,458)
Net cash used in financing activities from discontinued operations	27	**(1)**	(8)
Net cash used in financing activities		**(599)**	(2,466)
Net (decrease)/increase in cash and cash equivalents, net of bank overdrafts		**(203)**	308
Cash and cash equivalents, net of bank overdrafts at the beginning of the year	27	**468**	160
Effect of foreign exchange rate changes	27	**27**	–
Cash and cash equivalents, net of bank overdrafts at the end of the year	27	**292**	468

(1) Results for the year ended 31 December 2021 have been restated for discontinued operations (note 1).
(2) Includes proceeds from the disposal of a corporate property, held for sale at 30 June 2022.

As at 31 December 2022, the Group had net debt of £1,139 million (31 December 2021: £950 million). A definition and reconciliation of the movement in net debt is shown in note 27.

Consolidated Balance Sheet

	Notes	31 December 2022 £m	31 December 2021 £m
Non-current assets			
Goodwill and other intangible assets	11	**6,846**	7,390
Property, plant and equipment	14	**2,599**	2,528
Investments	12	**62**	87
Interests in equity accounted investments	15	**435**	429
Deferred tax assets	22	**373**	250
Derivative financial assets	25	**36**	47
Other receivables	17	**670**	523
Retirement benefit surplus	24	**93**	184
		11,114	11,438
Current assets			
Inventories	16	**1,025**	893
Trade and other receivables	17	**1,426**	1,184
Derivative financial assets	25	**38**	23
Current tax assets		**29**	11
Cash and cash equivalents	18	**355**	473
		2,873	2,584
Total assets	5	**13,987**	14,022
Current liabilities			
Trade and other payables	19	**2,347**	2,051
Interest-bearing loans and borrowings	20	**63**	462
Lease obligations	28	**60**	57
Derivative financial liabilities	25	**86**	119
Current tax liabilities		**141**	142
Provisions	21	**281**	293
		2,978	3,124
Net current liabilities		**(105)**	(540)
Non-current liabilities			
Other payables	19	**431**	390
Interest-bearing loans and borrowings	20	**1,433**	903
Lease obligations	28	**306**	319
Derivative financial liabilities	25	**141**	79
Deferred tax liabilities	22	**619**	614
Retirement benefit obligations	24	**581**	645
Provisions	21	**330**	408
		3,841	3,358
Total liabilities	5	**6,819**	6,482
Net assets		**7,168**	7,540
Equity			
Issued share capital	26	**309**	333
Share premium account		**3,271**	3,271
Merger reserve		**109**	109
Capital redemption reserve		**753**	729
Other reserves		**(2,330)**	(2,330)
Translation and hedging reserve	26	**638**	76
Retained earnings		**4,379**	5,319
Equity attributable to owners of the parent		**7,129**	7,507
Non-controlling interests		**39**	33
Total equity		**7,168**	7,540

The Financial Statements were approved and authorised for issue by the Board of Directors on 2 March 2023 and were signed on its behalf by:

Geoffrey Martin
Group Finance Director

2 March 2023

Simon Peckham
Chief Executive

2 March 2023

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 2021	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[(1)]	–	(4,138)	–	–	–	–	4,138	**–**	–	**–**
Return of capital[(1)]	–	(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**
(Loss)/profit for the year	–	–	–	–	–	–	(308)	**(308)**	5	**(303)**
Other comprehensive income/(expense)	–	–	–	–	–	562	(67)	**495**	1	**496**
Total comprehensive income/(expense)	–	–	–	–	–	562	(375)	**187**	6	**193**
Purchase of own shares[(1)]	(24)	–	–	24	–	–	(504)	**(504)**	–	**(504)**
Dividends paid	–	–	–	–	–	–	(77)	**(77)**	–	**(77)**
Equity-settled share-based payments	–	–	–	–	–	–	16	**16**	–	**16**
At 31 December 2022	**309**	**3,271**	**109**	**753**	**(2,330)**	**638**	**4,379**	**7,129**	**39**	**7,168**

(1) Further information is 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 14 to 27. The Consolidated Financial Statements of the Group for the year ended 31 December 2022 were authorised in accordance with a resolution of the Directors of Melrose Industries PLC on 2 March 2023.

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

Discontinued operations and disposals

On 6 July 2022, the Group completed the disposal of the Ergotron business, previously included in the Other Industrial segment. The results of Ergotron 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 2022, the Ergotron 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.

The Aerospace business disposed of a non-core entity during the year, which has not been treated as a discontinued operation. Further detail is shown in note 13.

In addition, discontinued operations for 2021 include the results of the Nortek Air Management, Brush and Nortek Control businesses, which were disposed of during 2021.

Capital structure

On 9 June 2022, the Group commenced a £500 million share buyback programme, which completed on 1 August 2022 with 318,003,512 shares repurchased and subsequently cancelled. Costs associated with the share buyback programme were £4 million.

In 2021, following the disposals of Nortek Air Management and Brush, a return of capital of £729 million, alongside a court approved capital reduction of the Company's share premium account and a 9 for 10 share consolidation took place.

Proposed demerger

On 8 September 2022, the Group announced its intention to demerge Automotive, Powder Metallurgy and Hydrogen Technology. In these Financial Statements, the businesses intended for demerger have been treated as continuing operations because at the balance sheet date there were actions, such as the formation of a board of directors and the arrangement of banking facilities, which meant that a demerger could not have taken place. The demerger was also still subject to Board approval and shareholder consent at 31 December 2022.

Acquisitions

On 1 October 2022, the Aerospace segment completed the acquisition of Permanova Lasersystem AB, a leader in advanced laser technology and cell integration, for consideration of £4 million. As the acquisition is not material to the Group, limited information is provided in note 11.

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 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 Accounting Standards: 2018-2020 cycle

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

At 31 December 2022, the following Standards, Amendments and Interpretations were in issue but not yet effective:

- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 1: Classification of liabilities as current or non-current and 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.

Notes to the Financial Statements

Continued

2. Summary of significant accounting policies continued

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").

APMs used by the Group are set out in the glossary to these Financial Statements on pages 227 to 234 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 ("EAIs").

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 EAIs.

On this basis, the following are the principal items included within adjusting items impacting operating profit:

- Amortisation of intangible assets that are acquired in a business combination, excluding computer software and 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; 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 debt instruments including interest rate swaps following acquisition or disposal related activity or non-trading transactions; 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.

The Group's liquidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity headroom of £2.6 billion at 31 December 2022 and sufficient headroom throughout the going concern forecast period. Forecast covenant compliance is considered further below.

2. Summary of significant accounting policies continued

None of the Group's banking facilities mature in the going concern period following an extension agreed during 2021. The next contractual maturity is in June 2024 and whilst changes to banking arrangements are being considered following the announced intention to demerge GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen, these will only be enacted if the shareholders approve the demerger. As part of its preparation for the intended demerger, the Group has agreed revised banking documentation split between the demerger businesses and remaining business, which is comparable in nature with existing arrangements and would provide both businesses with sufficient liquidity albeit contingent on shareholder approval of the demerger.

Covenants

The current 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 2022	30 June 2023	31 December 2023
Net debt to adjusted EBITDA	**3.75x**	3.5x	3.5x
Interest cover	**4.0x**	4.0x	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 2023 and the first half of 2024. The sensitised assumptions are specific to each business taking into account their markets, but on average represents a c. 10% and c. 15% reduction to the Group's forecast revenue in each of 2023 and the first half of 2024 respectively. The sensitised revenues have had a consequential impact on profit and cash flow, along with a further downside sensitivity applied to increase working capital by approximately 2% of revenue. Given that there is liquidity headroom of £2.6 billion and the Group's leverage was 1.4x, comfortably below the covenant test at 31 December 2022, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, even with significant reductions, no covenant is breached at the forecast testing dates being 30 June 2023 and 31 December 2023, and the Group will not require any additional sources of finance. Testing at 30 June 2024 is also favourable, assuming arrangements similar in nature with existing agreements.

The Group has also considered the circumstance that the proposed demerger occurs in April 2023. Modelling of both a base case and a reasonably possible sensitised case has also been prepared for the remaining Group and due to revised banking documents having been formally agreed, consistent with the conclusion above, the Group will not require any additional sources of finance and no covenant is breached at the forecast testing dates being 30 June 2023 and 31 December 2023.

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.

2. Summary of significant accounting policies continued

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.

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 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 the unbilled work done contract asset ("unbilled work done"). 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.

Unbilled work done addresses contract matters, such as price or scope amendments, which are 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. 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.

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 material 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.

Notes to the Financial Statements
Continued

2. Summary of significant accounting policies continued

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, considering the implications of climate change (see note 11 for further detail), 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.

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.

2. Summary of significant accounting policies continued

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.

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 investments 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.

Notes to the Financial Statements
Continued

2. Summary of significant accounting policies continued

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.

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.

2. Summary of significant accounting policies continued

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.

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.

2. Summary of significant accounting policies continued

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.

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.

2. Summary of significant accounting policies continued

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 2022 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.

a) Assumptions used to determine the recoverable amount of goodwill and other assets

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. For the year ended 31 December 2022, impairment testing has been performed for each group of CGUs using the fair value less costs to sell method. 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 economic 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.

The Automotive and Powder Metallurgy groups of CGUs are the most sensitive to a change in estimates, depending on how their markets continue to recover from the implications of the COVID-19 pandemic and supply chain disruption as well as how they continue to recover inflation impacts on input costs. As at 31 December 2022, the carrying amount of goodwill and other intangible assets (not including computer software and development costs) in the Automotive group of CGUs is £1,938 million (31 December 2021: £1,980 million) and in the Powder Metallurgy group of CGUs is £1,081 million (31 December 2021: £1,066 million). The sensitivity disclosures in note 11 show reasonably possible changes to key assumptions and their effect on the impairment models, which could reduce headroom to nil. In order for a material impairment charge or loss on disposal to be recorded in the next year the following reasonably possible changes in key assumptions would need to occur:

- In the Automotive groups of CGUs, terminal operating profit would need to reduce by 16% which would reduce the terminal operating margin by 1.7 percentage points.
- In the Powder Metallurgy groups of CGUs, terminal operating profit would need to reduce by 10% which would reduce the terminal operating margin by 1.3 percentage points.

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

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 2022, the retirement benefit obligation was a net deficit of £488 million (31 December 2021: £461 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 2022, the carrying value of the loss-making contract provision in the Group was £108 million (31 December 2021: £167 million). In the last four 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 2022, there could be a further £19 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 unbilled work done, in particular relating to certain risk and revenue sharing partnerships ("RRSPs"). A detailed review of the Group's RRSP contracts determined where terms and conditions result in unbilled work done 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 unbilled work done 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 unbilled work done 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.

The unbilled work done 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. As the impacted RRSP contracts mature, there are reasonably possible changes to assumptions, such as engineering requirements to support programmes and the expected life of certain engines which could lead to the unbilled work done contract asset on the Balance Sheet of £450 million (31 December 2021: £305 million) increasing to between £480 million and £500 million. This would lead to recognition of additional revenue and profit in the next year of between £30 million and £50 million.

4. Revenue

An analysis of the Group's revenue is as follows:

Continuing operations	Year ended 31 December 2022 £m	Restated(1) Year ended 31 December 2021 £m
Revenue recognised at a point in time	**6,613**	5,713
Revenue recognised over time	**924**	937
Revenue	**7,537**	6,650

(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.

4. Revenue continued

Risk and revenue sharing partnerships

The Group has approximately £13 billion (31 December 2021: £11 billion) in respect of contractual transaction prices including a constrained estimate of unbilled work done, 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 2022. These performance obligations will be satisfied and revenue will be recognised over a period of up to 30 years (2021: 30 years).

The amount of revenue recognised from RRSP contracts during the year was £547 million, which includes an increase in the unbilled work done contract asset of £106 million (2021: £402 million, which included an increase in the unbilled work done contract asset of £55 million). Within this there is revenue from the delivery of product which is recognised at a point in time of £517 million (2021: £377 million) and revenue from provision of service which is recognised over time of £30 million (2021: £25 million). Due to the nature of certain of these RRSP arrangements, there is an associated unbilled work done contract asset including movements during the year which 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 £19 million (2021: £24 million) of revenue recognised from changes in assumptions which will also impact the revenue allocation between future years. Assumption changes were made following commercial and operational progress by engine manufacturers with their customers, providing more certainty over future volumes for the RRSP partners.

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 Ergotron business during the year its results, which were previously included within the Other Industrial segment, are classified within discontinued operations and the comparative results for 2021 have been restated accordingly. In addition, the results of the Nortek Air Management, Brush and Nortek Control businesses, which were disposed of in the prior year, are also classified as discontinued operations.

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 Hydrogen Technology business which was launched in the prior year.

In addition, there is a central cost centre which is also reported to the Board. The central cost centre contains 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 centre for the year ended 31 December 2022.

5. Segment information continued

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 2022 Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Adjusted revenue	**2,957**	**4,211**	**1,022**	**1**	**8,191**
Equity accounted investments	(3)	(625)	(26)	–	(654)
Revenue	**2,954**	**3,586**	**996**	**1**	**7,537**
Timing of revenue recognition					
At a point in time	2,030	3,586	996	1	6,613
Over time	924	–	–	–	924
Revenue	**2,954**	**3,586**	**996**	**1**	**7,537**

Year ended 31 December 2021 – restated(1) Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Adjusted revenue	**2,543**	**3,745**	**975**	–	**7,263**
Equity accounted investments	(5)	(581)	(27)	–	(613)
Revenue	**2,538**	**3,164**	**948**	–	**6,650**
Timing of revenue recognition					
At a point in time	1,601	3,164	948	–	5,713
Over time	937	–	–	–	937
Revenue	**2,538**	**3,164**	**948**	–	**6,650**

(1) Restated for discontinued operations (note 1).

b) Segment operating profit

Year ended 31 December 2022 Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate(1) £m	Total £m
Adjusted operating profit/(loss)	**186**	**250**	**96**	**(14)**	**(38)**	**480**
Items not included in adjusted operating profit(2):						
Amortisation of intangible assets acquired in business combinations	(260)	(147)	(51)	–	–	(458)
Restructuring costs	(88)	(37)	(17)	–	(2)	(144)
Movement in derivatives and associated financial assets and liabilities	21	(7)	(1)	–	(100)	(87)
Equity accounted investments adjustments	–	(29)	–	–	–	(29)
Impairment of assets	–	(20)	–	–	–	(20)
Melrose equity-settled compensation scheme charges	–	–	–	–	(15)	(15)
Net release and changes in discount rates of fair value items	12	5	9	–	–	26
Acquisition and disposal related gains and losses	(5)	(4)	–	–	20	11
Operating (loss)/profit	**(134)**	**11**	**36**	**(14)**	**(135)**	**(236)**
Finance costs						(104)
Finance income						33
Loss before tax						**(307)**
Tax						84
Loss for the year from continuing operations						**(223)**

5. Segment information continued

b) Segment operating profit continued

Year ended 31 December 2021 – restated(3) Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate(1) £m	Total £m
Adjusted operating profit/(loss)	**112**	**172**	**91**	**(7)**	**(51)**	**317**
Items not included in adjusted operating profit(2):						
Amortisation of intangible assets acquired in business combinations	(245)	(142)	(49)	–	–	(436)
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**	**(7)**	**(199)**	**(493)**
Finance costs						(169)
Finance income						2
Loss before tax						**(660)**
Tax						180
Loss for the year from continuing operations						**(480)**

(1) Corporate adjusted operating loss of £38 million (2021: £51 million), includes £3 million (2021: £17 million) of costs in respect of divisional management long-term incentive plans.
(2) Further details on adjusting items are discussed in note 6.
(3) Restated for discontinued operations (note 1).

c) Segment total assets and liabilities

	Total assets		Total liabilities	
	31 December 2022 £m	Restated(1) 31 December 2021 £m	**31 December 2022 £m**	Restated(1) 31 December 2021 £m
Aerospace	**6,692**	6,267	**2,517**	2,231
Automotive	**4,711**	4,608	**2,033**	2,042
Powder Metallurgy	**1,791**	1,669	**421**	405
Other Industrial	**17**	14	**5**	–
Corporate	**776**	847	**1,843**	1,718
Continuing operations	**13,987**	13,405	**6,819**	6,396
Discontinued operations	**–**	617	**–**	86
Total	**13,987**	14,022	**6,819**	6,482

(1) Restated for discontinued operations (note 1).

