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**1 April 2019**

## **Melrose Industries PLC**

### **Post-offer undertakings in relation to the acquisition of GKN plc (“GKN”) by Melrose Industries PLC (“Melrose”) - report in compliance with Rule 19.5(h) of the Takeover Code**

#### **BACKGROUND**

In relation to the acquisition of GKN by Melrose on 19 April 2018 (the “**Effective Date**”), Melrose has given post-offer undertakings under Rule 19.5 of the Takeover Code (each a “**Post-Offer Undertaking**” and together the “**Post-Offer Undertakings**”), full details of which were set out in an RIS announcement dated 28 March 2018, a copy of which is attached to this report as Appendix A.

Pursuant to Rule 19.5(e) of the Takeover Code, Melrose must comply with the terms of the Post-Offer Undertakings for the periods of time specified in the Post-Offer Undertakings and must complete any course of action committed to by the dates specified in the Post-Offer Undertakings.

This report is provided in accordance with Rule 19.5(h) of the Takeover Code, pursuant to which Melrose must submit written reports to the Panel at such intervals (of not more than 12 months) as the Panel may require in relation to its compliance with the Post-Offer Undertakings.

Unless otherwise defined in this report, capitalised terms in this report shall have the same meanings given to them in the Post-Offer Undertakings.

#### **SUBMISSION**

1. Throughout the period from the Effective Date until 31 December 2018:
  - (a) Melrose maintained the Melrose Group headquarters in the UK by Melrose occupying a designated area in one or more buildings in the UK, one of which buildings was publicly designated as the Melrose Group headquarters and was the registered office of Melrose;
  - (b) the Melrose Shares remained listed on the Official List maintained by the UKLA and admitted to trading on the London Stock Exchange’s main market for listed securities;
  - (c) no director was appointed or reappointed, or recommended to be appointed or reappointed, to the Melrose Board such that following such appointment or reappointment a majority of the Melrose Directors was not resident in the UK; and

- (d) the GKN Aerospace businesses and the GKN Driveline businesses retained the same rights (if any) which they had as at 26 March 2018 (and which they continued to have as at the Effective Date) to use the GKN Trade Marks.
- 2. From the Effective Date until 31 December 2018, Melrose did not:
  - (a) undertake a reorganisation of the Melrose Group the effect of which was for Melrose to be absorbed into another entity or otherwise cease to exist as a legal entity; or
  - (b) insert any entity above Melrose as a holding company of the Melrose Group.
- 3. This report is submitted to the Panel in accordance with Rule 19.5(h) of the Takeover Code and has been approved by the board of directors of Melrose.

## APPENDIX A – POST-OFFER UNDERTAKINGS

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**THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION**

**FOR IMMEDIATE RELEASE**

28 March 2018

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

#### **Final Offer for GKN plc (“GKN”) – Adoption of Post-Offer Undertakings**

Further to the announcement made by Melrose on 27 March 2018 confirming that it had reached agreement with the Panel in respect of the form of certain legally binding post-offer undertakings in connection with its Final Offer for GKN, Melrose is today pleased to announce the full terms and detailed mechanics of the post-offer undertakings agreed with the Panel.

#### **Post-Offer Undertakings**

Melrose makes the following post-offer undertakings pursuant to Rule 19.5 of the City Code, subject to the qualifications and conditions set out below (each of the post-offer undertakings in paragraphs 1(a), 1(b), 1(c), 1(d), 2(a), 2(b), 3(a) and 3(b) being a “**Post-Offer Undertaking**” and, together, the “**Post-Offer Undertakings**”).

