



13 March 2018

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

Dear Ms Reeves

In addition to my letter to you today regarding our intention to make post offer undertakings and give post offer intention statements, I write regarding the Committee's request for clarification of Melrose's intentions with regard to protecting GKN's pensioners and voluntarily applying for Clearance from The Pensions Regulator ("TPR").

Melrose takes its responsibilities to pension schemes and their members very seriously.

While we have created over £5 billion of shareholder value since our flotation in 2003, this has never been at the expense of pension scheme members and never will be.

Melrose is an exemplary custodian of pension schemes. Every UK Defined Benefit pension scheme that we have taken ownership of has ended up better funded than when it joined the group. It is also important to note that, as well as being financially stronger, those schemes which have left the group have always been transferred to good homes (including Honeywell International Inc and the Ontario Teachers' Pension Plan).

We agree with the Committee that the proper process should be followed to provide a fair and enhanced package of measures to benefit the pension scheme members and, as TPR notes, this process should begin by negotiating with the Trustees to come to a mutually acceptable agreement.

This first step is ongoing and happening in a constructive manner with all parties keen to progress these discussions. We expect that an appropriate package of measures will be agreed and, once finalised, the Trustees should fully advise TPR of the agreed mitigation.

As stated by the Chief Executive of TPR in her letter of 5th March, TPR "*...would expect sufficient mitigation to be agreed with scheme trustees to ensure that a pension scheme is not placed in a worse position by any takeover.*" We wholeheartedly agree with this statement and it is on this basis that we are engaged in constructive discussions with the Chairmen of Trustees of the GKN Group Pension Scheme 2012 (the "2012 Scheme") and the GKN Group Pension Scheme 2016 (the "2016 Scheme") since our first meeting with them.

We are very aware of our obligations under the Takeover Code which prohibit us from including within this letter new information that would be relevant to shareholders' views, nor would it be fair on the Trustees to negotiate via the Committee.

Nevertheless, to give some indication of the strength of our proposals, I can describe in general terms the increased funding and support being discussed, all of which has been made known publicly:

- Will make an initial voluntary contribution of £150 million within the first 12 months, which does not require any action or agreement from the Trustees.
- GKN has substantially reduced its annual contributions to the schemes, despite the schemes not being fully funded. We intend to reverse this decision by increasing annual contributions to the schemes from existing levels until fully funded.
- We intend to have the strength of the enlarged Melrose group stand behind the GKN Pension schemes. On current market values this equates to a £10 billion market capital company supporting the schemes, as compared to the £5.6 billion market capitalisation of GKN prior to our approach.

The pension scheme liabilities were built up over many years as a promise by GKN to its workforce who were instrumental in building the world leading businesses that GKN own today. Sadly, partly as a result of broader mis-management of the business on the part of GKN's senior management team, the schemes have been allowed to fall into deficit.

In common with all other pension schemes we have managed, we intend to fully adopt and protect the GKN pension schemes within the Melrose Group. We recognise that the obligations to members are part and parcel of owning the GKN business and we are fully committed to honouring the company's promise to its pension scheme members in full.

Regarding our intention to apply for voluntary clearance, as outlined above the proper process is to agree a package of measures with the Trustees. We could not sensibly apply for clearance before we have an agreement with them.

Moreover, as a matter of principle, we do not seek any protection from the full power of the anti-avoidance rules available to the TPR.

Passing the voluntary TPR Clearance process confirms that TPR will not use its anti-avoidance powers to impose Contribution Notices or Financial Support Directions upon the company or related parties. We are not looking to avoid liabilities; quite the contrary – we are adopting these liabilities and will look after them. This is why we are negotiating a package of measures with GKN's Pensions Trustees which will improve the position of the pension scheme members.

I hope this letter provides clarity around our approach to securing the GKN pension fund to the benefit and protection of all its members.

Yours sincerely

A handwritten signature in black ink, consisting of a stylized 'S' followed by a 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
Frank Field, Chair, Work and Pensions Select Committee