5. Segment information continued

d) Segment capital expenditure and depreciation

	Capital expenditure[1]		Depreciation of owned assets[1]		Depreciation of leased assets	
	Year ended 31 December 2022 £m	Restated[2] Year ended 31 December 2021 £m	Year ended 31 December 2022 £m	Restated[2] Year ended 31 December 2021 £m	Year ended 31 December 2022 £m	Restated[2] Year ended 31 December 2021 £m
Aerospace	**77**	66	**123**	122	**21**	24
Automotive	**187**	113	**184**	198	**14**	15
Powder Metallurgy	**44**	40	**53**	51	**10**	9
Other Industrial	**–**	1	**–**	–	**–**	–
Corporate	**–**	–	**–**	1	**1**	1
Continuing operations	**308**	220	**360**	372	**46**	49
Discontinued operations	**–**	14	**1**	20	**1**	8
Total	**308**	234	**361**	392	**47**	57

(1) Including computer software and development costs. Capital expenditure excludes lease additions.
(2) Restated for discontinued operations (note 1).

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 derivative financial assets; non-current other receivables; and non-current retirement benefit surplus) by geographical location are detailed below:

	Revenue[1] from external customers		Segment assets	
	Year ended 31 December 2022 £m	Restated[2] Year ended 31 December 2021 £m	31 December 2022 £m	Restated[2] 31 December 2021 £m
UK	**682**	570	**1,785**	1,977
Rest of Europe	**1,902**	1,824	**4,453**	4,374
North America	**3,906**	3,275	**2,562**	2,404
Other	**1,047**	981	**1,142**	1,145
Continuing operations	**7,537**	6,650	**9,942**	9,900
Discontinued operations	**132**	1,117	**–**	534
Total	**7,669**	7,767	**9,942**	10,434

(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

Continuing operations	Notes	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Operating loss		**(236)**	(493)
Amortisation of intangible assets acquired in business combinations	a	**458**	436
Restructuring costs	b	**144**	269
Movement in derivatives and associated financial assets and liabilities	c	**87**	114
Equity accounted investments adjustments	d	**29**	28
Impairment of assets	e	**20**	–
Melrose equity-settled compensation scheme charges	f	**15**	19
Net release and changes in discount rates of fair value items	g	**(26)**	(49)
Acquisition and disposal related gains and losses	h	**(11)**	(7)
Total adjustments to operating loss		**716**	810
Adjusted operating profit		**480**	317

(1) Restated for discontinued operations (note 1).

6. Reconciliation of adjusted profit measures continued

a. The amortisation charge on intangible assets acquired in business combinations of £458 million (2021: £436 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 £144 million (2021: £269 million), including a write down of assets in affected sites of £11 million (2021: £112 million). These are shown as adjusting items due to their size and non-trading nature and during the year ended 31 December 2022 these included:

- A charge of £88 million (2021: £92 million) within the Aerospace division primarily relating to the continuation of significant restructuring projects, necessary for the Aerospace business to achieve its full potential target operating margins. These included further progress on European footprint consolidations in both the Civil and Engines businesses, which commenced in 2021 and are expected to materially conclude in 2023. In addition, further progress has been made in North America on multi-site restructuring programmes across all three Aerospace sub-segments. There are three significant ongoing multi-year restructuring programmes, impacting multiple sites across the Aerospace division, incurring a combined charge of £79 million in the year. Since commencement in 2020, the cumulative charge on these three restructuring programmes at 31 December 2022 was £155 million (31 December 2021: £76 million, 31 December 2020: £7 million). As at 31 December 2022, these projects on average are approximately 75% complete and are expected to be substantially complete by the end of 2023. In addition to the remaining charges to be incurred on these projects, £40 million is included in restructuring provisions at 31 December 2022 to be settled in cash in the next twelve months.
- A charge of £37 million (2021: £147 million) within the Automotive division. These included multiple restructuring projects which concluded within the year, including two significant footprint consolidation actions in Europe, which commenced last year. In addition, restructuring costs were incurred in North America, continuing the movement of production from high to low cost countries.
- A charge of £17 million (2021: £18 million) within the Powder Metallurgy division. Multiple restructuring projects in the business concluded within the year, including the closure of a factory in Canada.
- A net charge of £2 million (2021: £12 million) within the central cost centre.

c. Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts where hedge accounting is not applied) entered into 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 £87 million (2021: £114 million) in the year.

d. The Group has a number of equity accounted investments ("EAIs") 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 EAIs generated £654 million (2021: £613 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 EAIs is included.

In addition, the profits and losses of EAIs, 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 EAIs are adjusted because they are considered to be significant in size and are important in assessing the performance of the business.

e. A write down of assets of £20 million (2021: £nil), has been recognised as a result of exiting any direct trading links with Russian operations as a result of the conflict in Ukraine. The write down of these assets are predominantly within the Automotive division and are shown as an adjusting item due to their non-trading nature and size.

f. The charge for the Melrose equity-settled Employee Share Scheme, including its associated employer's tax charge, of £15 million (2021: £19 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.

g. The net release of fair value items in the year of £26 million (2021: £49 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 £11 million in respect of loss-making contract provisions, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period.

h. An acquisition and disposal related net credit of £11 million (2021: £7 million) arose in the year which primarily includes the net profits on disposal of two disused properties, a loss on disposal of a non-core Aerospace business and the initial costs incurred in respect of the proposed demerger. These items are excluded from adjusted results due to their non-trading nature.

6. Reconciliation of adjusted profit measures continued

b) Profit before tax

Continuing operations	Notes	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Loss before tax		**(307)**	(660)
Adjustments to operating loss as above		**716**	810
Equity accounted investments – interest	i	**2**	2
Settlement of bonds	j	**(24)**	–
Fair value changes on cross-currency swaps	k	**(3)**	(3)
Settlement of interest rate swaps	l	**–**	45
Total adjustments to loss before tax		**691**	854
Adjusted profit before tax		**384**	194

(1) Restated for discontinued operations (note 1).

i. As explained in paragraph d above, the profits and losses of EAIs 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.

j. During the year, the Group undertook a tender to buy back the 2032 £300 million bond. There were £170 million of bonds repurchased, on which a gain of £24 million was realised. This is shown as an adjusting item due to its non-trading nature.

k. 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.

l. On disposal of Nortek Air Management and Brush in the prior year, the significant proceeds received together with 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 was accelerated and shown as an adjusting item due to its non-trading nature.

c) Profit after tax

Continuing operations	Notes	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Loss after tax		**(223)**	(480)
Adjustments to loss before tax as above		**691**	854
Tax effect of adjustments to loss before tax	8	**(170)**	(176)
Equity accounted investments – tax	i	**(9)**	(9)
Tax effect of significant legislative changes	8	**–**	(70)
Tax effect of significant restructuring	8	**10**	32
Total adjustments to loss after tax		**522**	631
Adjusted profit after tax		**299**	151

(1) Restated for discontinued operations (note 1).

7. Expenses

Continuing operations	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Net operating expenses comprise:		
Selling and distribution costs	**(31)**	(28)
Administration expenses[2]	**(1,333)**	(1,403)
Total net operating expenses	**(1,364)**	(1,431)

(1) Restated for discontinued operations (note 1).
(2) Includes £687 million (2021: £782 million) of adjusting items (note 6).

7. Expenses continued

Continuing operations	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Operating loss is stated after charging/(crediting):		
Cost of inventories	**6,458**	5,750
Amortisation of intangible assets acquired in business combinations	**458**	436
Depreciation and impairment of property, plant and equipment	**374**	479
Amortisation and impairment of computer software and development costs	**59**	54
Lease expense[2]	**3**	4
Staff costs	**2,127**	1,986
Research and development costs[3]	**198**	193
Profit on disposal of property, plant and equipment[4]	**(42)**	(3)
Expense of writing down inventory to net realisable value	**59**	76
Reversals of previous write-downs of inventory	**(55)**	(67)
Impairment recognised on trade receivables	**6**	2
Impairment reversed on trade receivables	**(7)**	(3)

(1) Restated for discontinued operations (note 1).
(2) Includes costs relating to short-term leases of £2 million (2021: £2 million), low value leases of £1 million (2021: £1 million) and variable lease payments not included in lease liabilities of £nil (2021: £1 million).
(3) Includes staff costs totalling £145 million (2021: £136 million).
(4) Includes the profit from the disposal of a corporate property, held for sale at 30 June 2022.

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**6.8**	5.9
Fees payable to the Company's auditor and their associates for other audit services to the Group:		
The audit of the Company's subsidiaries	**1.1**	1.0
Non-statutory audit of certain of the Company's businesses	**1.9**	3.8
Total audit fees	**9.8**	10.7
Audit-related assurance services:		
Review of the half year interim statement	**0.4**	0.4
Other assurance services	**0.2**	0.5
Total audit-related assurance services	**0.6**	0.9
Total audit and audit-related assurance services	**10.4**	11.6
Tax services	**–**	–
Reporting accountant services	**0.9**	0.1
Total audit and non-audit fees	**11.3**	11.7

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 110 to 115. No services were provided pursuant to contingent fee arrangements.

An analysis of staff costs and employee numbers is as follows:

Continuing operations	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Staff costs during the year (including executive Directors)		
Wages and salaries[2]	**1,746**	1,613
Social security costs[3]	**287**	281
Pension costs (note 24)		
– defined benefit plans	**9**	8
– defined contribution plans	**69**	68
Share-based compensation expense[4] (note 23)	**16**	16
Total staff costs	**2,127**	1,986

(1) Restated for discontinued operations (note 1).
(2) Wages and salaries for discontinued operations was £18 million in the period prior to disposal (2021: £216 million).
(3) Includes an employer's tax credit of £1 million (2021: charge of £3 million) on the change in value of the employee share plans, shown as an adjusting item (note 6).
(4) Shown as an adjusting item (note 6).

Notes to the Financial Statements
Continued

7. Expenses continued

	Year ended 31 December 2022 Number	Restated[(1)] Year ended 31 December 2021 Number
Average monthly number of persons employed (including executive Directors)		
Aerospace	**14,466**	14,316
Automotive	**18,520**	19,141
Powder Metallurgy	**5,672**	6,080
Other Industrial	**65**	23
Corporate	**49**	50
Continuing operations	**38,772**	39,610
Discontinued operations	**1,187**	9,048
Total average number of persons employed	**39,959**	48,658

(1) Restated for discontinued operations (note 1).

An analysis of finance costs and income is as follows:

Continuing operations	Year ended 31 December 2022 £m	Restated[(1)] Year ended 31 December 2021 £m
Finance costs and income		
Interest on bank loans and overdrafts[(2)]	**(81)**	(138)
Amortisation of costs of raising finance	**(10)**	(10)
Net interest cost on pensions	**(5)**	(8)
Lease interest	**(9)**	(14)
Unwind of discount on provisions	**(2)**	(2)
Fair value changes on cross-currency swaps[(3)]	**3**	3
Total finance costs	**(104)**	(169)
Interest receivable	**9**	2
Bond redemption gains[(3)]	**24**	–
Total finance income	**33**	2
Total net finance costs	**(71)**	(167)

(1) Restated for discontinued operations (note 1).
(2) Includes a £nil (2021: £45 million) charge in respect of the settlement of interest rate swaps which are shown as an adjusting item (note 6).
(3) These are shown as adjusting items (note 6).

8. Tax

Continuing operations	Year ended 31 December 2022 £m	Restated[(1)] Year ended 31 December 2021 £m
Analysis of tax credit in the year:		
Current tax		
Current year tax charge	**73**	53
Adjustments in respect of prior years	**(9)**	(1)
Total current tax charge	**64**	52
Deferred tax		
Origination and reversal of temporary differences	**(118)**	(125)
Adjustments in respect of prior years	**(20)**	(4)
Tax on the change in value of derivative financial instruments	**(24)**	(27)
Adjustments to deferred tax attributable to changes in tax rates	**1**	(5)
Non-recognition of deferred tax	**13**	4
Recognition of previously unrecognised deferred tax assets	**–**	(75)
Total deferred tax credit	**(148)**	(232)
Tax credit on continuing operations	**(84)**	(180)
Tax charge on discontinued operations	**5**	61
Total tax credit for the year	**(79)**	(119)
Analysis of tax credit on continuing operations in the year:	**£m**	£m
Tax charge in respect of adjusted profit before tax	**85**	43
Tax credit recognised as an adjusting item	**(169)**	(223)
Tax credit on continuing operations	**(84)**	(180)

(1) Restated for discontinued operations (note 1).

8. Tax continued

The tax charge of £85 million (2021: £43 million) arising on adjusted profit before tax of £384 million (2021: £194 million), results in an effective tax rate of 22.1% (2021: 22.2%).

The £169 million (2021: £223 million) tax credit recognised as an adjusting item includes a credit of £170 million (2021: £176 million) in respect of tax credits on adjustments to loss before tax of £691 million (2021: £854 million), £9 million (2021: £9 million) in respect of the tax on equity accounted investments, a charge of £10 million (2021: £32 million) in respect of internal Group restructuring and £nil (2021: credit of £70 million) in respect of additional deferred tax asset recognition from legislative changes.

The tax credit 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 2022 £m	Restated[(1)] Year ended 31 December 2021 £m
(Loss)/profit before tax:		
Continuing operations	**(307)**	(660)
Discontinued operations (note 13)	**(59)**	45
	(366)	(615)
Tax credit on loss before tax at the weighted average rate of 25.0% (2021: 23.0%)	**(91)**	(141)
Tax effect of:		
Disallowable expenses and other permanent differences within adjusted profit	**4**	(2)
Disallowable items included within adjusting items	**(2)**	31
Temporary differences not recognised in deferred tax	**13**	4
Recognition of previously unrecognised deferred tax assets	**–**	(75)
Tax credits, withholding taxes and other rate differences	**15**	11
Adjustments in respect of prior years	**(29)**	(5)
Tax charge classified within adjusting items – continuing operations	**10**	32
Tax charge classified within adjusting items – discontinued operations	**–**	31
Effect of changes in tax rates	**1**	(5)
Total tax credit for the year	**(79)**	(119)

(1) Restated for discontinued operations (note 1).

The reconciliation has been performed at a blended Group tax rate of 25.0% (2021: 23.0%) 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 (credits)/charges included in Other Comprehensive Income are as follows:

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Deferred tax on retirement benefit obligations	**1**	71
Deferred tax on hedge relationship gains and losses	**(5)**	19
Total (credit)/charge for the year	**(4)**	90

Franked investment income – litigation

Since 2003, certain entities in the Group have been involved in litigation with HMRC in respect of various advance corporate tax payments and corporate tax paid on certain foreign dividends which, in their view, were levied by HMRC in breach of the Group's EU community law rights. The continuing complexity of the case and uncertainty over the issues raised 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 2022 £m	Year ended 31 December 2021 £m
Interim dividend for the year ended 31 December 2022 of 0.825p	**33**	–
Final dividend for the year ended 31 December 2021 of 1.0p	**44**	–
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
	77	69

A second interim dividend for the year ended 31 December 2022 of 1.5p per share totalling £61 million is declared by the Board. The second interim dividend of 1.5p per share was declared by the Board on 2 March 2023 and in accordance with IAS 10: Events after the reporting period, has not been included as a liability in the Consolidated Financial Statements.

