

# Investing in our businesses to drive ESG excellence

**Our ESG purpose and values:** Melrose empowers its businesses to unlock their full potential for the collective benefit of stakeholders, whilst providing shareholders with a superior return on their investment. This is delivered through our “Buy, Improve, Sell” strategy, through which we acquire good quality manufacturing businesses that are underperforming their potential, and invest heavily to improve performance and productivity as they become stronger, better businesses under our responsible stewardship.

Consistent with our “Buy, Improve, Sell” strategy, some of the businesses we acquire may be underdeveloped in one or more areas of ESG focus. As a key part of the “Improve” limb, whilst under our ownership, we look to empower and resource our businesses to improve their environmental, social and governance performance, to enable them to make better contributions to industry, society and the environment for the long-term.

The successful execution of our strategy is underpinned by our focus on conducting business with the highest standards of integrity, honesty, and transparency.

We welcome the evolving focus and clarity on ESG matters as another opportunity to demonstrate how we build better, stronger businesses for the collective benefit of stakeholders, whilst producing excellent returns for shareholders.

**The Melrose opportunity:** We set the example for our manufacturing businesses and empower them to follow. We provide the investment, support and encouragement to improve management practices that seek to promote long-term growth and prosperity, whilst addressing ESG underperformance.

**Our approach to driving positive ESG contributions:** We implement our strategy on an accelerated timetable during our ownership period. We operate a decentralised management structure, so that responsibility for implementing the right

measures to improve ESG performance sits with those who are best placed to be most effective in achieving our businesses’ ESG goals and aligned with what is most relevant to their specific markets and operating environments. We support the executive management teams of our businesses by providing better-targeted investment with a long-term view. We streamline group structures to ensure responsive, lean management and proactive leadership, and enhance research and development to better serve customers in achieving their commercial and environmental objectives. We encourage our businesses to work with suppliers to strengthen supply chain resilience, and implement stronger governance standards to respect their employees and meet environmental standards, whilst ingraining strict financial prudence across our businesses to enable them to build and sustain the resources required to deliver stronger financial, operational and ESG performance over the long-term.

**The Melrose ESG improvement model is founded upon the following key objectives and principles:**

Our ESG objectives	Our ESG improvement principles
<p><b>1</b></p> <p><b>Respect and protect the environment</b></p>	<ul style="list-style-type: none"> <li>Invest in research and development to support and harness product innovation and quality for our businesses, to help their customers deliver on their commercial and environmental goals and to help find effective solutions to assist them in combatting climate change.</li> <li>Drive divisional management teams to improve their operational, resource and energy efficiency to minimise the impact of their businesses’ operations on the environment, including Greenhouse gas emissions and water usage.</li> </ul> <p>Improve Sell</p>
<p><b>2</b></p> <p><b>Purposefully engage with key stakeholders to better understand and deliver on their expectations</b></p>	<ul style="list-style-type: none"> <li>Engage where appropriate in regular, constructive dialogue with a variety of key stakeholders at each stage of our “Buy, Improve, Sell” cycle, and encourage and empower our businesses to do the same.</li> <li>Maintain an informed focus on delivering improved returns for shareholders whilst also meeting best practice for ESG performance, that is attuned to the expectations and concerns of our businesses’ employees, customers, regulators, governments, suppliers and investors.</li> </ul> <p>Buy Improve Sell</p>
<p><b>3</b></p> <p><b>Prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of</b></p>	<ul style="list-style-type: none"> <li>Ensure the pension schemes that we inherit are managed prudently and effectively for both employees and retirees, and where relevant seek to create better-funded schemes with more prudent targets under our stewardship.</li> <li>Implement effective policies and procedures, supported by local management accountability and a culture of strong awareness, training and investment in employees, to drive health and safety best practice.</li> <li>Promote fair employment and skills development.</li> <li>Drive our businesses to ensure the highest standards of health and safety for their people, as well as the protection of human rights, and encourage positive contributions to the communities in which they operate.</li> <li>Promote inclusion and diversity at all levels.</li> <li>Ensure that our people have a voice and can inform executive decisions.</li> </ul> <p>Buy Improve Sell</p>
<p><b>4</b></p> <p><b>Exercise robust governance, risk management, and compliance</b></p>	<ul style="list-style-type: none"> <li>Direct, oversee and challenge divisional management teams in implementing and enforcing effective compliance policies and business practices.</li> <li>Ensure each division conducts business with integrity and in a responsible, ethical and sustainable manner.</li> <li>Invest in research and development to ensure the highest standards of product safety, and encourage our businesses to protect the ultimate wellbeing of their end-users by adhering to market standards and best practice. Respect labour and human rights and support our businesses’ suppliers to ensure the environment throughout their supply chains.</li> <li>Protect information security and data privacy.</li> <li>Carry out prudent and responsible financial and tax planning and management and pay tax responsibly when due.</li> <li>Maintain sensible and sustainable leverage to support investment.</li> </ul> <p>Improve Sell</p>

## Executing strategic ESG leadership

Melrose strives to have a good ESG track record. As an experienced owner of businesses, we set out to accelerate the pace of improvement at our businesses during our ownership period. The Board, with direct support from the Melrose senior management team, operates a decentralised stewardship model that equips the Group's businesses with the management expertise, operational investment, and robust governance practices to implement ESG improvements, as enshrined in the Melrose Code of Ethics, compliance policies and procedures. By empowering divisional management teams to run their businesses in an appropriately self-sufficient manner, we position them to sustain their improvements over the long-term, and after they invariably exit the Group. The Melrose senior management team applies close oversight and challenge to encourage the adoption of better practices and behaviours within each business whilst owned by Melrose, and keep the Board well-informed to exercise their role of oversight, review and challenge.

In particular, the Board:

- proactively reviews, challenges and approves the Group's risk management strategy, which includes financial and non-financial risks;
- scrutinises quarterly management reports including material aspects of the Group's ESG performance;
- has regular access to divisional management teams and conducts regular face-to-face business and budget reviews during the year, covering operational, commercial, finance and ESG matters; and
- reviews, challenges and approves key policies and compliance statements that require a coordinated approach across the Group, including the Modern Slavery and Human Trafficking Policy and annual statement, tax strategy, and the Group's annual health and safety, diversity, equal pay, stakeholder engagement and Greenhouse gas ("GHG") performance disclosures.

# 1

## Respect and protect the environment

Improve Sell

### Melrose's position on climate change

We recognise that climate change may have significant implications on the long-term successes of our businesses. We seek to set a positive example for our businesses to follow and we invest in and encourage them to improve their operations and market offerings in a direction that minimises their impact on climate change, and makes them less vulnerable to climate-related risks.

We are true believers in industry, and in the potential of industry, to help solve society's most pressing needs. We buy high-quality but underperforming industrial businesses, with established positions in their markets.

By investing heavily in research and development, we enable our businesses to develop and provide the innovative and cost-effective solutions that their customers need to help tackle underlying causes of climate change. Examples of such solutions can be found on page 62 of this ESG report.

Efficiency in this area is a material concern for nearly all manufacturing industries, and our businesses are no exception. We therefore support and invest in them to accelerate their efforts to reduce their carbon footprint by, where economically appropriate, taking measures to improve their energy, water and material efficiency by seeking viable, lower-impact, and increasingly lower-cost, renewable energy sources. Energy consumption (including GHG consumption) across the Group as well as examples of our businesses' improvement efforts can be found on page 61 of this ESG report. These actions not only make good long-term business sense, but also respond directly to the expectations set by governments, and the emerging realities of the markets in which our businesses operate.

