

13 March 2018



Ms Rachel Reeves MP
Chair
Business, Energy and Industrial Strategy Select Committee
House of Commons
London
SW1A 0AA

Dear Ms Reeves

Thank you for the opportunity to appear before the Committee.

As I outlined during our session, GKN is an important British business. But, as a result of poor senior management over a number of years, it has lost its way.

We are ambitious for GKN's future and our goal is to return it to become an engineering and manufacturing powerhouse - competing on the world stage.

Following discussions with the Department for Business, Energy and Industrial Strategy and as I promised you and the Committee, I would like to provide you with further details on our ambition for the business, our intentions to agree formal post offer undertakings (where appropriate) and to give post offer intention statements in line with the Takeover Code.

Our track record shows Melrose is the right steward for GKN.

We are a British listed company. We buy good but underperforming manufacturing and engineering businesses and use our expertise to improve them to the benefit of all stakeholders: employees, customers, suppliers, pensioners and shareholders.

We invest in R&D. We invest in our people, in skills and training. We boost productivity. We have always improved the strength of our pension funds. We are British and work in the national interest.

Importantly, we are able to improve the businesses we own because we devolve management to operational teams who understand their businesses best. We work closely with them to set the right strategy, agree investment plans, provide funding and set clear incentives. It's this proven approach which we will apply at GKN with its strong operational management teams, and which we know will deliver success for all - employees, customers, suppliers, pensioners, shareholders and the wider UK economy.

As you know, The Takeover Code requires that post offer undertakings ("POUs") are specific and precise, objective, legally enforceable and in a form acceptable to the Takeover Panel. Intention statements need to be an accurate statement of intention at the time given and made on reasonable grounds.

Despite the lack of access to GKN and its businesses, as indicated to the Committee we are in a position to set out initial details about the areas we intend these POU's (in a form to be agreed with the Takeover Panel) and intention statements will cover. They include:

1. Returning GKN to be a British manufacturing powerhouse - competitive on the global stage.

Melrose is a UK listed company and is headquartered in the UK. We intend to undertake to maintain this together with a UK board of directors. We are a British management team and abide by UK law.

We intend that GKN Driveline and GKN Aerospace will keep the GKN brand name - a world famous name recognised as among the great British engineering companies.

We intend that the UK will continue to be the headquarters for a renewed global GKN, competing with first class engineering and technology on the world stage.

And, we intend to work with Government to explore opportunities to promote GKN, its customers and suppliers around the world.

2. Committed to innovation. Investing in skills, R&D and productivity to support the Industrial Strategy.

We are committed to innovation and have invested more than £230m in research and development (R&D), and a further £250m in capital expenditure and business improvement programmes across our businesses over the last five years.

Support for R&D is at the heart of how we invest for long-term success. GKN has disclosed that they have expensed R&D equal to 2.2% of sales between 2014-2016. We intend to maintain at least this level of investment in R&D at GKN.

In respect of GKN Driveline, we intend to continue to support the automotive sector deal between government and industry, within which GKN plays an important role. This will include continued efforts to ensure the UK remains at the forefront of low-carbon and electric vehicle technology.

We are equally committed to GKN Aerospace. As well as intending to continue to support the sector deal known as the Aerospace Growth Partnership, we also intend to continue to support the Wings of the Future programme and to partner with the Aerospace Technology Institute.

In addition, we are a British company and understand the need for a strong and skilled workforce to power the Industrial Strategy. Therefore, we intend to continue to support the development of advanced engineering, technology and manufacturing skills by maintaining investment in GKN's apprenticeship programme.

We intend to maintain a dedicated training team, alongside partnerships with colleges to provide specialist skills training for apprentices and graduates.

3. Working with suppliers and customers to boost Britain's industrial base and the wider economy.

GKN has a first-class customer and supplier base. We intend to work closely with OEMs, such as Airbus, BAE Systems and Rolls-Royce in the aerospace sector, and with businesses including Toyota, Land Rover, Honda and Nissan in the automotive sector, to seek further development of the UK's industrial base. This will help to generate inward investment and to boost the UK economy.

The deal is also not just about GKN but its supply chain too.

We intend to work with the many UK companies large and small in GKN's supply chain to drive productivity and deepen relationships. We intend to keep GKN listed as a signatory of the Prompt Payment Code.

Strengthening protections for GKN's pensioners.

Separately, and outside the POU regime, I am also today replying in detail by letter as promised to your request in respect of pensions. I will confirm, as we made clear to the Committee, we have been in constructive talks with the Trustees of GKN Pension Schemes.

We have always been a good steward of pension schemes, leaving them stronger than we found them in every business we have owned.

Following the acquisition of GKN, the enlarged Melrose group will be able to offer further protection to scheme members by adding c.£4bn of assets that GKN alone cannot.

We will invest £150m in the GKN's UK pension schemes within 12 months of acquisition. In addition, we will reverse GKN's decision to substantially decrease annual contributions. We will increase annual contributions from existing levels until the schemes are fully funded.

We are a highly successful listed British company with an exemplary record of responsible stewardship of the businesses we have owned. While we believe our track record is clear, we hope that our intention to make undertakings and post offer intention statements in the areas listed above gives you and the Committee reassurance that we mean what we say, and that we are prepared to commit to meaningful action.

We are happy to make these statements because they are an important part of returning GKN to be an engineering and manufacturing powerhouse, competing on the world stage. And, because they are an important part of securing the best outcomes for all - employees, customers, suppliers, pensioners, shareholders and the wider UK economy.

We will of course keep you updated as we engage with the Takeover Panel to seek to agree the undertakings.

Yours sincerely

A handwritten signature in black ink, appearing to be 'S Peckham', with a long horizontal line extending to the right.

Simon Peckham
Chief Executive
Melrose Industries PLC

cc: Chris Shaw, Clerk of the Business, Energy and Industrial Strategy Select Committee