Notes to the Financial Statements

Continued

9. Dividends continued

During the year, the Group undertook a £500 million share buy back programme (note 1). In the prior year, a return of capital of 15p per ordinary share, totalling £729 million was paid.

10. Earnings per share

Earnings attributable to owners of the parent	Year ended 31 December 2022 £m	Restated(1) Year ended 31 December 2021 £m
Earnings for basis of earnings per share	**(308)**	833
Less: earnings from discontinued operations (note 13)	**80**	(1,317)
Earnings for basis of earnings per share from continuing operations	**(228)**	(484)

	Year ended 31 December 2022 Number	Year ended 31 December 2021 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	**4,218**	4,695
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)	**4,218**	4,695

On 9 June 2022, the Group commenced a £500 million share buyback programme, which completed on 1 August 2022 with 318,003,512 shares repurchased and subsequently cancelled.

Earnings per share	Year ended 31 December 2022 pence	Restated(1) Year ended 31 December 2021 pence
Basic earnings per share		
From continuing and discontinued operations	**(7.3)**	17.7
From continuing operations	**(5.4)**	(10.3)
From discontinued operations	**(1.9)**	28.0
Diluted earnings per share		
From continuing and discontinued operations	**(7.3)**	17.7
From continuing operations	**(5.4)**	(10.3)
From discontinued operations	**(1.9)**	28.0

Adjusted earnings from continuing operations	Year ended 31 December 2022 £m	Restated(1) Year ended 31 December 2021 £m
Adjusted earnings for the basis of adjusted earnings per share(2)	**294**	147

Adjusted earnings per share from continuing operations

	Year ended 31 December 2022 pence	Restated(1) Year ended 31 December 2021 pence
Adjusted basic earnings per share	**7.0**	3.1
Adjusted diluted earnings per share	**7.0**	3.1

(1) Restated for discontinued operations (note 1).
(2) Adjusted earnings for the year ended 31 December 2022 comprises adjusted profit after tax of £299 million (2021: £151 million) (note 6), net of an allocation to non-controlling interests of £5 million (2021: £4 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 2021	4,023	4,916	776	1,045	59	529	11,348
Additions	–	–	–	–	6	13	19
Disposals	–	–	–	–	(1)	(3)	(4)
Disposal of businesses(2)	(778)	(331)	(250)	(3)	(14)	(11)	(1,387)
Transfer to held for sale(3)	(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
Additions	–	–	–	–	6	21	27
Acquisition of businesses(4)	1	–	–	3	–	–	4
Disposals	–	–	–	–	(2)	(4)	(6)
Transfer to held for sale(3)	(455)	(122)	(100)	–	–	–	(677)
Exchange adjustments	189	386	13	33	3	31	655
At 31 December 2022	**2,585**	**4,670**	**393**	**1,047**	**56**	**570**	**9,321**
Amortisation and impairment							
At 1 January 2021	(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(2)	214	143	117	3	7	2	486
Transfer to held for sale(3)	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)
Charge for the year:							
Adjusted operating profit	–	–	–	–	(7)	(43)	(50)
Adjusting items	–	(338)	(24)	(104)	–	–	(466)
Impairments(5)	–	–	–	–	–	(9)	(9)
Disposals	–	–	–	–	2	4	6
Transfer to held for sale(3)	–	71	35	–	–	–	106
Exchange adjustments	–	(105)	(9)	(9)	(2)	(9)	(134)
At 31 December 2022	**–**	**(1,598)**	**(93)**	**(496)**	**(36)**	**(252)**	**(2,475)**
Net book value							
At 31 December 2022	**2,585**	**3,072**	**300**	**551**	**20**	**318**	**6,846**
At 31 December 2021	2,850	3,180	385	628	20	327	7,390

(1) Other includes technology and order backlog intangible assets recognised on acquisitions.
(2) Disposal of businesses in 2021 relate to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).
(3) Transfer to held for sale in 2022 relates to the Ergotron business (2021: Nortek Control business), which was subsequently disposed of during the second half of the year (note 1).
(4) Acquisition of businesses in 2022 relates to Permanova Lasersystem AB within the Aerospace segment (note 1).
(5) Includes £9 million within impairment of assets (2021: £3 million within restructuring costs) 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”).

11. Goodwill and other intangible assets continued

Goodwill	31 December 2022 £m	Restated[(1)] 31 December 2021 £m
Aerospace	**990**	933
Automotive	**1,056**	1,001
Powder Metallurgy	**539**	507
Continuing operations	**2,585**	2,441
Discontinued operations	**–**	409
Total	**2,585**	2,850

(1) Restated for discontinued operations (note 1).

Impairment testing

The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired. The date of the annual impairment test is 31 October, aligned with internal forecasting and review processes. In accordance with IAS 36: Impairment of assets, the Group assesses goodwill based on the recoverable amount, being the higher of the value in use basis and the fair value less costs to sell basis. Due to the nature of the groups of CGUs within Melrose's strategic life cycle of "Buy, Improve, Sell", the fair value less costs to sell methodology has been used as the improvement phase is ongoing.

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 costs 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 benefits from future uncommitted restructuring plans are 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. The COVID-19 pandemic had a significant effect on global end markets in which certain of the Group's businesses operate and whilst these markets continue to recover, there have been consequential impacts of disrupted supply chains, interest rate rises and other inflationary pressure on input costs. Implications on the levels of headroom are shown in the sensitivity analysis which has been provided in respect of reasonably possible changes to key assumptions.

Significant assumptions and estimates

The basis of impairment tests and the key assumptions are set out in the tables below:

	31 December 2022			31 December 2021		
Groups of CGUs – fair value less costs to sell	**Post-tax discount rates**	**Long-term growth rates**	**Years in forecast**	Post-tax discount rates	Long-term growth rates	Years in forecast
Aerospace	**10.75%**	**3.0%**	**5**	7.8%	3.0%	5
Automotive	**11.25%**	**3.5%**	**5**	8.8%	2.5%	5
Powder Metallurgy	**12.0%**	**3.9%**	**5**	8.8%	2.5%	5

	31 December 2021		
Groups of CGUs – value in use	Pre-tax discount rates	Long-term growth rates	Years in forecast
Ergotron	10.1%	3.0%	3

Risk adjusted discount rates

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:

11. Goodwill and other intangible assets continued

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. Testing has been performed using the fair value less costs to sell methodology and the assumptions to derive operating margins take into account both normal cost saving activities and, where applicable, a significant contribution from planned restructuring activity to improve operational efficiency and leverage scale. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors, which take account of climate change implications for affected markets. Overall, climate risk exposure is considered to be relatively low across the divisions in the short and medium-term but starts to increase in the longer-term, for example through increasing likelihood of river flooding risk in the UK or increasing wildfire risk in California. Impairment testing includes short to medium-term planning (five years) for each of the groups of CGUs, which will address known risks from climate change and other environmental factors impacting forecast costs as well as the opportunities in associated markets as they prepare for change e.g. electrification in automotive and hydrogen propulsion in aerospace which impact revenues.

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, 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.

Long-term growth rates:

Long-term growth rates are based on long-term forecasts for growth in the sectors and geography in which the groups of CGUs operate. 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

Due to consequential impacts from the COVID-19 pandemic of disrupted supply chains, interest rate rises and other inflationary pressure on input costs, certain businesses are mitigating the impact of volatile customer scheduling through cost reduction and efficiency actions, including restructuring. The Automotive and Powder Metallurgy groups of CGUs are the most affected at this point in the cycle, as they rely on the global automotive market.

Automotive group of CGUs – sensitivity analysis

The forecasts show headroom above the carrying amount for the Automotive group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the discount rate and long-term growth rate from 11.25% to 12.50% or from 3.5% to 1.8% respectively would reduce headroom to £nil. Executing restructuring plans and continuing the recovery of inflationary impacts on input costs are key to margin assumptions and a reduction in the terminal operating profit of 15% would reduce the terminal operating margin by 1.6 percentage points and would reduce headroom to £nil.

Powder Metallurgy group of CGUs – sensitivity analysis

The forecasts show headroom above the carrying amount for the Powder Metallurgy group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the discount rate and long-term growth rate from 12.0% to 12.5% or from 3.9% to 3.2% respectively would reduce headroom to £nil. Executing restructuring plans and optimising market penetration are key to margin assumptions and a reduction in the terminal operating profit of 8% would reduce the terminal operating margin by 1.0 percentage points and would reduce headroom to £nil.

11. Goodwill and other intangible assets continued

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 2022 years	31 December 2021 years	**31 December 2022 £m**	Restated[1] 31 December 2021 £m	**31 December 2022 years**	31 December 2021 years	**31 December 2022 £m**	Restated[1] 31 December 2021 £m
Aerospace	**16**	17	**1,965**	1,967	**16**	17	**534**	575
Automotive	**8**	9	**621**	670	**16**	17	**261**	309
Powder Metallurgy	**13**	14	**486**	492	**16**	17	**56**	67
Continuing operations			**3,072**	3,129			**851**	951
Discontinued operations			**–**	51			**–**	62
Total			**3,072**	3,180			**851**	1,013

(1) Restated for discontinued operations (note 1).

12. Investments

Investments, carried at fair value	31 December 2022 £m	31 December 2021 £m
Shares	**62**	87

The Group holds a 10% equity share in HiiROC Limited, a hydrogen technology company, and a 4% investment in PW1100G-JM Engine Leasing LLC, an engine leasing business.

There was a loss on remeasurement to fair value of £34 million (2021: gain of £43 million) and a foreign exchange translation gain of £9 million (2021: £nil). A dividend of £4 million (2021: £17 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 2022, the expected dividend flow was discounted to net present value using a discount rate of 12.75%. If the discount rate changed from 12.75% to 11.75% the fair value would increase by £5 million.

13. Discontinued operations

At 30 June 2022, the Ergotron business, previously included within the Other Industrial division, 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 6 July 2022, the Group completed the sale of the Ergotron business for cash consideration of £496 million. The costs charged to the Income Statement associated with the disposal, in the year, were £7 million. The loss on disposal was £16 million after the recycling of cumulative translation gains of £11 million.

A corporate property with a carrying value of £10 million was classified as held for sale at 30 June 2022 and subsequently sold for cash consideration of £31 million. The profit on disposal of £21 million has been included within acquisition and disposal related gains and losses shown as an adjusting item (note 6).

During the year, Aerospace disposed of a non-core business. Consideration was £nil and the loss on disposal was £5 million, which has been included in acquisition and disposal related gains and losses shown as an adjusted item (note 6).

Discontinued operations for 2021 include the results of the Nortek Air Management, Brush and Nortek Control businesses which were disposed during 2021.

13. Discontinued operations continued

Financial performance of discontinued operations:

	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Revenue	**132**	1,117
Operating costs[2]	**(191)**	(1,070)
Operating (loss)/profit	**(59)**	47
Finance costs	**–**	(2)
(Loss)/profit before tax	**(59)**	45
Tax	**(5)**	(61)
Loss after tax	**(64)**	(16)
(Loss)/gain on disposal of net assets of discontinued operations, net of recycled cumulative translation differences	**(16)**	1,333
(Loss)/profit for the year from discontinued operations	**(80)**	1,317

(1) Restated for discontinued operations (note 1).
(2) Operating costs included an £86 million charge on remeasurement to fair value less costs of disposal relating to the Ergotron business on reclassification to assets held for sale (2021: £85 million relating to the Nortek Control business).

	Held for sale			
	Reclassified to assets classified as held for sale	Remeasured	Disposed	Businesses disposed
	£m	£m	£m	£m
Goodwill and other intangible assets	571	(86)	485	–
Property, plant and equipment[1]	27	–	27	–
Inventories	51	–	51	9
Trade and other receivables	51	–	51	5
Derivative financial assets	1	–	1	–
Cash and cash equivalents	26	–	26	6
Total assets	727	(86)	641	20
Trade and other payables	(63)	–	(63)	(4)
Lease obligations	(7)	–	(7)	(3)
Provisions	(5)	–	(5)	(18)
Derivative financial liabilities	(1)	–	(1)	–
Current and deferred tax	(21)	–	(21)	10
Total liabilities	(97)	–	(97)	(15)
Net assets	**630**	**(86)**	**544**	**5**
Movement in the value of net assets classified as held for sale in the period prior to disposal[2]			(18)	
Net assets held for sale disposed			526	526
Total net assets disposed				**531**
Consideration, net of costs[3]				520
Cumulative translation difference recycled on disposals				11
Profit on disposal of businesses and disposal groups of assets				–
Analysed as:				
Profit on disposal of assets classified as continuing operations				16
Loss on disposal of businesses classified as discontinued operations				(16)
Net cash inflow arising on disposal of businesses and disposal groups of assets:				
Consideration received in cash and cash equivalents, net of costs[4]				519
Less: cash and cash equivalents disposed				(10)
				509

(1) Includes £10 million relating to a corporate property.
(2) Includes £23 million of cash extracted from the business prior to disposal.
(3) Includes cash consideration of £496 million and £7 million of related disposal costs following the disposal of Ergotron and £31 million of proceeds from the sale of a corporate property.
(4) Includes cash consideration of £496 million and £8 million of related cash disposal costs following the disposal of Ergotron and £31 million of proceeds from the sale of a corporate property.

Notes to the Financial Statements
Continued

14. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2021	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
Additions	38	281	319
Acquisition of businesses(3)	1	–	1
Right-of-use asset reassessments	–	(1)	(1)
Disposals	(19)	(117)	(136)
Disposal of businesses(1)	(6)	–	(6)
Transfer to held for sale(2)	(49)	(20)	(69)
Exchange adjustments	61	263	324
At 31 December 2022	**1,169**	**3,128**	**4,297**
Accumulated depreciation and impairment			
At 1 January 2021	(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(4)	(40)	(69)	(109)
Exchange adjustments	2	44	46
At 31 December 2021	(300)	(1,037)	(1,337)
Charge for the year	(59)	(299)	(358)
Disposals	4	108	112
Disposal of businesses(1)	6	–	6
Transfer to held for sale(2)	27	15	42
Impairments(4)	(2)	(16)	(18)
Exchange adjustments	(6)	(139)	(145)
At 31 December 2022	**(330)**	**(1,368)**	**(1,698)**
Net book value			
At 31 December 2022	**839**	**1,760**	**2,599**
At 31 December 2021	843	1,685	2,528

(1) Disposal of businesses in 2022 relates to the sale of a non-core entity. 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 2022 relates to a corporate property and the Ergotron business (2021: Nortek Control business) which were subsequently disposed of during the second half of the year (note 1).
(3) Acquisition of businesses in 2022 relates to Permanova Lasersystem AB within the Aerospace segment (note 1).
(4) Includes £11 million (2021: £109 million) within restructuring costs and £7 million (2021: £nil) within impairment of assets both shown as adjusting items (note 6).

Assets under the course of construction at 31 December 2022 totalled £243 million (31 December 2021: £150 million).

The basis of testing for impaired assets, which resulted in a charge totalling £18 million, primarily used a fair value less costs to sell methodology which was classified as a level 3 fair value under the IFRS 13 fair value hierarchy. The largest impairment, in the Aerospace segment, at a site subject to restructuring activities, was derived by calculating the net present value from a discounted cash flow assessment, using a post-tax discount rate of 10.5%. The assets were deemed to have no further recoverable value.