We are already taking active steps to anticipate how climate change will affect our businesses, and to encourage firm progress from our businesses in respect of positive climate action. We will continue to strengthen our understanding of the specific climate-related risks our businesses face as we work to mitigate these risks.



CarbonNeutral.com

Melrose sets a positive example, and enables and empowers its businesses to follow. Whilst the central Melrose carbon footprint is relatively limited, we nevertheless offset the emissions that we do generate. The Melrose corporate offices have attained the CarbonNeutral® company certification for 2019 and 2020 through a combination of internal energy efficiency initiatives and financing high-quality, high-impact emission reduction projects in accordance with The CarbonNeutral Protocol<sup>(1)</sup>. The Melrose corporate office in the US has also achieved the HinesGo (Green Office) designation in recognition of its sustainability practices and energy efficiency performance, among other environmental and wellbeing criteria.

We believe that improving operational efficiency is one of two key factors that shape the long-term profitability and sustainability of our businesses, and enables their compliance with increasing environmental standards and regulation. The other key factor is cultivating the technical and innovation capabilities and foresight to provide effective solutions to the emerging ESG challenges that their customers face, including combatting climate change.

Highlights from 2019 include:

**30% reduction**

**in combustion of fuel & operation of facilities (scope 1)<sup>(2)</sup> across GKN compared to 2017, on a like-for-like basis**

**23% reduction**

**in emissions reported above normalised to tonnes per £1,000 turnover<sup>(3)</sup> across the non-GKN divisions compared to 2018, on a like-for-like basis**

**25% reduction**

**in total purchased electricity (scope 2)<sup>(3)</sup> across the non-GKN divisions compared to 2018, on a like-for-like basis**

(1) Source: <https://carbonneutral.com/the-carbonneutral-protocol>

(2) See Table 2 on page 60.

(3) See Table 1 on page 60.

## Reducing the operational environmental impacts of our businesses

Our businesses are charged with identifying, monitoring and managing the environmental risks that affect their operating and market environments. With Melrose support, each Group 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. For example, at the end of 2019, over three quarters of the manufacturing facilities across our businesses had chosen to be certified or compliant with the ISO 14001:2015 Environment Management Standard.

Business units also monitor their environmental progress and plan for continuous improvements in ways that are suitably tailored to their activities, in areas such as energy consumption, GHG emissions, water consumption, water disposal quality, waste generation, recycling and disposal, and volatile organic compound emissions.

In 2019, our businesses continued to invest in operational improvements with direct environmental benefits such as improved energy and/or water efficiency, reduced waste or pollution prevention.

### Energy and GHG emissions

The Group recognises the serious threat posed by climate change and the urgent need for meaningful action. As part of their improvement plans, our businesses seek to reduce their GHG emissions over time through more efficient use of electricity, fuel and heat, and by increasing the proportion of renewable energy where commercially viable.

This section of the report has been prepared for the reporting period of 1 January 2019 to 31 December 2019, and in accordance with the principles and requirements of the Greenhouse Gas Protocol, Revised Edition, ISO 14064 Part 1 and the Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting guidance dated March 2019.

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have also reported this year, complying early, the information required by the Streamlined Energy and Carbon Reporting requirements (the "SECR"), which apply to accounting periods beginning on or after 1 April 2019. All material emissions from within the organisational and operational scope and boundaries of the Group are reported.

These sources fall within our consolidated financial statement. We do not have responsibility for any emission sources that are not included in our consolidated statement. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered in accordance with our GHG reporting procedure. The emission factors from the UK Government GHG Conversion Factors for Company Reporting 2019 have been used to calculate the GHG emission figures, together with International Energy Agency country-specific factors for the associated overseas electricity usage.

**Table 1: Total Melrose Group GHG emissions (excluding the GKN businesses)**  
Global GHG Emissions data for period 1 January 2019 – 31 December 2019  
excluding GKN businesses (tonnes of CO<sub>2</sub>e<sup>(1)</sup> unless stated)

Emissions sources	2018	2019
Combustion of fuel & operation of facilities (scope 1) <sup>(2)</sup>	23,261	19,638
UK Electricity	1,718	1,088
Overseas Electricity	29,592	22,460
Total purchased electricity (scope 2) <sup>(3)</sup>	31,310	23,548
Other purchased energy (scope 2) <sup>(3)</sup>	1,801	1,595
<b>Company's chosen intensity measurement:</b> Emissions reported above normalised to tonnes per £1,000 turnover <sup>(4)</sup>	0.030	0.023

(1) CO<sub>2</sub>e – carbon dioxide equivalent, this figure includes GHGs in addition to carbon dioxide.

(2) Our scope 1 estimates include emissions from fuel used on premises, transport emissions from owned or controlled vehicles, losses of refrigerant, and process and fugitive emission.

(3) Our scope 2 estimates include emissions from electricity and heat purchased by the Group's businesses (excluding the GKN businesses). Scope 2 emissions, and total GHG emissions, are calculated using the location-based method.

(4) The turnover figure used to calculate the intensity ratio does not include any share of revenues from entities in which the Group holds an interest of 50% or less.

**Table 2: Total GKN Group GHG emissions**

Global GHG Emissions data for period 1 January 2019 – 31 December 2019  
(tonnes CO<sub>2</sub>e<sup>(1)</sup> unless stated)

Emissions sources	2017	2019 <sup>(2)</sup>
Combustion of fuel & operation of facilities (scope 1) <sup>(3)</sup>	290,541	204,209
Electricity (scope 2) <sup>(4)</sup>	1,003,000	779,499

(1) CO<sub>2</sub>e – carbon dioxide equivalent, this figure includes GHGs in addition to carbon dioxide.

(2) The 2019 emissions data does not include the Walterscheid Powertrain Group as it was sold part way through that year.

(3) As per page 50 of the GKN 2017 Annual Report, the scope 1 estimates include emissions from fuel used on premises, transport emissions from owned or controlled vehicles, losses of refrigerant, and process and fugitive emissions.

(4) The scope 2 estimates 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.

**Table 3: Total Melrose Group GHG emissions (including the GKN businesses)**

Global GHG Emissions data for period 1 January 2019 – 31 December 2019  
(tonnes of CO<sub>2</sub>e<sup>(1)</sup> unless stated)

Emissions sources	2018 <sup>(2)</sup>	2019 <sup>(3)</sup>
Combustion of fuel & operation of facilities (scope 1) <sup>(4)</sup>	23,261	223,847
UK Electricity	1,718	26,909
Overseas Electricity	29,592	774,569
Total purchased electricity (scope 2) <sup>(5)</sup>	31,310	801,478
Other purchased energy (scope 2) <sup>(5)</sup>	1,801	3,165
<b>Company's chosen intensity measurement:</b> Emissions reported above normalised to tonnes per £1,000 turnover <sup>(6)</sup>	0.030	0.092

(1) CO<sub>2</sub>e – carbon dioxide equivalent, this figure includes GHGs in addition to carbon dioxide.

(2) The 2018 emissions data does not include the GKN business units as they were acquired part way through that year.

