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**FOR IMMEDIATE RELEASE**

15 February 2018

**Melrose Industries PLC (“Melrose”)**

**Statement regarding GKN plc (“GKN”) defence document**

The Board of Melrose notes the publication earlier today of GKN’s defence document. Nothing it contains changes Melrose’s view that the fundamental transformation in culture and approach needed to improve GKN is only possible with a change of control, new leadership and fresh thinking. Melrose notes that, in defining itself, GKN continues its fixation with sales performance at the expense of profit and cash.

Melrose will be writing to GKN shareholders in due course with its detailed response. In the meantime Melrose would like to correct some of the factual inaccuracies and misleading statements contained within GKN’s document:

*Value of Melrose’s offer*

- As at last night’s close, the Melrose offer values each GKN share at 410 pence, a premium of 26%. Since its approach nearly £1.5 billion of value has been added to GKN
- The maths behind Melrose’s offer is simple. Before Melrose’s approach GKN’s market capitalisation was £5.6 billion. Under the Melrose offer, GKN shareholders will own:
  - 57% of GKN, plus the uplift in value which the Melrose management believe can only be unlocked by Melrose; and
  - 57% of the existing Melrose Group, which is worth £4.3 billion today, plus the significant uplift in value which the Melrose management expect to create in those businesses; and
  - £1.4 billion in cash upfront
- Under the Melrose offer GKN shareholders will receive current value of over £7 billion

*Melrose operates a long term business model*

- Melrose does not have a “short term” business model. Melrose invests significantly in its businesses as if it was going to own them forever, regardless of where the businesses are in their respective improvement or ownership cycles. On average Melrose spends a third again of its original equity purchase price on capital expenditure and business improvement

*Melrose invests in R&D*

- GKN’s statement in its defence document that Melrose expenses only 1.4% of sales on R&D is factually wrong. The Melrose philosophy is to invest in research and development; at Elster and Nortek this has meant an R&D investment of approximately 4% of sales, fully expensed, over the last five years, equating to over £230 million. This is nearly double the 2.2% of sales that GKN has expensed over the period 2014 to 2016

*Leverage*

- Melrose employs prudent levels of leverage and maintains excellent working relationships with a wide range of lending banks. Melrose is committed to maintaining a strong balance sheet and targeting investment grade metrics. The bank financing package secured by Melrose to support the proposed acquisition of GKN is on investment grade terms, without the need for a rating

## *Pensions*

- Melrose agrees with the statement made by the Trustees today that discussions with Melrose have been constructive. Melrose has been an impeccable steward of pension schemes in the companies it has owned and is committed to looking after all stakeholders. Melrose has strengthened every single pension scheme it has acquired

## *Regulatory and government approvals*

- Melrose continues to believe that it will be able to obtain the relevant clearances within the parameters permitted by the City Code timetable. It nevertheless welcomes the flexibility from GKN regarding a possible extension to the City Code timetable should it be required

## **Christopher Miller, Chairman of Melrose, said today:**

*“Today’s document from GKN is another attempt to distract from the real issue. Quite simply, can a GKN board with a self-confessed record of underperformance be trusted to reinvent itself into an agent of fundamental cultural change? We firmly believe the GKN team cannot.*

*Melrose has demonstrated that it builds businesses to long term health. We invest almost double in percentage terms in expensed R&D than GKN does by itself. In addition, on average we spend fully a third of our original equity purchase price on capital expenditure and business improvement. We will not cut corners in making the necessary investment that we believe GKN’s businesses need. Nor will we indulge in a hasty fire-sale of the businesses the GKN board has identified as non-core.*

*We are a quoted British company which finances itself on investment grade terms. We are an impeccable custodian of pensions. We recognise the importance of all GKN stakeholders.*

*We believe shareholders will view today’s document as a sideshow and focus instead on the main issues of value creation and responsible ownership, in which Melrose excels.”*

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## **Sources of information and bases of calculation**

1. The current implied offer value per share of 410 pence per GKN share is calculated by multiplying the number of Melrose Shares to be received per GKN share held, being 1.49, by the closing price of a Melrose share on 14 February 2018 of 221.1 pence and adding the 81 pence per GKN share to be received in cash.
2. The premium calculation to the price per GKN Share has been calculated by reference to the closing price on 5 January 2018 (being the last Business Day before the approach made by Melrose to the GKN Board in connection with the Acquisition) of 326.3 pence in respect of a GKN Share.
3. The GKN value uplift of nearly £1.5 billion is based on the difference between the current implied offer value of 410 pence and the closing GKN share price of 326.3 pence on 5 January 2018 (being the last business day prior to the approach made by Melrose to the GKN Board in connection with the Acquisition), using basic shares outstanding (excluding shares held in Treasury) of 1,717,608,829 as announced by GKN on 13 February 2018.
4. The current value which GKN shareholders will receive of over £7 billion is based on the implied offer value of 410 pence using basic shares outstanding (excluding shares held in Treasury) of 1,717,608,829 as announced by GKN on 13 February 2018.
5. GKN's market capitalisation of £5.6 billion based on GKN's closing share price of 326.3 pence on 5 January 2018 (being the last business day prior to the approach made by Melrose to the GKN Board in connection with the Acquisition), multiplied by the number of GKN shares outstanding (excluding shares held in Treasury) of 1,717,608,829 as announced by GKN on 13 February 2018.
6. Melrose's market capitalisation of £4.3 billion is based on Melrose's closing share price of 221.1 pence (being the closing price on 14 February 2018), multiplied by the number of Melrose shares outstanding of 1,941,200,503.

## **Important notice**

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**Rule 26.1 disclosure**

In accordance with Rule 26.1 of the Code, a copy of this announcement will be available at [www.melroseplc.net](http://www.melroseplc.net) by no later than 12 noon (London time) on the business day following this announcement.

The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

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