14. Property, plant and equipment continued

Property, plant and equipment includes the net book value of right-of-use assets as follows:

Right-of-use asset	Land and buildings £m	Plant and equipment £m	Total £m
At 1 January 2021	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
Additions	19	19	38
Acquisition of businesses(3)	1	–	1
Right-of-use asset reassessments	–	(1)	(1)
Depreciation	(31)	(16)	(47)
Disposals	(2)	(3)	(5)
Transfer to held for sale(2)	(1)	(5)	(6)
Exchange adjustments	14	4	18
At 31 December 2022	**265**	**46**	**311**

(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 2022 relates to the Ergotron business (2021: Nortek Control business), which was subsequently disposed of during the second half of the year (note 1).
(3) Acquisition of businesses in 2022 relates to Permanova Lasersystem AB within the Aerospace segment (note 1).

15. Equity accounted investments

	31 December 2022 £m	31 December 2021 £m
Aggregated amounts relating to equity accounted investments:		
Share of current assets	**416**	403
Share of non-current assets	**322**	350
Share of current liabilities	**(289)**	(310)
Share of non-current liabilities	**(14)**	(14)
Interests in equity accounted investments	**435**	429

Group share of results from continuing operations	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Revenue	**654**	613
Operating costs	**(576)**	(547)
Adjusted operating profit	**78**	66
Adjusting items	**(22)**	(21)
Net finance income	**2**	2
Profit before tax	**58**	47
Tax	**(9)**	(9)
Share of results of equity accounted investments	**49**	38

Group share of equity accounted investments	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
At 1 January	**429**	430
Share of results of equity accounted investments	**49**	38
Additions	**3**	–
Dividends paid to the Group	**(59)**	(52)
Exchange adjustments	**13**	13
At 31 December	**435**	429

Notes to the Financial Statements
Continued

15. Equity accounted investments continued
Within the Group's share of equity accounted investments there is one significant joint venture, held within the Automotive segment, Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"). SDS had total sales in the year of £1,243 million (2021: £1,159 million), adjusted operating profit of £142 million (2021: £116 million), adjusting items of £44 million (2021: £41 million), statutory operating profit of £98 million (2021: £75 million), an interest credit of £4 million (2021: £4 million) and a tax charge of £18 million (2021: £16 million), leaving retained profit of £84 million (2021: £63 million).

Total net assets of SDS at 31 December 2022 were £786 million (31 December 2021: £790 million). These comprised non-current assets of £580 million (31 December 2021: £636 million), current assets of £715 million (31 December 2021: £668 million), current liabilities of £504 million (31 December 2021: £508 million) and non-current liabilities of £5 million (31 December 2021: £6 million). During 2022, SDS paid a dividend to the Group of £58 million (2021: £50 million). Further information about SDS can be found in note 3 to the Melrose Industries PLC Company Financial Statements.

16. Inventories

	31 December 2022 £m	31 December 2021 £m
Raw materials	**518**	413
Work in progress	**328**	280
Finished goods	**179**	200
	1,025	893

In 2022, the write down of inventories to net realisable value amounted to £59 million (2021: £93 million), of which £nil related to restructuring activities (2021: £8 million) and £2 million related to impairment of assets (2021: £nil) and are included within adjusting items (note 6). The reversal of write downs amounted to £55 million (2021: £77 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

Current	**31 December 2022 £m**	31 December 2021 £m
Trade receivables	**989**	847
Allowance for expected credit loss	**(20)**	(23)
Other receivables	**286**	200
Prepayments	**36**	40
Contract assets	**135**	120
	1,426	1,184

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

Non-current	**31 December 2022 £m**	31 December 2021 £m
Other receivables	**23**	32
Contract assets	**647**	491
	670	523

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 2022, 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 2021	12	11	5	–	13	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
Income Statement charge/(credit)	1	(3)	1	–	–	(1)
Utilised	(2)	–	–	–	–	(2)
Transfer to held for sale[3]	–	–	–	–	(2)	(2)
Exchange adjustments	1	–	1	–	–	2
At 31 December 2022	**7**	**6**	**7**	**–**	**–**	**20**

(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 2022 relates to the Ergotron business (2021: Nortek Control business), which was subsequently disposed of during the second half of the year (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 2022 £m	31 December 2021 £m
0 – 30 days	**4**	12
31 – 60 days	**–**	–
60+ days	**16**	11
	20	23

Included in the Group's trade receivables balance are overdue trade receivables with a gross carrying amount of £53 million (31 December 2021: £63 million) against which a provision of £20 million (31 December 2021: £23 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 £33 million (31 December 2021: £40 million) is as follows:

	31 December 2022 £m	31 December 2021 £m
0 – 30 days	**30**	27
31 – 60 days	**3**	11
60+ days	**–**	2
	33	40

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	Unbilled work done £m	Other £m	Total £m
At 1 January 2021	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
Additions	2	929	124	–	1,055
Utilised	(13)	(918)	(18)	(7)	(956)
Disposal of businesses(1)	–	(3)	–	–	(3)
Exchange adjustments	22	10	39	4	75
At 31 December 2022	**204**	**79**	**450**	**49**	**782**

(1) Disposal of businesses in 2022 relates to the disposal of a non-core entity.

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.

Unbilled work done
Unbilled work done only has a material impact on one entity in the Group, exclusively relating to certain RRSP arrangements in the Aerospace business.

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 unbilled work done 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 unbilled work done contract asset 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 unbilled work done, and the total contract revenue is allocated to the distinct performance obligations.

Unbilled work done 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, an unbilled work done contract asset has been recognised which will be satisfied through cash receipt during the aftermarket phase. The constraints applied to unbilled work done 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 2022 £m	31 December 2021 £m
Cash and cash equivalents	**355**	473

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

Current	31 December 2022 £m	31 December 2021 £m
Trade payables	**1,257**	1,016
Other payables	**375**	338
Customer advances and contract liabilities	**281**	263
Other taxes and social security	**73**	59
Government refundable advances	**7**	5
Funded development costs	**57**	84
Accruals	**279**	264
Deferred government grants	**18**	22
	2,347	2,051

As at 31 December 2022, and as described in note 25, included within trade payables were drawings on supplier finance facilities of £200 million (31 December 2021: £102 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 93 days (31 December 2021: 86 days).

Non-current	31 December 2022 £m	31 December 2021 £m
Other payables	**19**	12
Customer advances and contract liabilities	**213**	185
Other taxes and social security	**3**	6
Government refundable advances	**52**	50
Funded development costs	**89**	88
Accruals	**29**	27
Deferred government grants	**26**	22
	431	390

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 2023 and 2055 and the deferred government grants will be utilised over the next five years.

Funded development costs
When the Group is awarded design and development work as part of a related serial production of components contract, management assesses whether the two phases of work are distinct under IFRS 15: Revenue from contracts with customers.

Where it is considered there is only one performance obligation under the contract, being the delivery of manufactured product, any cash received from customers which contributes to 'funding' the up-front design and development expenditure incurred, is deferred on the Balance Sheet as an obligation and released to revenue in the Income Statement based on expectations of volumes.

Development cost funding is in the Aerospace division (£131 million) and Automotive division (£15 million).

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 £65 million, two to five years £50 million and over five years £98 million (31 December 2021: one to two years £22 million, two to five years £62 million and over five years £101 million).

The Group's Customer advances and contract liabilities comprise the following:

	31 December 2022 £m	31 December 2021 £m
Customer cash advances	**95**	92
Material rights given	**34**	48
RRSP related obligations	**365**	308
	494	448

Customer cash advances
There are a discrete number of contracts with customers, exclusively in the Aerospace business, where commercial terms lead to customer advances relating to serial production of components. Where cash is received in advance of performance, this usually addresses non-standard commercial impacts on the Group such as long lead times on inventory.

Customer cash advances received before the Group delivers product is deferred on the Balance Sheet as an obligation and released to revenue based on expectations of volumes.

19. Trade and other payables continued

Material rights given
Where the Group has agreed contracts with customers that contain any unusual pricing features, these are assessed to determine if material rights have been transferred to the customer. A material right could occur when there is a material step down in price or if contracts are modified with lump sum cash receipts offset by a reduction in future pricing.

If a material right has transferred to the customer, any cash received in advance of the Group performing its obligations under a contract is deferred on the Balance Sheet and released to revenue in the Income Statement based on the terms of the contract.

Material rights given are exclusively in the Aerospace business.

RRSP related obligations
As detailed in the accounting policies (note 2), significant estimates disclosure (note 3), revenue disclosures (note 4) and contract asset disclosure (note 17), the Group has certain RRSP arrangements in the Aerospace business, with more complex revenue recognition considerations. Whilst the Group has an unbilled work done contract asset of £450 million (31 December 2021: £305 million), detailed in note 17, which represents the Group having completed certain of its performance obligations in advance of cash receipt, it also has contract liabilities.

These include:

- Cash received for a “stand ready” obligation (described in note 4) of £91 million (31 December 2021: £92 million) to contribute to aftermarket activities of certain RRSPs, which typically results in the provision of services such as technical and other programme support activities over the whole life of the engine. This will be recognised over time in line with the engine manufacturer’s actual maintenance, repair and overhaul costs.
- A pricing rebate provision for estimated discounts provided by engine manufacturers on the sale of OE of £63 million (31 December 2021: £85 million).
- Cash received to compensate where the production cost incurred on an RRSP contract is in excess of the Group’s share of the programme, totalling £8 million (31 December 2021: £nil). This will be released to the Income Statement when the Group has satisfied its performance obligations.
- Cash received in respect of RRSP contract amendments of £61 million (31 December 2021: £33 million). This will be released over the life of the contract in accordance with the original terms of the contract.
- A provision for engineering and warranty commitments in respect of RRSP contracts of £27 million (31 December 2021: £26 million). This is expected to be utilised over the warranty terms of the contracts.
- Other contract liabilities of £115 million (31 December 2021: £72 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 2022 £m	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Floating rate obligations						
Bank borrowings – US Dollar loan	**–**	–	**759**	582	**759**	582
Bank borrowings – Sterling loan	**–**	–	**182**	30	**182**	30
Bank borrowings – Euro loan	**–**	–	**363**	–	**363**	–
Other loans and bank overdrafts	**63**	5	**–**	–	**63**	5
Fixed rate obligations						
2022 bond	**–**	450	**–**	–	**–**	450
2032 bond	**–**	–	**130**	300	**130**	300
	63	455	**1,434**	912	**1,497**	1,367
Unamortised finance costs	**–**	–	**(3)**	(13)	**(3)**	(13)
Non-cash acquisition fair value adjustment	**–**	7	**2**	4	**2**	11
Total interest-bearing loans and borrowings	**63**	462	**1,433**	903	**1,496**	1,365

The Group’s committed bank funding includes a multi-currency denominated term loan of £30 million (31 December 2021: £30 million) and US$788 million (31 December 2021: US$788 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 2022, the term loan was fully drawn and £152 million (31 December 2021: £nil), US$130 million (31 December 2021: £nil) and €410 million (31 December 2021: £nil) were drawn on the multi-currency revolving credit facility. Applying the exchange rates at 31 December 2022, the headroom equated to £2.6 billion (31 December 2021: £3.0 billion). There are also a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Group.

20. Interest-bearing loans and borrowings continued

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 2022 are contained in note 25.

The bank margin on the bank facility depends on the Group leverage, and ranges from 0.75% to 2.0% for both the term loan and revolving credit facility. As at 31 December 2022, the margin was 1.2% (31 December 2021: 0.75%).

The £450 million bond along with associated cross-currency swaps matured in 2022.

During the year, the Group undertook a tender to buy back the 2032 £300 million bond with £170 million repurchased and a cash outflow of £148 million. The Group has £130 million of the bond remaining which matures in 2032 on its existing terms.

Details of the remaining bond are in the table below:

Maturity date	Notional amount £m	Coupon % p.a.
May 2032	130	4.625%

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	131	3	1,918	2,052
In one to two years	1,358	–	60	1,418
In two to five years	18	–	15	33
After five years	160	–	25	185
Effect of financing rates	(171)	–	–	(171)
31 December 2022	**1,496**	**3**	**2,018**	**3,517**
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

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 2022	167	29	135	222	81	67	701
Utilised	(40)	–	(16)	(29)	(121)	(2)	(208)
Charge to operating profit(1)	–	2	16	48	130	10	206
Release to operating profit(2)	(15)	–	(21)	(50)	(11)	(2)	(99)
Disposal of businesses(3)	(9)	(5)	–	(2)	–	(2)	(18)
Transfer to held for sale(4)	–	–	(2)	(3)	–	–	(5)
Unwind of discount(5)	(3)	–	–	–	–	1	(2)
Exchange adjustments	8	2	7	14	4	1	36
31 December 2022	**108**	**28**	**119**	**200**	**83**	**73**	**611**
Current	40	4	61	98	67	11	281
Non-current	68	24	58	102	16	62	330
	108	**28**	**119**	**200**	**83**	**73**	**611**

(1) Includes £130 million of adjusting items and £76 million recognised in adjusted operating profit.
(2) Includes £30 million of adjusting items and £69 million recognised in adjusted operating profit.
(3) Disposal of businesses in 2022 relates to the sale of a non-core entity.
(4) Transfer to held for sale relates to the Ergotron business, which was subsequently disposed of during the second half of the year (note 1).
(5) Includes £2 million within finance costs relating to the time value of money and a £4 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).

21. Provisions continued

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. At 31 December 2022, the loss-making contracts provision within Aerospace totalled £62 million (31 December 2021: £98 million), Automotive £39 million (31 December 2021: £54 million) and Powder Metallurgy £7 million (31 December 2021: £15 million).

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 £40 million (2021: £48 million) has benefited adjusted operating profit with £23 million (2021: £23 million) recognised in Aerospace, £15 million (2021: £21 million) recognised in Automotive, £2 million (2021: £4 million) recognised in Powder Metallurgy. In addition, £15 million (2021: £22 million) has been released on a net basis with £11 million (2021: £22 million) shown as an adjusting item, as described in note 6, as part of the release of fair value items split; £4 million (2021: £4 million) in Aerospace, £nil (2021: £8 million) in Automotive and £7 million (2021: £10 milion) in Powder Metallurgy.

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
There are environmental provisions amounting to £26 million (31 December 2021: £26 million) relating 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 amounting to £93 million (31 December 2021: £109 million). 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, assess 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 four years.

Where appropriate, provisions have been discounted using discount rates between 0% and 14% (31 December 2021: 0% and 11%) 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 2021	180	(167)	(565)	(732)	(552)
Credit to income	149	41	48	89	238
Charge to equity	(90)	–	–	–	(90)
Disposal of businesses(1)	(53)	–	78	78	25
Transfer to held for sale(2)	(6)	–	24	24	18
Exchange adjustments	(18)	(3)	18	15	(3)
Movement in set off of assets and liabilities(3)	88	2	(90)	(88)	–
At 31 December 2021	250	(127)	(487)	(614)	(364)
Credit to income	35	3	111	114	149
Credit to equity	4	–	–	–	4
Disposal of businesses(1)	(10)	–	–	–	(10)
Acquisition of businesses(4)	–	(1)	–	(1)	(1)
Transfer to held for sale(2)	(9)	–	30	30	21
Exchange adjustments	44	(18)	(71)	(89)	(45)
Movement in set off of assets and liabilities(3)	59	(7)	(52)	(59)	–
At 31 December 2022	**373**	**(150)**	**(469)**	**(619)**	**(246)**

(1) Disposal of businesses in 2022 relates to the sale of a non-core entity. 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 2022 relates to the Ergotron business (2021: Nortek Control business), which was subsequently disposed of during the second half of the year (note 1).
(3) Set off of deferred tax assets and liabilities in accordance with IAS 12 within territories with a right of set off.
(4) Acquisition of businesses in 2022 relates to Permanova Lasersystem AB within the Aerospace segment (note 1).