(3) The 2019 emissions data does not include the Walterscheid Powertrain Group as it was sold part way through that year.

(4) Our scope 1 estimates include emissions from fuel used on premises, transport emissions from owned or controlled vehicles, losses of refrigerant, and process and fugitive emission.

(5) Our scope 2 estimates 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.

(6) The turnover figure used does not include any share of revenues from entities in which the Group holds an interest of 50% or less.

**Table 4: Melrose Group Energy Consumption by Type**

Energy type	UK consumption MWh	Overseas consumption MWh	Total consumption MWh
Natural Gas	121,350	962,039	1,083,389
LPG	320	50,221	50,541
Heating Fuel	0	30,071	30,071
Transport Fuels	943	14,201	15,144
Electricity	108,459	2,055,094	2,163,553
Steam	0	19,383	19,383
Wood Pellets	0	30,253	30,253
Renewables	274	6,021	6,295
Total Energy	231,346	3,167,283	3,398,629
<b>Company's chosen intensity measurement:</b> MWh per £1,000 turnover <sup>(1)</sup>	0.021	0.283	0.304

(1) The turnover figure used does not include any share of revenues from entities in which the Group holds an interest of 50% or less.

The GHG emissions reported on page 60 cover all entities over which the Group had financial control for a period of at least one year as of 31 December 2019. Emissions from entities acquired or disposed of during the reporting period (i.e. disposed of before 31 December 2019 or acquired after 1 January 2019) are not accounted for in this report.

For all of the emissions data contained in this report, given that the Melrose business model is to acquire and divest businesses over a three to five-year time frame, there may be significant year-on-year changes in the reported emissions data, which may not reflect the underlying performance of the Group's businesses in the relevant area.

The emissions associated with the GKN businesses, which were acquired part way through 2018, are included for the first time in this report as per our GHG accounting procedure, and as predicted in our 2018 Annual Report, have contributed to a significant increase in the overall Melrose Group emissions. In particular, the increase in the intensity ratio is reflective of the fact that whilst relatively low level, the GKN businesses are more energy-intensive operations than the Group's other business units, which is to be expected given the nature of their on-site activities. Table 3 shows the total 2019 GHG emissions data including the GKN business units.

In addition, as can be seen from Table 2, comparing the 2019 emissions figures for the GKN businesses to the last figures reported for the GKN Group in its 2017 Annual Report (being the last financial year in which this data was reported) shows a 30% reduction in scope 1 emissions and a 23% reduction in scope 2 emissions.

Table 4 shows the energy consumption by type for the Group's business units, broken down by UK and overseas consumption, in accordance with the requirements of the SECR. This is the first time that this information has been collated and therefore no year-on-year comparison is available. However, this will be provided in future years. The Company's chosen intensity ratio in this regard is megawatts usage (MWh) per £1,000 of turnover.

In addition, in 2019 the Group complied with its obligations under Article 8 of the EU Energy Efficiency Directive (known as ESOS in the UK) in each of the relevant EU member states. As part of this process, the Group was required to monitor and calculate the total energy consumption associated with its businesses across their European sites, in order to identify commercially viable opportunities to save energy.

### Energy efficiency initiatives in production and manufacturing

Each business is driven to take an appropriately tailored approach to energy efficiency that suits their business requirements, and operational and market environments, reflecting their maturity in this area at the time of becoming part of the Group.

During 2019, the business units within the Group implemented a range of energy efficiency initiatives with expected notable energy and carbon emission savings, with significant progress being achieved by our two largest divisions:

- Along with a number of energy efficiency projects, including the certification of a further five sites to ISO 50001 Energy Management Standard, GKN Aerospace signed an agreement to generate hydroelectric power from the Göta Älv River near to its site in Trollhättan, Sweden that is expected to generate material emissions savings over the long-term.
- GKN Automotive's European sites continue to drive efficiency and cost savings. Notable examples include the installation of a new chiller system in the Eskisehir, Turkey plant, which has resulted in monthly electricity savings of 46,000 kWh, with a new ground water cooling system at the Bruneck, Italy plant anticipated to generate savings of 1,000,000 kWh per year. The application of a new eco-mode for engines and pumps has also generated further energy savings of about 38,052 kWh, and the procurement of green energy for their Bruneck and Firenze, Italy plants has resulted in the equivalent annual reduction of nearly 11,000 tonnes of CO<sub>2</sub> compared to 2018.

The GKN Aerospace, GKN Automotive and GKN Powder Metallurgy sites globally are in the process of attaining their certification to the ISO 50001 Energy Management Standard, in recognition of their strong focus on ensuring an efficient and sustainable use and management of energy.

### Water and waste

Water consumption and waste generation improvements are actively encouraged by Melrose. We have set out below the 2019 water consumption and waste generation for our largest business units: GKN Aerospace, GKN Automotive and GKN Power Metallurgy. This is the first time that this information has been collated, and therefore no year-on-year comparison is available for 2019. We will seek to expand the disclosure in future years to include other businesses in the Group.

#### Water and waste prevention initiatives

In 2019 our largest divisions made encouraging steps towards reducing their environmental impacts:

- GKN Aerospace's site in Bristol, UK worked with supply chain partners to identify opportunities to successfully eliminate excessive packaging, saving 4km of excess bubble wrap and strap per annum with one supplier alone.
- GKN Automotive at its Newton, US site's zero landfill programme has achieved an annual reduction of 660 tonnes of waste sent to landfill and the ePowertrain division has successfully reduced waste to landfill by 90% in 2019 (vs 2018).
- GKN Powder Metallurgy's site in Germantown, US replaced piping and valves to reduce the need for system improvements and the plant's reliance on municipal water supply. In addition, the sinter metals and forge operation at Bad Brückenau, Germany made improvements to its wastewater treatment system so that it will clean and recirculate up to 2m<sup>3</sup> of service water per day, expected to eliminate the need for withdrawal of more than 500m<sup>3</sup> of municipal water annually.
- The Nortek Global HVAC site in Tualatin, US received the Washington County Recycling award in recognition of its efforts to increase recycling rates and reducing the amount of waste sent to landfill.

#### Water and waste consumption data for period 1 January 2019 – 31 December 2019

Area	GKN Aerospace	GKN Automotive	GKN Powder Metallurgy
Volume of water consumption in operations (m <sup>3</sup> )	1,605,861	1,264,142	1,032,233
Weight of total generated waste (tonnes) <sup>(1)</sup>	20,189	105,590	42,023
Recycled (tonnes)	12,301	102,297	39,387
Landfill (tonnes)	4,084	1,455	2,474
Hazardous waste disposed through legally approved routes (tonnes) <sup>(2)</sup>	4,751	3,908	4,278

(1) This figure reflects the waste sent to incineration, which is neither recycled nor landfilled.

(2) This figure was calculated on the basis of the guidance published by the EU (see source: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02000D0532-20150601>), which includes waste from physical and chemical processing of metals that are hazardous to humans and wildlife, oil spills and waste materials containing oil, wastes containing mercury and heavy metals, waste paint, varnish and coatings containing organic solvents and other hazardous substances.