1. Melrose undertakes that throughout the period of five years from the Effective Date (the “**Undertaking Period**”):
  - (a) Melrose will maintain the Melrose Group headquarters in the UK by Melrose occupying a designated area in one or more buildings in the UK, one of which buildings is publicly designated as the Melrose Group headquarters and is the registered office of Melrose;
  - (b) the Melrose Shares will remain listed on the Official List maintained by the UKLA and admitted to trading on the London Stock Exchange’s main market for listed securities;
  - (c) no director will be appointed or reappointed, or recommended to be appointed or reappointed, to the Melrose Board if following such appointment or reappointment a majority of the Melrose Directors would not be resident in the UK; and
  - (d) the GKN Aerospace businesses and the GKN Driveline businesses will retain the same rights (if any) which they have as at 26 March 2018 (and which they continue to have as at the Effective Date) to use the GKN Trade Marks.
2. Melrose undertakes that:
  - (a) subject to paragraph 2(b) below, it will procure that the expensed research and development spend of the GKN Group during the period from 1 January 2019 to 31 December 2023 will be at least 2.2 per cent. of the aggregate of GKN Group sales<sup>(1)</sup> for the financial years ending 31 December 2019, 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023; and
  - (b) in the event that the expensed research and development spend of the GKN Group during the period from 1 January 2019 to 31 December 2023 is not at least 2.2 per cent. of the aggregate of GKN Group sales for the financial years ending 31 December 2019, 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023,

Melrose will procure that the amount of any shortfall shall be spent by the GKN Group as expensed research and development spend by 30 June 2024.

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- (1) Note that GKN Group sales are calculated by reference to the GKN Group from time to time. Accordingly, since the Post-Offer Undertakings contain no restrictions on acquiring businesses into or selling businesses out of the GKN Group during the period of the Post-Offer Undertakings, GKN Group sales may go up or down as a result.
3. Melrose undertakes that during the Undertaking Period it will not:
- (a) undertake a reorganisation of the Melrose Group the effect of which is for Melrose to be absorbed into another entity or otherwise cease to exist as a legal entity; or
  - (b) insert an entity ("**Newco**") above Melrose as a holding company of the Melrose Group unless:
    - (i) Newco is a company incorporated and registered in England and Wales;
    - (ii) the nature of the arrangements for the insertion of Newco are such as to permit the giving of undertakings pursuant to Rule 19.5 of the City Code;
    - (iii) Melrose has procured that Newco has given post-offer undertakings pursuant to Rule 19.5 of the City Code (the "**Newco Undertakings**") in the same terms as, and for the remainder of the respective periods of, the Post-Offer Undertakings at paragraphs 1(a), 1(b), 1(c), 1(d), 2(a), 2(b) and this paragraph 3 (in its entirety) but with references throughout to Melrose replaced by references to Newco (and with any other consequential changes to which the Panel has given prior written consent); and
    - (iv) Newco has entered into reporting and monitoring arrangements relating to the Newco Undertakings in a form satisfactory to the Panel.

For the avoidance of doubt, in the event that a Newco is inserted in compliance with the Post-Offer Undertaking in paragraph 3(b), Melrose will continue to be bound by the Post-Offer Undertakings in paragraphs 1(a), 1(c), 1(d), 2(a), 2(b) and this paragraph 3 (in its entirety).

## **Qualifications and Conditions**

### **All Post-Offer Undertakings**

Subject to consulting the Panel in advance and obtaining the Panel's consent to rely on such qualifications or conditions pursuant to Rule 19.5(f) of the City Code, each of the Post-Offer Undertakings will no longer apply where the Panel determines that Melrose is unable to comply with the relevant Post-Offer Undertaking as a result of an event, act or circumstance beyond Melrose's control.

### **Post-Offer Undertaking 1(b): Melrose Listing**

Subject to consulting the Panel in advance and obtaining the Panel's consent to rely on such qualifications or conditions pursuant to Rule 19.5(f) of the City Code, Melrose will not be in breach of the Post-Offer Undertaking in paragraph 1(b) above if the Melrose Shares cease to remain listed on the Official List and/or admitted to trading on the London Stock Exchange's main market for listed securities as a result of:

- (i) the approval by Melrose Shareholders of a resolution to delist the Melrose Shares, which resolution has not been proposed or recommended by the Melrose Board or any Melrose Director;

- (ii) the UKLA otherwise delists the Melrose Shares, save where the delisting results from the acts or omissions of Melrose, any Melrose Director or any officer of Melrose;
- (iii) an offer by a Third Party Offeror for the entire issued and to be issued share capital of Melrose becomes wholly unconditional or a scheme of arrangement to effect the acquisition of the entire issued and to be issued share capital of Melrose by a Third Party Offeror becomes effective; or
- (iv) the insertion of a Newco above Melrose in compliance with the Post-Offer Undertaking in paragraph 3(b) above.