As at 31 December 2022, the Group had gross unused corporate income tax losses of £2,176 million (31 December 2021: £1,841 million) available for offset against future profits. A deferred tax asset of £477 million (31 December 2021: £396 million) has been recognised in respect of £1,938 million (31 December 2021: £1,683 million) of these gross losses. The movement in deferred tax assets relating to tax losses arises primarily through the Income Statement. There is also a credit of £6 million (2021: £nil) included within equity. 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 £47 million (31 December 2021: £50 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 £14 million (31 December 2021: £33 million) and on other temporary differences at £318 million (31 December 2021: £313 million). The gross deferred tax assets therefore amount to £856 million (31 December 2021: £792 million).

Deferred tax liabilities have been recognised on intangible assets at £923 million (31 December 2021: £993 million) and accelerated capital allowances and other temporary differences at £179 million (31 December 2021: £163 million). The gross deferred tax liabilities therefore amount to £1,102 million (31 December 2021: £1,156 million).

There are no material unrecognised deferred tax assets at 31 December 2022 (31 December 2021: £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 £62 million (31 December 2021: £53 million) would be payable.

23. Share-based payments

2020 Employee Share Plan
During the year, the Group recognised a charge of £15 million (2021: £19 million) in respect of the 2020 Employee Share Plan, inclusive of a £1 million credit in respect of related national insurance (2021: charge of £3 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 125.

The estimated value of the 2020 Employee Share Plan at 31 December 2022 if settled at that date was £nil (31 December 2021: £nil). 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 £22 million (31 December 2021: £51 million). The projected value is impacted by future acquisition and disposal assumptions.

Notes to the Financial Statements
Continued

23. Share-based payments continued
The annual IFRS 2 charge 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 (2021: £68 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.

The most significant defined benefit pension plans in the Group at 31 December 2022 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 43% and 57% respectively as at 31 December 2022. 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 5 April 2022, updated to 31 December 2022 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 2022, updated to 31 December 2022 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 prior 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 ceased as a result and the Group now contributes £30 million per year into the GKN Group Pension Schemes (Numbers 1 – 4).

The Group contributed £59 million (2021: £128 million) to defined benefit pension plans and post-employment plans in the year ended 31 December 2022. The Group expects to contribute £51 million in 2023.

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 2022			
GKN Group Pension Schemes (Numbers 1 – 4)	**2.7**	**4.8**	**3.2/2.7**
GKN US plans	**n/a**	**5.0**	**n/a**
GKN Europe plans	**2.6**	**3.7**	**2.6/2.6**
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

24. Retirement benefit obligations continued
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 2021 Continuous Mortality Investigation ("CMI") core projection model (SK = 7.5, 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 6.1% 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 age 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	21.7	19.2	20.6
Female today	23.6	21.1	24.0
Male in 20 years' time	22.6	20.7	23.4
Female in 20 years' time	24.8	22.6	26.3

Balance Sheet disclosures
The amounts recognised in the Consolidated Balance Sheet in respect of defined benefit plans were as follows:

	31 December 2022 £m	31 December 2021 £m
Present value of funded defined benefit obligations	**(1,931)**	(2,848)
Fair value of plan assets	**1,941**	3,010
Funded status	**10**	162
Present value of unfunded defined benefit obligations	**(498)**	(623)
Net liabilities	**(488)**	(461)
Analysed as:		
Retirement benefit surplus[(1)]	**93**	184
Retirement benefit obligations	**(581)**	(645)
Net liabilities	**(488)**	(461)

(1) Retirement benefit surplus at 31 December 2021 was previously shown within other receivables.

The net retirement benefit obligation in continuing businesses is attributable to Aerospace: liability of £27 million (31 December 2021: asset of £67 million), Automotive: liability of £427 million (31 December 2021: £484 million), Powder Metallurgy: liability of £34 million (31 December 2021: £37 million) and Corporate: liability of £nil (31 December 2021: liability of £7 million).

The plan assets and liabilities at 31 December 2022 were as follows:

	UK Plans[(1)] £m	US Plans £m	European Plans £m	Other Plans £m	Total £m
Plan assets	1,779	120	20	22	**1,941**
Plan liabilities	(1,755)	(202)	(443)	(29)	**(2,429)**
Net assets/(liabilities)	24	(82)	(423)	(7)	**(488)**

(1) Includes a liability in respect of the GKN post-employment medical plans of £6 million and a net surplus in respect of the GKN Group Pension Scheme (Numbers 1 – 4) of £30 million.

24. Retirement benefit obligations continued

The major categories and fair values of plan assets at the end of the year for each category were as follows:

	31 December 2022 £m	31 December 2021 £m
Equities	**85**	141
Government bonds	**722**	1,420
Corporate bonds	**196**	459
Property	**18**	71
Insurance contracts	**28**	38
Multi-strategy/Diversified growth funds	**354**	424
Private equity	**80**	209
Other(1)	**458**	248
Total	**1,941**	3,010

(1) Primarily consists of cash collateral and liability driven investments.

The assets were well diversified and the majority of plan assets had quoted prices in active markets. All government 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 2022 £m	Year ended 31 December 2021 £m
At 1 January	**3,471**	4,613
Current service cost	**9**	8
Interest cost on obligations	**66**	59
Remeasurement gains – demographic	**(1)**	(14)
Remeasurement gains – financial	**(1,072)**	(162)
Remeasurement losses/(gains) – experience	**102**	(49)
Benefits paid out of plan assets	**(134)**	(186)
Benefits paid out of Group assets for unfunded plans	**(24)**	(16)
Settlements(1)	**(44)**	(366)
Disposal of businesses(2)	**–**	(379)
Exchange adjustments	**56**	(37)
At 31 December	**2,429**	3,471

(1) During 2022, a settlement gain of £2 million was recognised relating to the buy-out of certain US pension schemes and is shown as an adjusting item (note 6). During 2021, a settlement loss of £6 million was recognised relating to the buy-out of the GKN UK 2016 pension plan and was shown 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 defined benefit plan liabilities were 15% (31 December 2021: 23%) in respect of active plan participants, 25% (31 December 2021: 27%) in respect of deferred plan participants and 60% (31 December 2021: 50%) in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2022 was 12.8 years (31 December 2021: 17.7 years).

Movements in the fair value of plan assets during the year:

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
At 1 January	**3,010**	3,775
Interest income on plan assets	**61**	51
Return on plan assets, excluding interest income	**(1,003)**	72
Contributions	**35**	112
Benefits paid out of plan assets	**(134)**	(186)
Plan administrative costs	**(8)**	(7)
Settlements(1)	**(42)**	(372)
Disposal of businesses(2)	**–**	(432)
Exchange adjustments	**22**	(3)
At 31 December	**1,941**	3,010

(1) During 2022, a settlement gain of £2 million was recognised relating to the buy-out of certain US pension schemes and is shown as an adjusting item (note 6). During 2021, a settlement loss of £6 million was recognised relating to the buy-out of the GKN UK 2016 pension plan and was shown 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).

24. Retirement benefit obligations continued

The actual return on plan assets was a loss of £942 million (2021: gain of £123 million).

Income Statement disclosures

Amounts recognised in the Consolidated Income Statement in respect of these defined benefit plans were as follows:

Continuing operations	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Included within operating loss:		
– current service cost	**9**	8
– settlement (gains)/losses(1)	**(2)**	6
– plan administrative costs(2)	**8**	7
Included within net finance costs:		
– interest cost on defined benefit obligations	**66**	56
– interest income on plan assets	**(61)**	(48)

Discontinued operations	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Included within net finance costs:		
– interest cost on defined benefit obligations	**–**	3
– interest income on plan assets	**–**	(3)

(1) During 2022, a settlement gain of £2 million was recognised relating to the buy-out of certain US pension schemes and is shown as an adjusting item (note 6). During 2021, a settlement loss of £6 million was recognised relating to the buy-out of the GKN UK 2016 pension plan and was shown as an adjusting item (note 6).
(2) Includes £1 million of costs relating to the buy-out of the GKN UK 2016 Pension Plan in 2021. This was treated as an adjusting item (note 6).

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 2022 £m	Year ended 31 December 2021 £m
Return on plan assets, excluding interest income	**(1,003)**	72
Remeasurement gains arising from changes in demographic assumptions	**1**	14
Remeasurement gains arising from changes in financial assumptions	**1,072**	162
Remeasurement (losses)/gains arising from experience adjustments	**(102)**	49
Net remeasurement (loss)/gain on retirement benefit obligations	**(32)**	297

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	Increase by 0.5 ppts	142	(5)
	Decrease by 0.5 ppts	(156)	5
Inflation assumption(1)	Increase by 0.5 ppts	(90)	n/a
	Decrease by 0.5 ppts	91	n/a
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(99)	n/a
	Decrease by 1 year	100	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 2022 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 2022 and 31 December 2021:

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate £m	Discontinued Operations £m	Total £m
31 December 2022							
Financial assets							
Classified as amortised cost:							
Cash and cash equivalents	**–**	**–**	**–**	**–**	**355**	**–**	**355**
Net trade receivables	**458**	**365**	**145**	**1**	**–**	**–**	**969**
Classified as fair value:							
Investments	**52**	**–**	**–**	**10**	**–**	**–**	**62**
Derivative financial assets							
Foreign currency forward contracts	**–**	**1**	**–**	**–**	**61**	**–**	**62**
Embedded derivatives[1]	**12**	**–**	**–**	**–**	**–**	**–**	**12**
Financial liabilities							
Classified as amortised cost:							
Interest-bearing loans and borrowings	**–**	**–**	**–**	**–**	**(1,496)**	**–**	**(1,496)**
Government refundable advances	**(59)**	**–**	**–**	**–**	**–**	**–**	**(59)**
Lease obligations	**(199)**	**(100)**	**(59)**	**–**	**(8)**	**–**	**(366)**
Other financial liabilities	**(758)**	**(981)**	**(168)**	**(5)**	**(47)**	**–**	**(1,959)**
Classified as fair value:							
Derivative financial liabilities							
Foreign currency forward contracts	**–**	**(1)**	**–**	**–**	**(217)**	**–**	**(218)**
Interest rate swaps	**–**	**–**	**–**	**–**	**(3)**	**–**	**(3)**
Embedded derivatives[1]	**(6)**	**–**	**–**	**–**	**–**	**–**	**(6)**
31 December 2021 (restated)[2]							
Financial assets							
Classified as amortised cost:							
Cash and cash equivalents	–	–	–	–	473	–	473
Net trade receivables	393	274	123	1	–	33	824
Classified as fair value:							
Investments	77	–	–	10	–	–	87
Derivative financial assets							
Foreign currency forward contracts	–	–	–	–	58	1	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)	–	(9)	(1)	(376)
Other financial liabilities	(585)	(798)	(165)	–	(57)	(52)	(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)

(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 £1,805 million at 31 December 2021 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. During the year a cash outflow in those liabilities totalled £127 million as follows: net repayment of external debt and cross-currency swaps associated with debt of £75 million (note 27) and repayment of principal on lease obligations of £52 million (note 28). There is also an increase to liabilities arising from financing activities relating to non-cash items totalling £121 million comprising; an increase in external debt and cross-currency swaps associated with debt of £79 million due to changes in foreign exchange rates and other non-cash movements and an increase in respect of lease obligations of £42 million. As at 31 December 2022, liabilities arising from financing activities, as defined by IAS 7, totalled £1,799 million comprising; external debt of £1,433 million (excluding £63 million of bank overdrafts), cross currency swaps of £nil and lease obligations of £366 million.

25. Financial instruments and risk management continued

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.

Fair values

As at 31 December 2022, the £130 million (31 December 2021: £300 million) bond maturing in 2032 had a carrying value of £132 million (31 December 2021: £304 million) and a fair value of £110 million (31 December 2021: £321 million). At 31 December 2021, the £450 million bond which matured in 2022 had a carrying value of £457 million and a fair value of £462 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:

31 December 2022	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**
Cash and cash equivalents	355	–	355	(71)	**284**
Derivative financial assets	74	–	74	(62)	**12**
Financial assets subject to master netting arrangements	**429**	**–**	**429**	**(133)**	**296**
Interest-bearing loans and borrowings	(1,496)	–	(1,496)	(81)	**(1,577)**
Derivative financial liabilities	(227)	–	(227)	214	**(13)**
Financial liabilities subject to master netting arrangements	**(1,723)**	**–**	**(1,723)**	**133**	**(1,590)**

31 December 2021	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial assets/(liabilities) set off in the Balance Sheet £m	Net amounts of financial assets/(liabilities) presented in the Balance Sheet £m	Related amounts of financial instruments not set off in the Balance Sheet £m	Net amount £m
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)

Notes to the Financial Statements
Continued

25. Financial instruments and risk management continued

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern.

The capital structure of the Group as at 31 December 2022 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

The Group's committed bank facilities include a multi-currency denominated term loan of £30 million and US$788 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 2022, the term loan was fully drawn and there were drawings of US$130 million, £152 million and €410 million on the multi-currency revolving credit facility. Applying the exchange rates at 31 December 2022, the headroom equated to £2.6 billion (31 December 2021: £3.0 billion).

Cash, deposits and marketable securities amounted to £355 million at 31 December 2022 (31 December 2021: £473 million) and are offset to arrive at the Group net debt position of £1,139 million (31 December 2021: £950 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.

The net debt to adjusted EBITDA covenant test level is 3.75x at 31 December 2022 and 3.5x at 30 June 2023 onwards. At 31 December 2022, the Group net debt leverage was 1.4x.

The interest cover bank covenant test is set at 4.0x at 31 December 2022 onwards. At 31 December 2022, the Group interest cover was 11.6x, affording comfortable headroom.

Bonds

Capital market borrowings as at 31 December 2022, inherited as part of the GKN acquisition, consist of a £130 million bond maturing May 2032 following the tender during the year, see note 20 for further details. The £450 million bond matured in September 2022. Details of the bond outstanding at 31 December 2022 is shown in note 20.

Working capital

The Group has a small number of uncommitted working capital programmes that provide favourable financing terms on eligible customer receipts and competitive financing terms to suppliers on eligible supplier payments.

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 2022, the drawings on these facilities were £325 million (31 December 2021: £310 million), as a result there was a net cash increase in the year of £15 million (2021: reduction of £4 million). At 31 December 2022, the drawings within Aerospace were £138 million (31 December 2021: £114 million), Automotive £178 million (31 December 2021: £187 million) and Powder Metallurgy £9 million (31 December 2021: £9 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 £94 million (31 December 2021: £60 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 2022, total facilities were £328 million (31 December 2021: £321 million) with drawings of £200 million (31 December 2021: £102 million). The arrangements do not change the timing of the Group's cash outflows. At 31 December 2022, the drawings within Aerospace were £75 million (31 December 2021: £50 million) and Automotive £125 million (31 December 2021: £52 million).

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 2022 £m	31 December 2021 £m
Local borrowing:		
US Dollar	**759**	457
Euro	**363**	126
GKN cross-currency swaps:		
US Dollar	**–**	276
Euro	**–**	239

25. Financial instruments and risk management continued

The foreign exchange movement on the local borrowings, which is recorded in currency translation on net investments within Other Comprehensive Income, was a loss of £60 million (2021: gain of £13 million).

At 31 December 2021, Euro borrowings included 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. The foreign exchange movement on these cross-currency swaps, which was recorded in derivative gains/(losses) on hedge relationships within Other Comprehensive Income, was a gain of £19 million (2021: £15 million) and net cash receipts in the year totalled £18 million (2021: £7 million). There were no cross-currency swaps outstanding at 31 December 2022.