### Helping our customers deliver on their environmental goals

We recognise the opportunities that the transition to a net-zero emissions economy present, and our businesses are well positioned to help their customers tackle pressing environmental challenges such as climate change, and to meet emerging regulatory requirements and wider environmental expectations. Our businesses work closely with their customers and world-class research institutions to develop market-leading, cost-effective innovations, that deliver the solutions their markets need. In 2019, our businesses actively invested in developing products that help their customers improve energy efficiency and reduce GHG emissions, water consumption and waste generation, in their operations or during the use of their products, for example:

#### GKN Aerospace

- Invested in products that are lighter and more fuel efficient, to enable Customers to improve fuel efficiency and reduce their carbon emissions. Through its Global Technology Centre in Bristol, UK it manufactured the first composite components for the Airbus *Wing of Tomorrow* research programme, representing a step change in the aerospace industry. The new Fixed Trailing Edge for the Airbus A350 XWB, is lighter and stronger than its metallic equivalent and can achieve up to 20% fuel efficiency per passenger kilometre.
- Developed relationships with companies focused on the electrification of aircrafts, including close engagement with Eviation to support in the lightweight airframe design of the 'ALICE' aircraft. Specifically, GKN Aerospace has agreed to design and deliver the prototype flying wing to enable the aircraft's first flight in 2020, with potential future design and production partnership opportunities. This aircraft is an exciting proposition in the quest for sustainable aviation, integrating existing and maturing technologies into a commercially feasible sustainable aircraft. Key technologies include electric motors, batteries, lightweight structures and aerodynamic enhancements. More broadly, with Melrose support GKN Aerospace will commence a cutting-edge propulsion project in 2020, which aims to accelerate the adoption of hydrogen electric propulsion within the aerospace industry, starting with demonstrating significant improvements in power density and range capability in the sub-regional, and later, regional aircraft markets. This project offers a route to absolute zero emissions flight for ranges up to 2000km.

- Produced electro-thermal heater mats in Luton, UK for the Boeing 787 aircraft, to prevent ice from building up on the leading edge of the wing. This technology replaces traditional de-icing systems that rely on engine bleed and can achieve fuel savings of about 3%.
- Strengthened collaborations with existing key customers to make progressive improvements to existing technologies, for example the development of a fan case mount ring using additive manufacturing technology (laser metal deposition with wire) for engines customer Pratt & Whitney was a revolutionary technological development, which enables an annual reduction in CO<sub>2</sub> from the manufacturing process alone of over 1500 tonnes per year.
- Was the inaugural sponsor and partner in the Boeing-ATI Accelerator programme, which supports start-ups creating Industry 4.0 and sustainability-enabling technologies with the potential to bolster the growth and competitiveness of the UK aerospace industry. GKN Aerospace has worked with and offered mentoring support to dozens of start-ups, leading to the final selection of ten companies who were each offered £100,000 equity investment from Boeing HorizonX Ventures, and are now actively engaged in the programme. A second cohort of start-ups will join the programme in 2020.



#### GKN Automotive

- Continued to actively contribute towards low-carbon green transportation solutions. Its P4 e-Drive systems can lead to 100% CO<sub>2</sub> reduction for battery electric vehicles, and up to 50% reduction for hybrid vehicles (tank-to-wheel consideration based on WLTP<sup>(1)</sup>). In addition, the division's proprietary Active Connect Technology can generate CO<sub>2</sub> savings of more than 5% compared to traditional all-wheel-drivetrain technologies.
- Recently initiated a strategic collaboration with Delta Electronics Inc., representing a significant milestone in the expansion of the business's portfolio of scalable, integrated 3-in-1 eDrive solutions and the business's capabilities in rapidly bringing new cost competitive technologies to market.

#### GKN Powder Metallurgy

- Continued to deliver customised, scalable and fast metal shape solutions to help customers solve the world's biggest challenges.
- Developed new 100%-recyclable e-pumps to substitute engine-driven pumps on vehicle transmissions. These innovative e-pumps can generate greater fuel efficiency (of up 30%), compared to an engine driven pump, by working only on demand.
- Is a leading producer of variable oil pumps. This solution can increase the overall engine efficiency of the vehicle and lessen CO<sub>2</sub> emissions by up to 20% by modulating the injected oil volume according to the engine's actual RPM (compared to the fixed displacement system of conventional lubrication oil pumps).
- Developed a unique high-performance, cost-effective process to produce the core components of the variable (cylinder) valve timing system used by a vehicle's engine. The system is crucial for the optimal performance of the engine and can achieve up to 25% reduction in CO<sub>2</sub> emissions.

#### Nortek Global HVAC

- Its StatePoint Technology<sup>®</sup> reduces the carbon and water footprint associated with cooling and maintenance of data centres, which are power and water intensive processes. This is saving clients, including a global technology company, up to 20% in energy consumption and up to 90% in water usage.
- Developed technology directly benefitting communities around the world to ensure continuity of critical services during extreme weather, for example the business supplies best-in-class earthquake resistant climate control technology to hospitals on the US West Coast.

#### Brush

- Its Power Management Systems are dedicated microsystems providing intelligent automation for industrial power grids to proactively prevent blackouts and enable uninterrupted performance of critical processes and operations. Synchronous Condensers are also helping customers address this challenge by absorbing or supplying reactive power, offering a cost-effective alternative to supplying bulk variable power compared to static variable compensators.

(1) Worldwide harmonized light vehicles test procedure is a global, harmonized standard for determining the levels of pollutants, CO<sub>2</sub> emissions and fuel consumption of traditional and hybrid cars, as well as the range of fully electric vehicles.

## Purposefully engage with key stakeholders to better understand and deliver on their expectations

Buy Improve Sell

At each stage of our “Buy, Improve, Sell” strategy we seek to engage in constructive dialogue with stakeholders as appropriate to gather a holistic understanding of their key expectations and concerns. Our key stakeholder groups include shareholders, governments and regulators, employees, customers, suppliers, corporate governance agencies, and the communities in which we operate. Our open and transparent approach is crucial in supporting our acquisition strategy, directing our improvement plans, and supporting our businesses’ implementation of those plans, to deliver better collective outcomes for stakeholders.

Some examples of how Melrose purposefully engages with key stakeholder groups are set out below, with further detail provided in the Section 172 statement on pages 56 and 57 with respect to engagement specifically relating to 2019.

### Employees and their representative bodies

For our businesses to outperform their potential they require a strong and capable workforce. Employees within the Group are therefore key strategic stakeholders and the Board firmly believes that their wellbeing is central to the long-term sustainability and prosperity of our businesses. The Board seeks to ensure that it is informed of employee interests when making strategic decisions, whilst recognising that each business pursues bespoke talent management and development objectives that are appropriate to their respective workforce dynamics.

We invest in and support our businesses to implement accessible platforms and forums that foster an inclusive culture, which encourages employees to propose ideas and raise concerns. In 2019 the Group established a workforce advisory panel (“WAP”) comprising the Chief Human Resources Officer (or equivalent) from each business unit, and a member of the Melrose senior management team. Each member of the WAP is responsible for promoting workforce engagement, disseminating information, collating the voice of the workforce and demonstrating how that voice is fed into executive management decisions.

Recognising the importance of a strong and skilled workforce, Melrose requires all Group businesses to safeguard the contractual and statutory employment rights of their employees. Each business is also encouraged to maintain constructive relationships with employee representative bodies, including unions and works councils.