### **Post-Offer Undertaking 1(c): Melrose Board**

Subject to consulting the Panel in advance and obtaining the Panel's consent to rely on such qualifications or conditions pursuant to Rule 19.5(f) of the City Code, Melrose will not be in breach of the Post-Offer Undertaking in paragraph 1(c) above if an appointment or reappointment to the Melrose Board of one or more directors who are not resident in the UK is made as a result of a resolution proposed by one or more Melrose Shareholders (other than Melrose Directors) to appoint or reappoint directors to the Melrose Board, provided such appointments are not recommended by, proposed by, or at the request of the Melrose Board or any Melrose Director.

### **Definitions**

The following definitions apply for the purposes of the Post-Offer Undertakings. Words and expressions not defined in this announcement shall have the meaning given to them in the offer document published by Melrose on 1 February 2018, as amended by the final offer document published by Melrose on 13 March 2018.

**expensed research and development spend** means expenditure on Research and Development (as each term is defined pursuant to IAS 38: Intangible Assets as at 31 December 2017) which is charged to the income statement in accordance with GKN's IAS accounting policies and accounting practices in force as at 31 December 2017;

**GKN Aerospace businesses** means each of the businesses and companies comprising the GKN Aerospace business including, as announced by GKN on 14 February 2018 in its 'Project Boost' announcement, all of the businesses and companies comprising Speciality Aerostructures, Aero Aftermarket, Aero Specialist Positions, Aero Engines, Aero Additive Manufacturing, US Standard Aerostructures, Fuel and Flotation Tanks and Engine and Aircraft Servicing, together with GKN Group's interest in SABCA, in each case as at the Effective Date;

**GKN Driveline businesses** means each of the businesses and companies comprising the GKN Driveline business including, as announced by GKN on 14 February 2018 in its 'Project Boost' announcement, all of the businesses and companies comprising the Driveshafts, All-Wheel Drive, Driveline China and eDrive Systems, Wheels, Cylinder Liners and Off-Highway Powertrain divisions of GKN Driveline, in each case as at the Effective Date;

**GKN Group** means (i) GKN and its subsidiaries and subsidiary undertakings and each of their businesses from time to time, together with (ii) each of GKN and its subsidiaries and subsidiary undertakings and each of their businesses as at the Effective Date, which, from time to time, are in the Melrose Group;

**GKN Group sales** means revenues generated by the GKN Group as recognised in accordance with IFRS and as determined in accordance with GKN's IAS accounting policies and accounting practices in force as at 31 December 2017;

**GKN Trade Marks** means all trade marks, registered and unregistered, in the term "GKN";

**Melrose Shares** means the ordinary shares of 48/7 pence each in the capital of Melrose or such ordinary shares as Melrose may have in issue from time to time;

**SABCA** means *Société Anonyme Belge de Constructions Aéronautiques*;

**resident** means, in respect of an individual, that their principal private residence is in the UK, and that they perform the majority of their role and duties as a director whilst located in the UK; and

**Third Party Offeror** means any person other than (i) a member of the Melrose Group and (ii) any person acting in concert with Melrose or a Melrose Director.

#### **Further Information regarding the Post-Offer Undertakings**

The Post-Offer Undertakings set out in this announcement are in a form acceptable to the Panel, are legally binding commitments and, should the Final Offer become wholly unconditional, Melrose must comply with the terms of each Post-Offer Undertaking and complete any courses of action committed to within the relevant time periods set out.

Melrose has appointed RSM Corporate Finance LLP (the “**Supervisor**”) to monitor its compliance with the Post-Offer Undertakings. In respect of its appointment, the Supervisor has agreed a work-plan with the Panel in order to monitor the compliance of Melrose with the Post-Offer Undertakings.

Melrose and the Supervisor will be required to submit periodic reports to the Panel, in accordance with the provisions of Rule 19.5(h) and (i) of the City Code, in respect of the Post-Offer Undertakings.