The foreign exchange movement on the GKN cross-currency swaps, which is recorded in derivative gains/(losses) on hedge relationships, was a loss of £62 million (2021: gain of £12 million).

Finance cost risk management

The bank margin on the bank facility depends on the Group leverage. 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 2022, the margin was 1.2% (31 December 2021: 0.75%) on both the term loan and revolving credit facility.

The policy of the Board is to fix up to approximately 70% of the interest rate exposure of the Group.

The interest rate swaps are designated as cash flow hedges and were highly effective throughout 2022. The fair value of the contracts as at 31 December 2022, was a net liability of £3 million (31 December 2021: £7 million). The movement of £4 million for the year ended 31 December 2022 (2021: charge of £80 million) comprised of a credit of £4 million (2021: £19 million) booked to derivatives gains/(losses) on hedge relationships in the year within Other Comprehensive Income, a £nil cash outflow (2021: £47 million) from cancelling interest rate swaps and a £nil (2021: £14 million) reduction in the interest accrual. During the year, a balance of £2 million retained in the cash flow hedge reserve following the cancellation of interest rate swaps in 2021 was recycled to finance costs in the Income Statement.

During the year ended 31 December 2022, 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 (2021: £nil).

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 2022 £m	Year ended 31 December 2021 £m
Sterling	**(2)**	–
US Dollar	**(5)**	(2)
Euro	**(2)**	(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 £nil (31 December 2021: £2 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. 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. For GKN Aerospace, the Group hedges beyond two years due to the longer term nature of some of its contracts, with the percentage of expected exposure hedged reducing for each subsequent year. 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.

Notes to the Financial Statements
Continued

25. Financial instruments and risk management continued

As at 31 December 2022, 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 2022 of £156 million (31 December 2021: £57 million). There were no contracts where hedge accounting was applied as at 31 December 2022 (31 December 2021: fair value asset of £1 million).

The change in fair value of foreign exchange forward contracts recognised in derivative gains/(losses) on hedging relationships within Other Comprehensive Income was £nil (2021: credit of £8 million) and a credit of £1 million (2021: £2 million) was reclassified to the Income Statement.

In respect of the cross-currency swaps designated as net investment hedges, for the year ended 31 December 2022, a credit of £5 million (2021: £4 million) was booked through the Income Statement in finance costs, of which a credit of £3 million (2021: £3 million) was treated as an adjusting item (note 6). The cross-currency swaps matured in the year and were designated in a net investment hedge accounting relationship against US Dollar and Euro net assets of certain subsidiaries. The hedged risk was the spot rate, which represented the significant component of the movement and therefore was recorded in the foreign currency translation reserve (note 26).

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 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Year ended 31 December 2022					
Foreign exchange forward contracts	**855**	**618**	**834**	**19**	**2,326**
Year ended 31 December 2021					
Foreign exchange forward contracts	1,051	479	715	28	2,273
Cross-currency swaps	666	–	–	–	666

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 (decrease)/increase 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 2022 £m	Year ended 31 December 2021 £m
US Dollar	**(11)**	2
Euro	**(3)**	7

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the balance sheet date, illustrating the 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 2022 £m	31 December 2021 £m
US Dollar	**(10)**	(5)
Euro	**(7)**	(10)

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 £77 million (2021: £74 million) and for the Euro, a decrease of £36 million (2021: £37 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:

	Average fixed rate		Notional principal		Fair value of assets/ (liabilities)	
Hedging Instruments	**31 December 2022 %**	31 December 2021 %	**31 December 2022 £m**	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Pay fixed, receive floating interest rate swaps						
Within one year	**2.24%**	2.24%	**260**	246	**(3)**	–
In one to two years	**–**	2.24%	**–**	246	**–**	(7)
Total					**(3)**	(7)
Pay fixed, receive fixed cross-currency swaps						
Within one year	**–**	4.85%	**–**	515	**–**	(68)
In one to two years	**–**	–	**–**	–	**–**	–
Total					**–**	(68)

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.

In response to the announcements, the Group has Sterling borrowings under SONIA and US Dollar borrowings continuing 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	$315 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 2022 £m	31 December 2021 £m
Non-current assets	**36**	47
Current assets	**38**	23
Current liabilities	**(86)**	(119)
Non-current liabilities	**(141)**	(79)

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.

Notes to the Financial Statements
Continued

25. Financial instruments and risk management continued

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 2022 £m	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Hedged items						
Floating rate borrowings – interest risk	**(4)**	(66)	**–**	4	**–**	2
Net assets of designated investments	**–**	6	**–**	53	**116**	–

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 £nil by 31 December 2022 (31 December 2021: £2 million).

26. Issued share capital and reserves

Share Capital	31 December 2022 £m	31 December 2021 £m
Allotted, called-up and fully paid		
4,054,425,961 (31 December 2021: 4,372,429,473) Ordinary Shares of 160/21 pence each(1)	**309**	333
	309	333

(1) During the year, a share buyback programme occurred where 318,003,512 shares were repurchased and subsequently cancelled (note 1).

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 2021	(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
Movements within other comprehensive income/(expense):				
Retranslation of net assets	–	–	665	665
Associated deferred tax	–	–	6	6
Foreign exchange differences on borrowings hedging net assets	–	–	(60)	(60)
Associated deferred tax	–	–	–	–
Change in fair value of derivatives designated in net investment hedges	–	–	(43)	(43)
Associated deferred tax	–	–	–	–
Change in fair value of derivatives designated in cash flow hedges	–	4	–	4
Associated deferred tax	–	(1)	–	(1)
Amounts reclassified to the Income Statement	10	6	(25)	(9)
At 31 December 2022	**–**	**–**	**638**	**638**

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 a credit of £11 million (2021: charge of £113 million) following the disposal of businesses.

27. Cash flow statement

	Notes	Year ended 31 December 2022 £m	Restated(1) Year ended 31 December 2021 £m
Reconciliation of operating loss to net cash from operating activities generated by continuing operations			
Operating loss		**(236)**	(493)
Adjusting items	6	**716**	810
Adjusted operating profit	6	**480**	317
Adjustments for:			
Depreciation of property, plant and equipment		**356**	370
Amortisation of computer software and development costs		**50**	51
Share of adjusted operating profit of equity accounted investments	15	**(78)**	(66)
Restructuring costs paid and movements in provisions		**(195)**	(233)
Defined benefit pension contributions paid(2)		**(59)**	(88)
Change in inventories		**(119)**	(14)
Change in receivables		**(268)**	89
Change in payables		**209**	–
Tax paid		**(80)**	(57)
Interest paid on loans and borrowings		**(87)**	(128)
Interest paid on lease obligations		**(12)**	(14)
Acquisition and disposal costs		**(10)**	(5)
Net cash from operating activities		**187**	222

(1) Restated for discontinued operations (note 1).
(2) The year ended 31 December 2021 includes £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.

Reconciliation of cash and cash equivalents, net of bank overdrafts	31 December 2022 £m	31 December 2021 £m
Cash and cash equivalents per Balance Sheet	**355**	473
Bank overdrafts included within current interest-bearing loans and borrowings (note 20)	**(63)**	(5)
Cash and cash equivalents, net of bank overdrafts per Statement of Cash Flows	**292**	468

Cash flow information relating to discontinued operations is as follows:

Cash flow from discontinued operations	Year ended 31 December 2022 £m	Restated(1) Year ended 31 December 2021 £m
Net cash from discontinued operations	**26**	133
Defined benefit pension contributions paid	**–**	(40)
Interest paid on lease obligations	**–**	(2)
Tax paid	**(9)**	(50)
Net cash from operating activities from discontinued operations(2)	**17**	41
Purchase of property, plant and equipment	**(1)**	(14)
Proceeds from disposal of property, plant and equipment	**–**	2
Purchase of computer software and capitalised development costs	**–**	(1)
Net cash used in investing activities from discontinued operations	**(1)**	(13)
Repayment of principal under lease obligations	**(1)**	(8)
Net cash used in financing activities from discontinued operations	**(1)**	(8)

(1) Restated for discontinued operations (note 1).
(2) The year ended 31 December 2021 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 2022 £m	31 December 2021 £m
Interest-bearing loans and borrowings – due within one year	**(63)**	(462)
Interest-bearing loans and borrowings – due after one year	**(1,433)**	(903)
External debt	**(1,496)**	(1,365)
Less:		
Cash and cash equivalents	**355**	473
	(1,141)	(892)
Adjustments:		
Impact of cross-currency swaps	**–**	(69)
Non-cash acquisition fair value adjustments	**2**	11
Net debt	**(1,139)**	(950)

The table below shows the key components of the movement in net debt:

	At 31 December 2021 £m	Cash flow £m	Acquisitions and disposals £m	Other non-cash movements £m	Effect of foreign exchange £m	At 31 December 2022 £m
External debt (excluding bank overdrafts)	(1,360)	(34)	–	21	(60)	**(1,433)**
Cross-currency swaps	(69)	109	–	3	(43)	**–**
Non-cash acquisition fair value adjustments	11	–	–	(9)	–	**2**
	(1,418)	75	–	15	(103)	**(1,431)**
Cash and cash equivalents, net of bank overdrafts	468	(664)	461	–	27	**292**
Net debt	(950)	(589)	461	15	(76)	**(1,139)**

28. Commitments

Amounts payable under lease obligations:

Minimum lease payments	31 December 2022 £m	31 December 2021 £m
Amounts payable:		
Within one year	**69**	64
After one year but within five years	**166**	166
Over five years	**209**	206
Less: future finance charges	**(78)**	(60)
Present value of lease obligations	**366**	376
Analysed as:		
Amounts due for settlement within one year	**60**	57
Amounts due for settlement after one year	**306**	319
Present value of lease obligations	**366**	376

It is the Group's policy to lease certain of its property, plant and equipment. The average lease term is 10 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 £171 million (31 December 2021: £242 million).

Notes to the Financial Statements
Continued

28. Commitments continued
The table below shows the key components in the movement in lease obligations.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
At 1 January	**376**	555
Additions	**38**	45
Interest charge	**9**	16
Reassessment of lease obligation	**(1)**	3
Payment of principal	**(52)**	(61)
Payment of interest	**(12)**	(16)
Disposals	**(5)**	(3)
Disposal of businesses(1)	**(3)**	(138)
Transfer to held for sale(2)	**(7)**	(13)
Exchange adjustments	**23**	(12)
At 31 December	**366**	376

(1) Disposal of businesses in 2022 relates to the disposal of a non-core entity. 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 2022 relates to the Ergotron business (2021: Nortek Control business), which was subsequently disposed of during the second half of the year (note 1).

Capital commitments
At 31 December 2022, there were commitments of £127 million (31 December 2021: £115 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 2022 totalled £17 million (2021: £21 million). Purchases by subsidiaries from equity accounted investments in the year ended 31 December 2022 totalled £8 million (2021: £10 million). At 31 December 2022, amounts receivable from equity accounted investments totalled £3 million (31 December 2021: £2 million) and amounts payable to equity accounted investments totalled £2 million (31 December 2021: £2 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 122 and 131.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Short-term employee benefits	**5**	5
Share-based payments	**10**	10
	15	15

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.

31. Post balance sheet events
Since the balance sheet date, the Board has approved the demerger of the Automotive, Powder Metallurgy and Hydrogen businesses ("the Demerger"). Whilst the Demerger remains subject to shareholder consent, the costs and expenses that are directly attributable to the Demerger are estimated to amount to £70 million. Approximately 75% of this is contingent on the Demerger taking place.

On 9 February 2023, the Trustees of GKN Group Pension Scheme 4 ("the Scheme"), sponsored by the Aerospace division, signed a contract to fully secure benefits for all members of the Scheme for a cash settlement of approximately £45 million. At 31 December 2022, the Scheme had total liabilities of £433 million (31 December 2021: £628 million) and an accounting surplus of £52 million (31 December 2021: £87 million).

Company Balance Sheet for Melrose Industries PLC

	Notes	31 December 2022 £m	31 December 2021 £m
Fixed assets			
Investment in subsidiaries	3	**10,591**	10,585
Debtors:			
Amounts falling due after one year	4	**487**	477
Creditors:			
Amounts falling due within one year	5	**(3,443)**	(2,842)
Net current liabilities		**(2,956)**	(2,365)
Total assets less current liabilities		**7,635**	8,220
Provisions	6	**(2)**	(3)
Net assets		**7,633**	8,217
Capital and reserves			
Issued share capital	7	**309**	333
Share premium account		**3,271**	3,271
Merger reserve		**109**	109
Capital redemption reserve		**753**	729
Retained earnings		**3,191**	3,775
Shareholders' funds		**7,633**	8,217

The Company reported a loss for the financial year ended 31 December 2022 of £19 million (2021: profit of £8 million).

The financial statements were approved by the Board of Directors on 2 March 2023 and were signed on its behalf by:

Geoffrey Martin
Group Finance Director

2 March 2023

Simon Peckham
Chief Executive

2 March 2023

Registered number: 09800044

Company Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Retained earnings £m	Shareholders' funds £m
At 1 January 2021	333	8,138	109	–	411	8,991
Profit for the year (note 2)	–	–	–	–	8	8
Total comprehensive income	–	–	–	–	8	8
Capital reduction(1)	–	(4,138)	–	–	4,138	–
Return of capital(1)	–	(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
Loss for the year (note 2)	–	–	–	–	(19)	(19)
Total comprehensive loss	–	–	–	–	(19)	(19)
Purchase of own shares(1)	(24)	–	–	24	(504)	(504)
Dividends paid	–	–	–	–	(77)	(77)
Equity-settled share-based payments	–	–	–	–	16	16
At 31 December 2022	**309**	**3,271**	**109**	**753**	**3,191**	**7,633**

(1) Further information is set out in note 1.

Refer to the Section 172 statement in the Strategic Report on pages 49 to 54 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 2 to 93.

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.

On 9 June 2022, the Group commenced a £500 million share buyback programme, which completed on 1 August 2022 with 318,003,512 shares repurchased and subsequently cancelled. Costs associated with the share buyback programme were £4 million. In 2021, following the disposals of Nortek Air Management and Brush, a return of capital of £729 million, alongside a court approved capital reduction of the Company's share premium account and a 9 for 10 share consolidation took place.

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 £2.6 billion at 31 December 2022 and sufficient headroom throughout the going concern forecast period. Forecast covenant compliance is considered further below.

None of the Group's banking facility matures in the going concern period following an extension agreed during 2021. The next contractual maturity is in June 2024 and whilst changes to banking arrangements are being considered following the announced intention to demerge GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen, these will only be enacted if the shareholders approve the demerger. As part of its preparation for the intended demerger, the Group has agreed revised banking documentation split between the demerger businesses and remaining business, which is comparable in nature with existing arrangements and would provide both businesses with sufficient liquidity albeit contingent on shareholder approval of the demerger.

Covenants

The current 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 2022	30 June 2023	31 December 2023
Net debt to adjusted EBITDA	**3.75x**	3.5x	3.5x
Interest cover	**4.0x**	4.0x	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 2023 and the first half of 2024. The sensitised assumptions are specific to each business taking into account their markets, but on average represents a c. 10% and c. 15% reduction to the Group's forecast revenue in each of 2023 and the first half of 2024 respectively. The sensitised revenues have had a consequential impact on profit and cash flow, along with a further downside sensitivity applied to increase working capital by approximately 2% of revenue. Given that there is liquidity headroom of £2.6 billion and the Group's leverage was 1.4x, comfortably below the covenant test at 31 December 2022, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, even with significant reductions, no covenant is breached at the forecast testing dates being 30 June 2023 and 31 December 2023, and the Group will not require any additional sources of finance. Testing at 30 June 2024 is also favourable, assuming arrangements similar in nature with existing agreements.