With every acquisition, Melrose seeks to strengthen pension scheme arrangements for the benefit of employees and retirees. The UK pension schemes of each material business sold by Melrose since its inception have been transferred to their new owners in a significantly stronger financial position than at the time of our acquisition. For further information about Melrose’s engagement with pension scheme trustees and our investment in transforming the UK defined benefit pension schemes of our businesses, please refer to pages 64 and 65.

### Customers and suppliers

Melrose encourages and supports its businesses to engage with customers and suppliers on an ongoing basis, with a view to:

- realise technological breakthroughs and innovative collaborations to enhance market and product leadership, and safety excellence;
- enable our businesses to deliver products in line with customer expectations and help customers achieve their environmental and safety objectives; and
- ensure efficient sourcing of key goods and services to safeguard stability for the collective benefit of stakeholders within our businesses’ value chains.

Further details of our landmark collaborations with customers and suppliers to benefit key global environmental aims can be found in this report on page 62.

### Shareholders, analysts, and corporate governance agencies

The success of our “Buy, Improve, Sell” strategy relies on maintaining strong investor support, which Melrose achieves by providing a consistent and transparent flow of useful information and management insight to shareholders and the wider investment community. Melrose takes an honest, transparent and open approach to investor relations and communications. We recognise that analysts require robust information in order to best inform investors, investors themselves benefit from disclosure in line with regulatory requirements, as well as enhanced disclosure on material topics to the Company (including ESG and key acquisition matters) to inform their independent investment decisions, and corporate governance agencies require transparency and active engagement in order to accurately review and assess our performance in line with expected practices.

In addition to our annual programme of key information publications and engagement initiatives including the annual general meeting, extraordinary general meetings on specific material items, publication of full and half year results, and this Annual Report, the Board and the Melrose senior management team meet and communicate with shareholders on a frequent and proactive basis throughout the year.

These efforts include face-to-face investor roadshows in the UK and the US at least once a year, trading updates, capital markets

presentation days as appropriate to provide key shareholders, analysts and their representatives with direct access to the Directors and the opportunity to engage directly with the executive management teams of our largest businesses during key points in their improvement cycle, and, where requested, open agenda meetings for key shareholders attended by the Chairman.

In 2019 the Board hosted a capital markets day for institutional investors and financial analysts in London. The event included presentations from the CEOs of the Group’s two largest divisions, GKN Aerospace and GKN Automotive, containing updates on key financial information. This also allowed shareholders to hear directly from the businesses on their progress with the Company’s investment strategy.

The Melrose investor relations function schedules further bespoke interactions between investors, analysts and members of management on a regular basis. Similarly, throughout the year the Group company secretariat engages with the responsible stewardship and sustainability representatives of key investors and corporate governance agencies, including direct discussions with members of the Board. During 2019 these wider interactive engagement processes were undertaken in relation to items of a particularly material or otherwise multi-faceted or sensitive nature, including:

- Chairman’s tenure – following the 2019 AGM, the Senior Independent Director and Chairman of the Nomination Committee commenced an engagement process with shareholders with respect to the tenure of the Chairman of the Board, who will have served as a director for nine years in September 2020. The Board’s eventual decision to extend the Chairman’s tenure was made only once the Board understood that the Company’s key shareholders supported this proposal.
- Renewal of the Directors’ remuneration policy and LTIP – building on the remuneration-focused engagement with shareholders in 2018, a further extensive and dedicated engagement process has been conducted by the Chairman of the Remuneration Committee with key shareholders and corporate governance agencies with respect to the renewal of the Directors’ remuneration policy and long-term incentive plan at the 2020 AGM. This process has been informative and successful so far, with a significant proportion of shareholders constructively engaging during meetings, calls and email exchanges, and almost all of those that have spoken with the Company expressing strong support for the proposals.

In both instances, investors were contacted by letter, which was followed up with further communications and, where requested, in-person meetings.

Up to

## £1bn to the pension funds

£150 million initially contributed by Melrose to fund the two inherited underfunded GKN pension schemes within the first year of ownership

## £60m

continuous annual funding commitment after year one, doubling existing annual contributions

## 5% to 10% and £270m

Melrose promised to pay between 5% and 10% of net proceeds of any Melrose divestment, and £270 million on the sale of GKN Powder Metallurgy, for so long as the schemes remain in deficit

## More secure funding targets

enhancing the long-term viability of the GKN pension schemes meeting their obligations, by setting funding targets of Gilts + 75bps for the 2012 scheme and Gilts +25bps for the 2016 scheme

## Independent stewardship

appointment of the schemes' first independent Chairman, to ensure robust oversight and accountability

# 3

## Prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of

Buy Improve Sell

Melrose is responsible for ensuring that its workers are safe, and prioritises the safeguarding of their health and wellbeing. The Group employs more than 55,000 people who are largely based in manufacturing facilities across the globe, which requires each business to create and maintain safe and healthy workplaces and operational practices, and a robust culture of health and safety awareness, training and performance.

## In focus: Engaging with key stakeholders and building their trust and support for the GKN acquisition

The public and unsolicited nature of the GKN acquisition required Melrose to engage closely with a wide range of stakeholders, in order to successfully acquire GKN and begin the process of improving the businesses.

### Pension scheme beneficiaries

Proactive engagement with the GKN pension trustees led to the approval of Melrose's detailed commitment to improve GKN's significantly underfunded pension schemes for the protection of all GKN scheme beneficiaries, to reassure them of Melrose's intentions that the GKN pension schemes would emerge from our ownership better funded.

Melrose aims to ensure that all UK defined benefit schemes end up stronger under Melrose ownership than when they joined the Group.

### Governments and regulators

We actively engaged with the UK and US Governments, the UK Panel on Takeovers and Mergers, and other regulatory bodies to reassure stakeholders that Melrose was conducting the acquisition process in accordance with the highest standards of legal and regulatory scrutiny.

After carefully listening to the issues raised by a number of stakeholders including local elected representatives, UK parliamentarians and union representatives about securing the future of the GKN businesses, providing comfort to government end-users to protect national security interests, and to support national aims to increase the productivity

of the UK's industrial sector and invest heavily in research and development, Melrose responded by making appropriate commitments in respect of certain key ESG issues. These commitments were in relation to long-term research and development investment, directors' domiciliation, the establishment of a skills fund, support for the GKN name, and safeguards to protect national security interests. Melrose has and continues to fully respect and comply with those commitments and promises.

### Shareholders

Melrose has attracted long-term support from its key shareholders since its establishment in 2003 and this support is vital in securing our material acquisitions. Throughout the GKN acquisition, openness and transparency about Melrose's intentions for the GKN businesses was paramount in securing shareholder approval for the acquisition. The unsolicited nature of the acquisition required Melrose to demonstrate to its own shareholders and the GKN plc shareholders that the long-term prosperity of the GKN businesses would benefit from Melrose's stewardship. This required Melrose to provide timely information in a wholly transparent manner throughout the accelerated timetable of a rigorously regulated takeover process, to enable shareholders on all sides to make their investment decisions on an informed basis. Conclusively, Melrose shareholders approved the deal, and GKN shareholders accepted Melrose's offer.

In its first year

## the Melrose Skills Fund

provided financial support to initiatives driven by Melrose, GKN Aerospace, GKN Automotive and Brush

£593m contributed

to our businesses' pension schemes since 2003

Over £1m

in cash donations and raised funds for charitable causes across the Group

30% and 33%

of the Board and Melrose Executive Committee respectively are women

200+

apprenticeships provided across our GKN Aerospace, GKN Automotive and GKN Powder Metallurgy divisions in 2019



The Melrose approach to employee wellbeing does not stop at the workplace. We also support Group businesses and their employees in contributing to charities and projects that benefit the communities they operate and live in if they wish to.

Importantly, our support does not end when employees retire. Assisting with the future of employees and retirees through responsible stewardship of their pensions is of importance to the Board.

### Pensions

Since its establishment in 2003, Melrose has contributed £593 million to the pension schemes of its businesses. We also take pride in having substantially improved all the UK pension schemes under our ownership, with many of them becoming fully funded on departure from the Group, as set out on page 7. Our model for ensuring the long-term prosperity of our businesses' pensions schemes is founded on the following principles:

- Improve funding targets to ensure improved financial health for the long-term sustainability of our businesses' pension schemes.
- Increase funding levels to begin an enhanced level of immediate support during our period of stewardship.
- Provide better structural and financial security to our businesses' pension schemes during our ownership.
- Insist on independent chairs to govern our businesses' pension schemes in accordance with governance best practice.

For further details, please see the "In focus: stakeholder engagement during the GKN acquisition" case study on page 64 of this report, and the Shareholder value creation section on pages 6 and 7 for further details on pension schemes deficit funding.

### Health, safety and wellbeing

Health and safety is a priority for the Board and the management teams of all Group divisions. The Board sets high standards of health and safety management, compliance and awareness throughout the Group, by way of robust policies and reporting requirements. This is first informed by reviewing and challenging the health and safety performance of each Group business every quarter, supplemented by further reporting from business unit executive teams in respect of particular or serious health and safety incidents or issues. This enables the Board to fulfil its responsibility for driving implementation of strong investigative, preventative and corrective actions by the divisional management teams.

Whilst the Board takes a zero-tolerance approach to avoidable health and safety risks, during 2019 the Nortek Global HVAC site in Montreal, Canada tragically suffered a fatality. The Board and Melrose senior management team immediately supported the business executive team in investigating the incident without delay, overhauling relevant health and safety procedures and employee training and awareness to ensure implementation of the improvements, and ensuring that the affected family was duly compensated. Further details about the improvement measures that were implemented are set out in the key performance indicators section on pages 36 and 37.

At a business level, the executive teams are best placed to understand the requirements of their employees' specific working environments, and are therefore empowered to implement best practice and ensure that (i) their businesses have robust measures in place to identify, monitor and manage health and safety risk; and (ii) their employees are aware of those practices and trained to implement them correctly. This is supported by internal health and safety effectiveness audits, external Group insurance reviews, external certifications such as ISO standards, and regular challenge and continual oversight from the Melrose senior management team.

Each division is responsible for implementing local legislation and standards appropriate to the specific nature of activities undertaken at each of their facilities. Two-thirds of the Group's manufacturing facilities are OHSAS 18001 (Occupational Health and Safety Assessment Series) certified. In addition, all GKN and Brush sites have begun the process of attaining the certification of the upgraded ISO 45001:2018 standard for management systems of occupational health and safety – developed based on the latest best practices and approaches to prevent work-related injury and ill-health and to provide safe and healthy workplaces.

The Group also encourages and supports divisions to embed a proactive, safety-aware culture. Behaviour-based programmes and continuous training and awareness campaigns remain central to the approach of all divisions, aided by strengthened emphasis on leading indicators such as near-misses and hazard identification and awareness. Our aim is to drive our businesses to step up from solely overcoming shortfalls in their performance, to achieving longer term improvement. We encourage our businesses to focus on improving their leading indicators of attaining a sustainably positive health and safety regime by preventing incidents and near misses, to enable enhanced focus on identifying hazards to change the culture and performance of their health and safety functions over the longer term.

By way of example, GKN Aerospace, one of the Group's largest divisions, has made positive strides towards achieving this, by having:

- reduced serious incidents by approximately 90% over the last five years, with over 80% of that improvement occurring since 2018;
- reduced near misses by approximately 83% since 2017; and
- demonstrated a greater focus on hazard identification as an early warning sign to then mitigate risk of injury, with such identification increasing by approximately 60% since 2018.

### Employee wellbeing and contributing to the communities around us

The Group recognises the increasing importance of taking a holistic approach to employee wellness, to protect their physical health and social wellbeing, and to foster a positive workplace culture that attracts and retains a highly skilled workforce. During 2019 numerous wellbeing initiatives were implemented across our businesses, from the provision of occupational health advisors to the holding of global wellness events.

Our businesses also promote the social wellbeing of employees by encouraging them to actively contribute to a range of charitable and community projects. In total, our businesses made cash donations and raised funds for charitable causes in 2019 of over £1 million:

- GKN Aerospace continued to support the Aerospace Bristol museum and learning centre with an annual donation of £100,000. The charity seeks to inspire current and future generations through stories and achievements of the local aerospace industry and to advance learning, skills and training, particularly in science, technology, engineering and design.
- GKN Automotive continued to support a village school in India that is home to underprivileged children, and this year constructed new bathrooms for the children.
- GKN Powder Metallurgy contributed over £321,000 to charitable causes. In the US, employees are actively involved in the Hearts of Gold community programme, volunteering their time and expertise, participating in sponsored runs and relays and raising funds for much needed causes.



### Promoting diversity at all levels

Melrose recognises the importance of diversity in delivering better business performance and building a high-calibre workforce, as well as good labour relations, employee engagement and people development. Melrose champions diversity in the broadest sense, be that along geographical, cultural, personal or market lines, encompassing gender, race, sexual orientation and disability. Whilst remaining a meritocracy, Melrose is actively engaged in finding ways to increase the diversity across the Group, and the sectors in which it operates.



Through the Melrose Skills Fund, Melrose is working on a diversity project to help improve diversity within the engineering sector as a whole. This project is being led by Enginuity (formerly known as Senta), a not-for-profit organisation that leads on several initiatives to support the engineering and manufacturing sectors, and also involves Unite. The aim of this project is to conduct research into identifying barriers that are hindering socio-economic and ethnic diversity within the engineering sector, with a view to provide support to projects and potentially provide bursaries to help increase diversity based on these findings. A meeting of the project steering committee, which consists of Melrose, Enginuity and Unite, was held in January 2020 to discuss the findings of the initial report, which will inform the development of short, medium and long-term actions that can be undertaken to increase diversity in the sector.

Further details on diversity can be found in the Nomination Committee report on pages 88 to 89, and a copy of our diversity policy can be found on our website at <https://www.melroseplc.net/about-us/governance/code-of-ethics/corporate-responsibility/>.

### Senior managers

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. We have 33% female representation on our Executive Committee which represents a more accurate reflection of the senior management team and executive pipeline at Melrose.

Melrose leads its businesses by example, starting at Board level. Since 2018, all Board appointments have been female and two of the most important roles on the Board, being the Senior Independent Director and the Chairman of the Audit Committee, are held by a woman. With the retirement of Mr David Roper in May 2020, Melrose will have achieved ahead of schedule the 2020 target set out in the Hampton-Alexander Review of having 33% female representation on its Board. It has also achieved ahead of schedule the 2021 target set out in the Parker Review of having one director of colour on its Board.

The Board has implemented the same high standards and values among Melrose senior management, where 33% of the Executive Committee are female, and those standards and values are driven through our businesses.