The Group has also considered the circumstance that the proposed demerger occurs in April 2023. Modelling of both a base case and a reasonably possible sensitised case has also been prepared for the remaining Group and due to revised banking documents having been formally agreed, consistent with the conclusion above, the Group will not require any additional sources of finance and no covenant is breached at the forecast testing dates being 30 June 2023 and 31 December 2023.

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.

1. Significant accounting policies continued

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.

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 loss for the financial year ended 31 December 2022 of £19 million (2021: profit of £8 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 119 to 144. There were no other employees of the Company in the year.

Notes to the Company Balance Sheet
Continued

3. Investment in subsidiaries

	£m
At 1 January 2022	10,585
Additions	6
At 31 December 2022	**10,591**

A £6 million investment from equity-settled share-based payments for subsidiaries is included as an addition to investments in subsidiaries at 31 December 2022. 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 2022, the market capitalisation of the Company of £5,453 million was below the carrying value of its investment (£10,591 million) net of intercompany positions (£2,995 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 2022:

	Equity interest %	Class of Share held
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
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
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(1)
Factory No.1, No. 2188 Zhongxi Road, Pinghu, Jiaxing, Zhejiang Province		
GKN HUAYU Driveline Systems (Pinghu) Co. Ltd	50	Registered investment(2)
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

3. Investment in subsidiaries continued

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
No. 3, Wanfugang Road, Jingjiang Economic and Technological Development Zone, Jingjiang City, Jiangsu Province, China		
Kaifei Aerospace Manufacturing Co., Ltd	40	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
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 Automotive Management SAS	100	Ordinary
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
Germany		
Brunhamstr. 21, 81249, Munich		
GKN Aerospace Deutschland GmbH	100	Ordinary
Carl-Legien-Strasse 10, 63073 Offenbach am Main		
GKN Automotive Management GmbH	100	Ordinary
GKN Driveline Deutschland GmbH	100	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 Powder Metallurgy Engineering GmbH	100	Ordinary
Pennefeldsweg 11-15, 53177, Bonn		
GKN Powder Metallurgy Holding GmbH	100	Ordinary
GKN Sinter Metals Components GmbH	100	Ordinary
GKN Hydrogen GmbH	100	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

Notes to the Company Balance Sheet
Continued

3. Investment in subsidiaries continued

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
GKN Hydrogen Italy Srl	100	Ordinary
GKN Hydrogen Srl	100	Ordinary
Japan		
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
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		
Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam		
Ridderkerk Property 1 BV	100	Ordinary
Aviolandalaan 37, 4631 RP, Hoogerheide		
Business Park Aviolanda B.V.	20	Ordinary
Markt 22, 3351 PB, Papendrecht		
Fabriek Slobbengors Beheer B.V.	49	Ordinary
Fabriek Slobbengors C.V.	49	Ordinary(3)
Hoofdkantoor Slobbengors Beheer B.V.	49	Ordinary
Kantoor Industrieweg C.V.	49	Ordinary(4)
Aviolandalaan 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

3. Investment in subsidiaries continued

Industrieweg 4, 3351 LB, Papendrecht		
Cooperative Delivery of Retrokits (CDR) V.O.F.	50	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 Aerospace B.V.	100	Ordinary
Fokker Aerostructures B.V.	100	Ordinary
Fokker (CDR) B.V.	100	Ordinary
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		
GKN Specialty Products Europe S.R.L.	100	Ordinary
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
Poligono 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
Kryptongatan 11, 431 53 Mölndal		
Permanova Lasersystem 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

Notes to the Company Balance Sheet
Continued

3. Investment in subsidiaries continued

Eastern Seaboard Industrial Estate, 64/9 Moo 4, Tambon Pluakdaeng, Amphur Pluakdaeng, Rayong 21140		
GKN Driveline (Thailand) Limited	100	Ordinary
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
Dowlais Automotive 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[(5)]
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
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

3. Investment in subsidiaries continued

GKN Westland Aerospace (Avonmouth) Limited	100	Ordinary
GKN Westland Aerospace Advanced Materials Limited	100	Ordinary and convertible preference
GKN Westland Aerospace Aviation Support Limited	100	Ordinary
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
Rigby Metal Components Limited	100	Ordinary
Rzeppa Limited	100	Ordinary and redeemable preference
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		
Dowlais Industries Limited	100	Ordinary
GKN Automotive Limited	100	Ordinary and preference
GKN Driveline 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
Rhodium Building Central Boulevard, Blythe Valley Park, Solihull, B90 8AS		
GKN Powder Metallurgy Holdings Limited	100	Ordinary
Unit 1, Cobnar Wood Close, Chesterfield Trading Estate, Chesterfield, Derbyshire, S41 9RQ		
GKN Cylinder Liners UK Limited	100	Ordinary
2nd Floor, Nova North, 11 Bressenden Place, London, SW1E 5BY		
Dowlais Group 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

Notes to the Company Balance Sheet
Continued

3. Investment in subsidiaries continued

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 9% directly with a total effective ownership of 34.5% in the company.
(2) The Group indirectly has a total effective ownership of 50% in the company.
(3) The Group owns 49% directly with a total effective ownership of 49.98% in the company.
(4) The Group owns 49% directly with a total effective ownership of 49.98% in the company.
(5) The Group has a direct interest in 100% of the issued ordinary share capital. The deferred shares are held by third parties.

4. Debtors

	31 December 2022 £m	31 December 2021 £m
Amounts falling due after one year:		
Amounts owed by Group undertakings	**446**	434
Deferred tax	**41**	43
	487	477

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 2022, the amount receivable of £446 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 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 2022 £m	31 December 2021 £m
Tax losses available for carry forward	**36**	36
Other timing differences	**5**	7
	41	43

The tax losses may be carried forward indefinitely.

5. Creditors

	31 December 2022 £m	31 December 2021 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	**3,441**	2,841
Accruals and other creditors	**2**	1
	3,443	2,842

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 2022	3
Credit to profit and loss account	(1)
At 31 December 2022	**2**

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 one year.

Notes to the Company Balance Sheet
Continued

7. Issued share capital

Share Capital	**31 December 2022 £m**	31 December 2021 £m
Allotted, called-up and fully paid		
4,054,425,961 (31 December 2021: 4,372,429,473) Ordinary Shares of 160/21 pence each[1]	**309**	333
	309	333

(1) During the year, a share buyback programme occurred where 318,003,512 shares were repurchased and subsequently cancelled.

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 ("EAIs"). This enables comparability between reporting periods.

Adjusted revenue	**Year ended 31 December 2022 £m**	Restated[1] Year ended 31 December 2021 £m
Revenue	**7,537**	6,650
Share of revenue of equity accounted investments (note 5)	**654**	613
Adjusted revenue	**8,191**	7,263

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 EAIs.

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.

Glossary
Continued

APM
Adjusted operating profit

Closest equivalent statutory measure
Operating loss[2]

Reconciling items to statutory measure
Adjusting items (note 6)

Definition and purpose
The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing 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.

Adjusted operating profit	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Operating loss	(236)	(493)
Adjusting items to operating loss (note 6)	716	810
Adjusted operating profit	**480**	317

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.

Adjusted profit before tax	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Loss before tax	(307)	(660)
Adjusting items to loss before tax (note 6)	691	854
Adjusted profit before tax	**384**	194

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.

Adjusted profit after tax	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Loss after tax	(223)	(480)
Adjusting items to loss after tax (note 6)	522	631
Adjusted profit after tax	**299**	151

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 2022 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 leverage 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 leverage covenant purposes is a measure used by external stakeholders to measure performance.

Adjusted EBITDA for leverage covenant purposes	Year ended 31 December 2022 £m	Year ended[5] 31 December 2021 £m
Adjusted operating profit	480	375
Depreciation of property, plant and equipment and amortisation of computer software and development costs	406	425
Imputed lease charge	(63)	(68)
Non-controlling interests	(5)	(4)
Other adjustments required for leverage covenant purposes[4]	(19)	(14)
Adjusted EBITDA for leverage covenant purposes	**799**	714

Melrose Industries PLC Annual Report 2022

Glossary
Continued

APM
Adjusted tax rate

Closest equivalent statutory measure
Effective tax rate

Reconciling items to statutory measure
Adjusting items, adjusting tax items and the tax impact of adjusting items (note 6 and note 8)

Definition and purpose
The income tax charge for the Group excluding adjusting tax items, and the tax impact of adjusting items, divided by adjusted profit before tax.

This measure is a useful indicator of the ongoing tax rate for the Group.

Adjusted tax rate	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Tax credit per Income Statement	**84**	180
Adjusted for:		
Tax impact of adjusting items	**(170)**	(176)
Tax impact of EAIs	**(9)**	(9)
Tax impact of significant legislative changes	**–**	(70)
Tax impact of significant restructuring	**10**	32
Adjusted tax charge	**(85)**	(43)
Adjusted profit before tax	**384**	194
Adjusted tax rate	**22.1%**	22.2%

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 adjusted EBITDA of businesses disposed) as a multiple of net interest payable on bank loans and overdrafts.

This measure is used for bank covenant testing.

Interest cover	Year ended 31 December 2022 £m	Year ended[6] 31 December 2021 £m
Adjusted EBITDA for leverage covenant purposes	**799**	714
Adjusted EBITDA from businesses disposed in the year	**36**	127
Adjusted EBITDA for interest cover	**835**	841
Interest on bank loans and overdrafts (note 7)	**(81)**	(138)
Interest receivable (note 7)	**9**	2
Other interest for covenant purposes[6]	**–**	(6)
Net finance charges for covenant purposes	**(72)**	(142)
Interest cover	**11.6x**	5.9x

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, 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.

Glossary
Continued

APM
Bank covenant definition of net debt at average rates and leverage

Closest equivalent statutory measure
Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments

Reconciling items to statutory measure
Impact of foreign exchange and adjustments for bank covenant purposes

Definition and purpose
Net debt (as above) is presented in the Balance Sheet translated at year end exchange rates.

For bank covenant testing purposes net debt is converted using average exchange rates for the previous 12 months.

Leverage is calculated as the bank covenant definition of net debt divided by adjusted EBITDA for leverage covenant purposes. This measure is used for bank covenant testing.

Net debt	31 December 2022 £m	31 December[5] 2021 £m
Net debt at closing rates (note 27)	1,139	950
Impact of foreign exchange	(27)	(3)
Bank covenant definition of net debt at average rates	1,112	947
Leverage	1.4x	1.3x

Cash Flow Measures

APM
Adjusted operating cash flow (pre-capex) and Adjusted operating cash flow (pre-capex) conversion

Closest equivalent statutory measure
Net cash from operating activities

Reconciling items to statutory measure
Non-working capital items (note 27)

Definition and purpose
Adjusted operating cash flow (pre-capex) is calculated as adjusted operating profit before depreciation and 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.

Adjusted operating cash flow (pre-capex)	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Net cash from operating activities	204	263
Operating activities:		
Net cash from operating activities from discontinued operations	(17)	(41)
Restructuring costs paid and movement in provisions[7]	155	185
Defined benefit pension contributions paid	59	88
Tax paid	80	57
Interest paid on loans and borrowings	87	128
Interest paid on lease obligations	12	14
Acquisition and disposal costs	10	5
Debt related:		
Repayment of principal under lease obligations	(51)	(53)
Adjusted operating cash flow (pre-capex)	539	646
Change in inventories	119	14
Change in receivables	268	(89)
Change in payables	(209)	–
	717	571
Adjusted operating cash flow (pre-capex) conversion	75%	113%

APM
Free cash flow

Closest equivalent statutory measure
Net increase/decrease in cash and cash equivalents (net of bank overdrafts)

Reconciling items to statutory measure
Acquisition and disposal related cash flows, dividends paid to owners of the parent, transactions in own shares, movements on borrowing facilities and the settlement of interest rate swaps

Definition and purpose
Free cash flow represents cash generated after all trading costs including restructuring, pension contributions, tax and interest payments.

Free cash flow	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Net (decrease)/increase in cash and cash equivalents (net of bank overdrafts)	(203)	308
Debt related:		
Repayment of borrowings	598	1,555
Drawings on borrowing facilities	(632)	–
Settlement of interest rate swaps	–	47
Equity related:		
Dividends paid to owners of the parent	77	69
Purchase of own shares, including associated costs	504	–
Return of capital	–	729
Acquisition and disposal related:		
Disposal of businesses, net of cash disposed	(478)	(2,703)
Equity accounted investments additions	3	–
Acquisition of subsidiaries, net of cash acquired	4	–
Purchase of investments	–	10
Acquisition and disposal costs and associated transaction taxes	10	5
Settlement of derivatives used in net investment hedging	109	–
Extraction tax paid and special pension contributions	–	105
Free cash flow	(8)	125

APM
Adjusted free cash flow

Closest equivalent statutory measure
Net increase/decrease in cash and cash equivalents (net of bank overdrafts)

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.

Adjusted free cash flow	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Free cash flow	(8)	125
Restructuring costs paid[8]	136	198
Adjusted free cash flow	128	323

Glossary
Continued

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 2021 remains aligned to the original calculations supporting the Group's bank debt compliance certificate and has not been restated for discontinued operations.
(6) Other interest for covenant purposes includes bank facility renegotiation fees and debt issue costs paid during the prior year and cash paid to settle interest rate swaps not included in finance costs.
(7) Excludes non-cash utilisation of loss-making contract provisions of £40 million (2021: £48 million).
(8) Includes restructuring costs of £nil (2021: £5 million) relating to operations discontinued in the year.

Notice of Annual General Meeting

The Annual General Meeting of Melrose Industries PLC (the "Company") will be held at 11.00 am on Thursday 8 June 2023 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 advisor 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 advisor.

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 8 June 2023 for the purposes set out below. Resolutions 1 to 16 (inclusive) will be proposed as ordinary resolutions and resolutions 17 to 21 (inclusive) as special resolutions.

Ordinary resolutions

1. To receive the Company's audited financial statements for the financial year ended 31 December 2022, together with the Directors' report, the Strategic Report and the Auditor's report on those financial statements.
2. To approve the Directors' Remuneration report for the year ended 31 December 2022, as set out on pages 119 to 144 of the Company's 2022 Annual Report.
3. To approve the 2023 Directors' Remuneration Policy, as set out on pages 135 to 144 of the Company's 2022 Annual Report.
4. To re-elect Christopher Miller as a Director of the Company.
5. To re-elect Simon Peckham as a Director of the Company.
6. To re-elect Geoffrey Martin as a Director of the Company.
7. To re-elect Peter Dilnot as a Director of the Company.
8. To re-elect Justin Dowley as a Director of the Company.
9. To re-elect David Lis as a Director of the Company.
10. To re-elect Charlotte Twyning as a Director of the Company.
11. To re-elect Funmi Adegoke as a Director of the Company.
12. To re-elect Heather Lawrence as a Director of the Company.
13. To re-elect Victoria Jarman as a Director of the Company.
14. 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.
15. To authorise the Audit Committee to determine the remuneration of the auditor of the Company.
16. 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"):

    (A) up to an aggregate nominal amount of £102,969,548; and

    (B) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £205,939,096 (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 a fully pre-emptive offer:

    (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

    (ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

    and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, such authorities to 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 2024, but, in each case, so that the Company may make offers or agreements before the authority expires which would or might require shares to be allotted or Rights to be granted after the authority expires, and so that the Directors may allot shares or grant Rights in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Special resolutions

17. That, subject to the passing of resolution 16, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authorities granted by resolution 16 and/or to sell ordinary shares held by the Company as treasury shares for cash, in each case as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

    (A) to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted under paragraph (B) of resolution 16, such power shall be limited to the allotment of equity securities in connection with a fully pre-emptive offer):

    (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

    (ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter;

    (B) to the allotment (otherwise than in circumstances set out in paragraph (A) of this resolution) of equity securities pursuant to the authority granted by paragraph (A) of resolution 16 or sale of treasury shares up to a nominal amount of £30,890,864; and

    (C) to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (A) or paragraph (B) of this resolution) up to a nominal amount equal to 20% of any allotment of equity securities or sale of treasury shares from time to time under paragraph (B) above, such authority to be used only for the purposes of making a follow-on offer which the Directors determine to be of a kind contemplated by paragraph 3 of Section 2B of 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 2024, 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

Notice of Annual General Meeting
Continued

treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this authority has expired.