At a business unit level, GKN Aerospace has launched the inaugural 'Inspired Women's Leadership Development Programme' with the professional training and coaching company Forward Ladies, designed to help women in the organisation succeed and to encourage women to mentor other female colleagues in the business. The programme saw 35 female leaders globally from across the division come together to hear industry-leading speakers and to share their own learning, resources and insights relevant to their roles and careers. GKN Aerospace was also pleased to strengthen its executive committee with two new female appointments in 2019.

### Gender diversity within the Group as at 31 December 2019

#### Board



#### Melrose Central (excl. Board)



#### Aerospace



#### Automotive



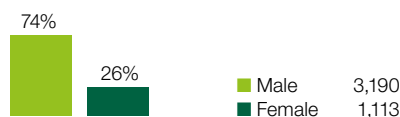
#### Powder Metallurgy



#### Nortek Air Management



#### Other Industrial



Total Group gender diversity	Total	Male	Female
Total Group	55,621	44,799 (81%)	10,822 (19%)
Senior Managers (section 414C of the Companies Act 2006)	Male	Female	
Employees in senior management positions	20 (71%)	8 (29%)	
Directors of group undertakings, excluding the above	183 (92%)	15 (8%)	
Total Senior Managers	203 (90%)	23 (10%)	

## Promoting fair employment and skills development

Melrose drives its businesses to create inclusive and rewarding workplaces and is committed to providing equal opportunities for all employees within the Group. In line with our decentralised model, the executive management team of each business is empowered to handle employee matters, to ensure the approach taken is attuned to the specific needs of the business as well as of their employees. This enables the divisional management teams to cultivate their own authentic employer brand, in a manner that is sensitive to their respective commercial, operational, market and geographical context.

### Inclusive and fair employment

A culture of clear communication and employee consultation and engagement is inherent across the Group. The majority of business units, for example, operate “town hall” meetings to communicate strategy, key changes, financial results, achievements and other important issues to employees, and to listen to their feedback. Employee surveys, notice boards, team meetings, suggestion boxes and newsletters are also used to communicate and engage with employees, and to seek their feedback on issues of concern to them. GKN Powder Metallurgy has developed a ‘PM Connect’ app which is free for employees to download, has a translation function, and informs employees of internal announcements and communications.

The WAP is a key Group forum to promote effective engagement with, and encourage participation from, all people working within the Group. The Board places strategic importance on the WAP to report and elevate all material feedback from the workforce, whether positive or negative, and how it has been incorporated into decision making at a business unit executive level – where it is most impactful and effective. This feedback is discussed at Board meetings along with the whistleblowing report which highlights whistleblowing activity across the business units and a summary of the approach taken.

Applications for employment by disabled persons are fully and fairly considered by the Group on the basis of merit, with regard only to the job-specific requirements and the relevant applicant’s aptitude and ability to carry out the role. Melrose is proud to be a member of the Business Disability Forum, a not-for-profit member organisation that works with the business community to understand the changes required in the workplace for disabled persons to be treated fairly, so that they can contribute on an equal-opportunity basis to business success, to society and to economic growth.

### Skills development

The Group champions talent development and recognises the importance of investing in human capital and skills for the long-term success of each business. This is central to Melrose’s strategy to boost productivity and improve business performance, and the Melrose senior management team, at the direction of the Board, work closely with all divisions to achieve this.

The GKN Aerospace division committed to invest over £30 million in its Portsmouth, Luton and Bristol sites in the UK to boost their capabilities and transform them into global centres of excellence. Through these substantial investments the three manufacturing sites will further support job creation and engineering skills development, and reinforce the important role they play in the communities around them.

Extensive training opportunities are available and promoted to all workers to ensure that high skills levels are cultivated and maintained across the Group. In particular, GKN Aerospace has launched a new learning management system for a wide range of learning activities from e-learning to instructor-led courses. Since its launch in June 2019, 12,500 courses have been enlisted in and the curriculum has doubled from 50 to 100 learning and development opportunities.

Training programmes across the business units focus on leadership, interpersonal and functional skills development for managers, supervisors and shop-floor employees.

Employees across the Group are encouraged to think innovatively and to have regard for the financial sustainability of the Group, as well as their business’s impact on internal and external stakeholders. The importance of training extends beyond on-the-job training and focuses on enhancing personal development. As a sign of its commitment to fostering and developing talent, in 2019 GKN Automotive won the ‘Ovation Award’ from Capital Associated Industries for the second time in respect of its career mapping process.

In addition, apprenticeship programmes assist with training a new generation of employees and ensure knowledge is retained within the businesses. More than 200 apprenticeships were provided across our GKN Aerospace, GKN Automotive and GKN Powder Metallurgy divisions in 2019. In recognition of their strong commitment and continuous improvement of their apprenticeship programmes, the GKN Aerospace’s Filton and Western Approach, UK sites were named ‘Large Employer of the Year’ for the sixth consecutive year in the Bristol & Bath Apprenticeship Awards.

Similar focus is placed on training and developing graduates. In 2019 GKN Aerospace held a two-week global graduate on-boarding event in Sweden, where graduates were provided with an insight into the engines business and space industry, and were also given tours of the site and facilities.

## In focus: The Melrose Skills, Innovation and Productivity Fund

The GKN acquisition demonstrated Melrose’s long-standing belief in building industrial excellence, and investing in underperforming businesses to unlock and promote their long-term prosperity for the collective benefit of stakeholders, including the next generation of engineers. We identified a strong need to develop the human capital required to transform GKN into a stronger engineering and manufacturing powerhouse and responded with a pledge to invest £10 million over five years to further this cause. From the creation of STEM programmes, apprenticeships and degrees, to investment in manufacturing hubs, digital skills, and employee development, Melrose is equipping the UK with the future skills it needs.

The GKN Aerospace, GKN Automotive and Brush businesses have implemented initiatives with the financial support of the Melrose Skills Fund. In 2019, GKN Aerospace deployed funding to develop

a comprehensive programme of training materials and digital learning modules to upskill its teams. So far workers across different disciplines have benefited from training relating to all manner of topics, from root cause corrective actions, through geometric design to robotic language programming. GKN Automotive has capitalised on funding to further the aims of its Innovation Centre’s Engineering Skills Development Programme which seeks to develop high-calibre engineering talent and engage and develop existing staff in the UK. In 2019, 442 people took part in GKN Automotive-led STEM activities and the business recruited apprentices and sponsored a PhD position.

Melrose is also working on a diversity project which is supported by the Melrose Skills Fund with the aim of increasing socio-economic and ethnic diversity within the engineering sector. This project is being led by Enginuity and also involves Unite. Further details can be found on page 66.

## 4

## Exercise robust governance, risk management, and compliance

Improve Sell

Sound business ethics and integrity are core to the Group's values and are fundamental for the success of our strategy. Melrose is a UK premium listed company with strong, established financial controls that are continually assessed, tested and reviewed. This robust framework is supported by an independent internal audit function, regular public disclosure and financial reporting, external audits, and public accountability and conformance with leading benchmarks set by the UK Corporate Governance Code, investor requests, corporate governance advisors' recommendations, and extensive engagement with the Group's wider stakeholder base to ensure best market practice.

These high standards of robust financial controls, and strong governance backed by internal and external auditing of financial and non-financial compliance, are enforced throughout the Group. All businesses are required to comply with Melrose's Code of Ethics. These include policies covering best practice with respect to anti-bribery and anti-corruption, anti-money laundering, anti-tax evasion, competition, trade compliance, data privacy, whistleblowing, treasury and financial controls, anti-slavery and human trafficking, document retention and joint ventures.

Their implementation is then supported by risk assessments, audits and reviews, annual compliance certifications, and a Group-wide whistleblowing platform monitored by the businesses' legal and compliance functions and supported by the Melrose senior management team, to empower employees to raise concerns, in confidence, about possible wrongdoing in any aspect of their business, including financial and non-financial matters. 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.

The Company takes a zero-tolerance approach to bribery, corruption and other unethical or illegal practices and is committed to acting professionally, fairly and with integrity in all business dealings and relationships, within all jurisdictions in which we operate. Melrose also 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 collective benefit of stakeholders.

Please refer to pages 46 to 47 for full details on the Group's approach to Risk management.

### Ensuring the highest standards of product quality and safety

Melrose is committed to ensuring that our businesses achieve the highest standards of product quality, reliability and safety, in recognition of their importance in protecting the wellbeing of ultimate end-users, and futureproofing each business and its ability to deliver profitable long-term performance. Each division follows strict product design and development procedures to ensure precise delivery to customer specification, and to seek opportunities to enhance quality and safety performance. This is especially critical in the highly regulated aerospace and automotive sectors, demonstrating the high standards that the Group is held to:

- GKN Aerospace's Zero Defects programme is aligned to the emerging aerospace industry Advanced Quality Product Planning and Production Part Approval Process and draws on best practice from across the industry and GKN Aerospace. To date, leaders throughout the business and over 25% of the manufacturing engineers have completed rigorous, industry-leading training to uphold production excellence.
- GKN Automotive's customers continue to recognise its dedication to quality and safety excellence and in 2019 its sites received the Toyota Quality Excellence Award, Mitsubishi Quality Awards and Nissan's Safety Excellence Award.

In 2019, our businesses continued to invest in developing products that help customers achieve better quality, reliability and safety outcomes, either in their operations, or in the use of their products. Examples of such solutions include:

- GKN Automotive's torque vectoring technology for all-wheel-drivetrain ('AWD') products stabilises conventional and electrified cars during cornering and accelerating and improves the safety of the vehicle in all conditions, especially on corners or on wet, dirty, and icy roads.
- As part of its 'Design for PM' experience, GKN Powder Metallurgy offers customers a product development cooperation service which often leads to the redesign of products and sub-assemblies. The business has invested approximately 71% of its total research and development expenditure in helping customers achieve better quality outcomes through advanced simulation and lab support, material optimisation and systematic testing methods and in 2019 received nine product quality awards.
- All HVAC products are designed, tested and rated on safety performance to exceed industry standards, such as those set by the California's Office of Statewide Health Planning and Development and the American National Standards Institute, and are designed with the safety of the end-user and the maintenance technician in mind. The business has recently launched a new platform of entry-level split systems which have eliminated rattling, removed hard to handle single piece metal jackets with panelised wire guards in order to minimize sharp edges and laceration risks.
- All AQH products are focused on improving the air quality inside the home by safely eliminating pollutants that can adversely impact human health. In 2019 the business invested in innovations to improve air quality across the whole house. One such example includes a new set of air quality sensors linked with a proprietary algorithm that operates a cooker range hood autonomously to maintain the air quality of the kitchen.

22,000 employees

completed IT and cyber security training during 2019

Strict procedures

in place to ensure Tungsten, Tantalum, Tin, and Gold are sourced responsibly and from conflict-free regions of the world

- As a leading manufacturer of medium and high voltage technology, safety considerations are critical to Brush. In 2019, 10% of its research and development spend was dedicated to this area. In one such example, the Safer Isolation SafeBond project enables customers to reduce the downtime of their network during maintenance and achieve a safer bounding of the live rail with minimum human interaction.
- All products that Ergotron develops, from monitor arms to sit-stand desks, electric desks, and health care carts, are designed to improve how people work, learn, play and care for others and help customers achieve better health and safety outcomes.

### Working with our suppliers to ensure respect for labour and human rights and the environment

Melrose recognises the potential risks of human rights abuses and modern slavery, as well as the environmental impacts inherent to global, complex, multi-tier supply chains. 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 and environmental impacts. The Group has also taken steps to encourage business divisions to implement effective and proportionate measures to ensure that there are no forms of modern slavery in their operations or supply chain.

#### Modern slavery and human trafficking

As set out in the Melrose Anti-slavery and Human Trafficking Policy, the Group has a zero-tolerance approach to any form of modern slavery. In accordance with the Modern Slavery Act 2015, Melrose publishes its own Modern Slavery Statement which is approved by the Board annually and can be found on our website at <https://www.melroseplc.net/media/2487/modern-slavery-statement-june2019.pdf>. Under Melrose's decentralised group structure, each division is responsible (where applicable) for publishing their own Modern Slavery Statements 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 eradicate slavery from their supply chains.

Each division is in the process of rolling out training to employees on the implementation of Melrose's anti-slavery and human trafficking policy so that employees understand the risks and what actions should be taken if they suspect that modern slavery is happening internally or within the supply chain.

#### Supplier qualification and compliance

The security, assurance and ethical compliance of suppliers is very important to Melrose in building the resilience of its businesses to supply chain shocks and reputational risks. Responsibility for the implementation and management of all supplier-related policies rests with local management. The Group supports its businesses in implementing and managing such policies across their respective supply chains, in line with the nature and geographical representation of their supplier base. In addition to providing the highest quality products or services, suppliers are expected to operate their businesses in a way that supports the Group's commitment to acting ethically and responsibly. All business divisions have a supplier qualification process which as a minimum, requires suppliers to sign the respective division's Supplier Code of Conduct or equivalent policy and depending on the determined level of risk may also result in an audit or further reviews.

All businesses that source products or raw materials containing Tungsten, Tantalum, Tin, and Gold ("3TG") have strict procedures in place to ensure that 3TG minerals are sourced responsibly and from conflict-free regions of the world. Relevant suppliers are required to perform due diligence to ascertain the point of origin of 3TG minerals in products and to complete the Responsible Minerals Initiative reporting template or equivalent.

#### Protecting information security and data privacy

Melrose strongly respects privacy and seeks to minimise the amount of personal data that it collects, as well as ensuring 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 defense contracts.

The Melrose senior management team continues to work with the divisional executive teams and external security consultants to track the Group's exposure to cyber security risk and, to ensure appropriate compliance with the GDPR, mitigation

measures are in place for the Group. In 2019, Melrose completed the deployment of 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 cybersecurity 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.

As part of Melrose's overall information security strategy, IT Security awareness training was deployed by all businesses, with more than 22,000 employees in attendance over the course of 2019.

#### 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's tax strategy is reviewed, discussed and approved by the Board annually with continuous commitment not to engage in aggressive tax planning.

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.

We hope that our inaugural ESG report has provided clarity and comfort for stakeholders in respect of all the actions and ambitions of Melrose and the businesses we own. We continually strive for improvement and look forward to providing further updates on progress in due course.

The Strategic Report, as set out on pages 4 to 69, has been approved by the Board.

On behalf of the Board



**Simon Peckham**  
Chief Executive

5 March 2020