18. That, subject to the passing of resolution 16 and in addition to any power granted under resolution 17, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authorities granted by resolution 16 and/or to sell ordinary shares held by the Company as treasury shares for cash, in each case as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be:

    (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 £30,890,864, such authority to be used only for the purposes of financing (or refinancing, if the authority is to be used within twelve 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; and

    (B) limited to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (A) of this resolution) up to a nominal amount equal to 20% of any allotment of equity securities or sale of treasury shares from time to time under paragraph (A) above, such authority to be used only for the purposes of making a follow-on offer which the Directors determine to be of a kind contemplated by paragraph 3 of Section 2B of 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 2024, 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 202,586,150;

    (B) the minimum price which may be paid for an ordinary share is the nominal value of an ordinary share at the time of such purchase;

    (C) the maximum price which may be paid for an ordinary share is not more than the higher of:

        (i) 105% of the average of the middle-market quotation for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased; and

        (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out, in each case, exclusive of expenses;

    (D) this authority shall expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2024;

    (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.

21. That the articles of association of the Company be and are amended by:

    (A) deleting the following defined terms from article 1(A):

        "2012 Incentive Shares" means 2012 Incentive Shares of £1 each in the capital of the Company;

        "Effective Date" means 8 a.m. on the date on which the ordinary shares of the Company are admitted to the Official List maintained by the United Kingdom Listing Authority and to trading on the main market for listed securities of the London Stock Exchange;

        "Melrose PLC" means Melrose PLC, company number: 4763064;

        "Melrose PLC 2012 Incentive Shares" means 2012 Incentive Shares of £1 each in the capital of Melrose PLC;

        "Old Melrose" means Melrose Industries PLC, company number: 8243706, to be renamed after the Effective Date and re-registered as a private limited company;

        "Old Melrose 2012 Incentive Shares" means 2012 Incentive Shares of £1 each in the capital of Old Melrose;

        "Old Scheme" means the scheme of arrangement under section 899 of the Act between Melrose PLC, Old Melrose and the holders of ordinary shares in Melrose PLC which was effective on 27 November 2012, pursuant to which Old Melrose became the holding company of Melrose PLC;

        "Scheme of Arrangement" means the proposed scheme of arrangement under section 899 of the Act between Old Melrose, the Company and holders of ordinary shares in Old Melrose pursuant to which the Company will become the holding company of Old Melrose;

    (B) deleting articles 6 to 9A (inclusive); and

    (C) inserting the following as article 125A:

        125A. Capitalisation of profits for an Employees' Share Scheme

            (A) Notwithstanding the provisions of Article 125, the Directors may, without the requirement for any further resolution of the Company or of the holders of any class of shares:

                (i) capitalise any sum standing to the credit of any of the Company's reserve accounts (including any share premium account, capital redemption reserve or any other reserve or fund (whether or not it is available for distribution)); and/or

                (ii) capitalise any sum standing to the credit of the profit and loss account that is not required for payment of any preferential dividend,

            and appropriate the sum to be capitalised to any one or more Employee Beneficiaries and apply that sum on any such Employee Beneficiary's behalf in or towards paying up in full unissued ordinary shares of a nominal amount equal to that sum, and to allot the shares to such Employee Beneficiary or as they may direct, pursuant to or in connection with an Employees' Share Scheme.

            (B) For the purposes of this Article 125A:

                (i) "Employee Beneficiary" means any beneficiary of an Employees' Share Scheme; and

                (ii) "Employees' Share Scheme" has the same meaning as in section 1166 of the Companies Act 2006.

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

Warren Fernandez
Company Secretary
25 April 2023

Registered Office:
11th Floor The Colmore Building
20 Colmore Circus Queensway
Birmingham
West Midlands
B4 6AT

Melrose Industries PLC Annual Report 2022

Notice of Annual General Meeting
Continued

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 21 (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 2022 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 "2022 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 three sections:

- the annual statement from the Chairman of the Remuneration Committee;
- the annual report on remuneration; and
- the new Directors' remuneration policy, which is the subject of resolution 3.

The annual statement from the Chairman of the Remuneration Committee, set out on pages 119 to 120 (inclusive) of the 2022 Annual Report, summarises, for the year ended 31 December 2022, 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 pages 121 to 134 (inclusive) of the 2022 Annual Report, provides details of the remuneration paid to Directors in respect of the year ended 31 December 2022, 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 Company's auditors for the financial year ended 31 December 2022, Deloitte LLP, have audited those parts of the Directors' Remuneration Report which are required to be audited and their report may be found on pages 146 to 155 of the 2022 Annual Report.

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 and will not affect the way in which the Directors' remuneration policy has been implemented.

Resolution 3 – Approval of 2023 Directors' remuneration policy
The new Directors' remuneration policy (the "2023 Directors' Remuneration Policy") is set out in full on pages 135 to 144 (inclusive) of the 2022 Annual Report. The annual statement from the Chairman of the Remuneration Committee, set out on pages 119 to 120 (inclusive) of the 2022 Annual Report, explains in more detail the background and rationale for the 2023 Directors' Remuneration Policy.

As noted in the 2023 Directors' Remuneration Policy, the 2023 Directors' Remuneration Policy will take effect immediately after the close of the AGM on 8 June 2023, subject to approval by shareholders. Payments will continue to be made to Directors and former Directors in line with existing arrangements until this date. Once the 2023 Directors' Remuneration Policy has taken effect, all payments by the Company to the Directors and any former Directors must be made in accordance with the 2023 Directors' Remuneration Policy (unless a payment has been separately approved by a shareholder resolution).

If the 2023 Directors' Remuneration Policy is approved and remains unchanged, it will be valid for three years without further shareholder approval. If the Company wishes to change the 2023 Directors' Remuneration Policy, it will need to put the revised policy to a vote again before it can be implemented. The Directors expect that the Company will next propose a resolution to approve a new Directors' remuneration policy at the annual general meeting to be held in 2026.

If the 2023 Directors' Remuneration Policy is not approved, the Company will, if and to the extent permitted by the Act, continue to make payments to Directors in accordance with existing arrangements and will seek shareholder approval for a revised policy as soon as is practicable.

Resolutions 4 to 13 (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.

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 the 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, in order to facilitate succession planning arrangements for the Board and the development of a diverse Board. A further and final extension of his tenure for an additional two years is being sought in order to provide certainty and stability through the completion of the demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen. 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 served as Chief Operating Officer since 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, Senior Independent 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. He was appointed to the role of the Senior Independent Director on 5 May 2022.
- Charlotte Twyning, Non-executive Director, is standing for re-election due to her diverse range of experience and commercial acumen having held numerous senior positions across various sectors, most recently in aviation, alongside her substantial board experience.
- Funmi Adegoke, Non-executive Director, is standing for re-election due to her diverse industrial knowledge, and significant transactional and commercial expertise gained from leadership roles in global multi-national organisations.
- Heather Lawrence, Non-executive Director, is standing for re-election due to her diverse range of experience across the industrials and transportation sectors, having extensive experience in corporate finance and investment banking, as well as having the necessary expertise required to perform the role of Chairman of the Audit Committee.
- Victoria Jarman, Non-executive Director, is standing for re-election due to her 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 of each Director standing for re-election can be found on pages 98 to 99 (inclusive) of the 2022 Annual Report. All of the Non-executive Directors standing for re-election are currently considered independent under the Code.

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 of the Company at which accounts are laid.

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 £102,969,548, being approximately one-third of the Company's issued ordinary share capital as at 24 April 2023 (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 fully pre-emptive offer up to an aggregate nominal amount of £205,939,096, representing approximately two-thirds of the Company's issued ordinary share capital as at 24 April 2023 (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 2024. 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
If the Directors wish to allot new shares or other equity securities or sell treasury shares for cash (other than in connection with an executive or employee share scheme), company law requires that these shares are offered first to shareholders in proportion to their existing holdings. The statutory pre-emption rights may be disapplied by shareholders.

The purpose of resolution 17 is to authorise the Directors to allot new shares and other equity securities of the Company or sell shares held in treasury for cash: (a) in connection with a fully pre-emptive offer, subject to any arrangements that the Directors consider appropriate to deal with fractions and overseas requirements; (b) otherwise than pursuant to (a) up to an aggregate nominal value of £30,890,864, without first making an offer under company law to existing shareholders in proportion to their existing holdings; and (c) otherwise than pursuant to (a) and (b), 20% of the amount referred to in (b) for the purposes of making a follow-on offer which the Directors determine to be of a kind contemplated by paragraph 3 of Section 2B of the Pre-Emption Group's Statement of Principles (the "Pre-Emption Group Principles"). The limit of £30,890,864 is equivalent to 10% of the total issued ordinary share capital of the Company (excluding treasury shares) as at 24 April 2023, being the latest practicable date prior to publication of this Notice.

Resolution 18 is being proposed as a separate resolution to authorise the Directors to allot additional shares and other equity securities or sell shares held in treasury for cash up to a maximum nominal value of £30,890,864 (representing a further 10% of the issued ordinary share capital of the Company (excluding treasury shares) as at 24 April 2023, being the latest practicable date prior to publication of this Notice) otherwise than in connection with a pre-emptive offer to existing shareholders (the "Acquisition/SCI Disapplication"). This authority is limited to allotments and sales for the purposes of financing acquisitions or specified capital investments contemplated by the Pre-Emption Group Principles (or refinancing any such acquisition or investment within twelve months after the original transaction). The Directors intend to use this authority only in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue or which has taken place in the preceding twelve-month period and is disclosed in the announcement of the issue. The resolution also disapplies pre-emption rights in relation to a further 20% of the amount subject to the Acquisition/SCI Disapplication for the purposes of making a follow-on offer which the Directors determine to be of a kind contemplated by paragraph 3 of Section 2B of the Pre-Emption Group Principles.

These disapplication authorities are in line with institutional shareholder guidance, in particular the Pre-Emption Group Principles. The Directors believe that it is appropriate to seek these authorities to give the Company the flexibility to raise further equity funding and to pursue acquisition opportunities as and when they arise, and to seek authority to make the follow-on offers so as to ensure that pre-emption is respected.

If approved, these powers 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 2024. 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 these powers and if ever used, the Directors intend to follow the shareholder protections and approach to follow-on offers as set out in Section 2B of the Pre-Emption Group Principles.

Melrose Industries PLC Annual Report 2022

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 202,586,150 ordinary shares, representing approximately 14.99% of the Company's issued ordinary share capital as at 24 April 2023 (being the last business day prior to the publication of this notice).

The approval sought at resolution 19 is an increase from the 10% authority approved by shareholders at prior year annual general meetings and is proposed to provide the Company with additional flexibility to implement its strategy of returning value to shareholders.

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 2024. 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.

Resolution 21 – Amendment of Articles of Association
This resolution seeks shareholder approval to amend the existing articles of association of the Company (the "Existing Articles"). The amendment removes articles 6 to 9A (inclusive) of the Existing Articles (along with certain related defined terms), which contain provisions relevant to the Incentive Shares (as defined in the Existing Articles) that were issued by the Company in connection with historic share plans. Since 2020, the Company has operated a contractual employee share plan (the "2020 Melrose Employee Share Plan" or "MESP") instead of an incentive plan pursuant to which Incentive Shares are issued. Consequently, no Incentive Shares have been issued under the MESP, nor does the Company have any present intention to issue any further Incentive Shares, so the articles relating to the Incentive Shares are no longer required.

In addition, this resolution seeks to insert a new article (article 125A) which allows the capitalisation of profits or reserves of the Company for the purposes of paying up the nominal value of new ordinary shares to be issued in satisfaction of awards granted under an employees' share scheme. The power for the board to capitalise profits or reserves of the Company is currently contained in article 6(L) of the Existing Articles, which was intended for the purposes of conversion of Incentive Shares into ordinary shares upon crystallisation of historic incentive plans. However, since the MESP is a contractual employee share plan instead of an incentive plan pursuant to which Incentive Shares are issued, article 125A seeks to grant the same power to the board to capitalise profits or reserves of the Company, but in order to allow the conversion of contractual awards under the MESP into ordinary shares upon crystallisation of the MESP (to the extent applicable).

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 6 June 2023 (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 24 April 2023 (being the last business day prior to the publication of this notice), the Company's issued ordinary share capital consists of 1,351,475,321 ordinary shares of 160/7 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 6 June 2023. 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 6 June 2023 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 6 June 2023.

Company and shareholder information

As at 31 December 2022, there were 16,714 holders of ordinary shares of 160/21 pence each in the Company. An analysis of these shareholdings as at 31 December 2022 is set out in the table below[(1)].

Shareholder analysis

Balance Ranges	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
1–5,000	13,476	80.63%	15,546,488	0.383%
5,001–50,000	2,426	14.51%	31,684,675	0.782%
50,001–500,000	448	2.68%	80,411,151	1.983%
Over 500,000	364	2.18%	3,926,783,647	96.852%
Total	**16,714**	**100.00%**	**4,054,425,961**	**100.000%**

Held by				
Individuals	15,400	92.14%	46,465,062	1.15%
Institutions	1,314	7.86%	4,007,960,899	98.85%
Total	**16,714**	**100.00%**	**4,054,425,961**	**100.00%**

Financial calendar 2023[(2)]

Ex-dividend date for second interim dividend	9 March 2023
Record date for second interim dividend	10 March 2023
Payment date of second interim dividend	18 April 2023[(3)]
Annual General Meeting	8 June 2023
Announcement of interim results	September 2023
Intended payment of interim dividend	October 2023
Preliminary announcement of 2023 results	March 2024

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25 Bank Street
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Legal Advisors
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CityPoint
One Ropemaker Street
London EC2Y 9HU

Bankers[(4)]
Banco Santander S.A., London Branch

Bank of America Europe Designated Activity Company

Bank of China Limited, London Branch

Barclays Bank plc

BNP Paribas Fortis SA/NV

Citibank, N.A., London Branch

Commerzbank Aktiengesellschaft, London Branch

Coöperatieve Rabobank U.A.

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

MUFG Bank, Ltd.

National Westminster Bank plc

Royal Bank of Canada

Skandinaviska Enskilda Banken AB (publ)

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.

(1) The Directors note that in connection with the demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (the "Demerger"), which completed on 20 April 2023, the Company effected a share consolidation on 19 April 2023, such that shareholders received one new share in the Company in exchange for every three existing shares in the Company held by them at the record time for the consolidation. To effect the share consolidation, it was necessary for the Company to issue two additional existing shares in the Company so that the number of the Company's existing shares was exactly divisible by three.
(2) As per the Company's announcement on 2 March 2023, recognising the timeline for the Demerger, the Board has determined to make a second interim dividend for 2022 in place of the final dividend, which will not be made.
(3) After the date of approval of the Annual Report and financial statements, the second interim dividend payment date was changed to 11 April 2023 in order to effect the Dividend Reinvestment Plan prior to completion of the proposed Demerger.
(4) As at completion of the Demerger on 20 April 2023.

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