



Buy
Improve
Sell

Melrose

Melrose Industries PLC
Sustainability Report

2021



01

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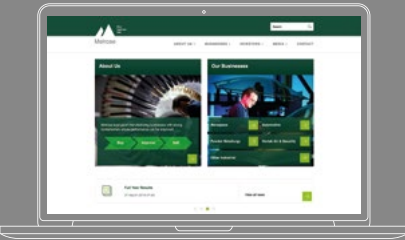
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For more information visit www.melroseplc.net

Cautionary statement
Certain sections of this Sustainability Report contain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this Sustainability Report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Accordingly, readers are cautioned not to place undue reliance on any such forward-looking statements. Subject to compliance with applicable laws and regulations, Melrose does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Sustainability Report. This Sustainability Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed. Some financial and other numerical data in this Sustainability Report have been rounded and, as a result, the numerical figures shown as totals may vary slightly from the exact arithmetic aggregation of the figures that precede them.



Justin Dowley
Non-executive Chairman

“ Sustainability has always been an important part of our “Buy, Improve, Sell” strategy and we firmly believe that a focus on sustainability is both the right thing to do, and a central enabler of industrial success.”

Acquiring good quality manufacturing businesses, making operational improvements, realising shareholder value at the appropriate time and then returning this value to shareholders, continue to be the fundamentals of the “Buy, Improve, Sell” business strategy that Melrose has followed since being founded in 2003.

Sustainability has always been an important part of our improvement strategy, and we have welcomed the increased focus it has received in recent years as an opportunity to demonstrate Melrose's commitment as a proactive participant across a range of key ESG areas.

The success of our business model relies on buying businesses that are underperforming their potential, and building them into better businesses that are positioned to prosper over the longer-term. Within this improvement strategy, we implement Melrose's core sustainability principles among our businesses with a long-term view and underpinned by an unrelenting focus on conducting business with the highest standards of integrity, honesty, and transparency.

By implementing a stronger culture of operational and financial improvement, we rebuild our businesses' resources and capabilities, and enable them to pursue commercially attuned sustainability improvement initiatives that can continue beyond our ownership.

As we enter a new year, we have renewed and reiterated our four sustainability principles to better reflect the current ESG ecosystem and the positive impact we can have on the industrial sectors in which our businesses operate. We continue to engage with key internal and external stakeholders to ensure all our businesses better understand and deliver upon their expectations.

Implementing business improvement as we transition to a net zero economy before 2050

A focus on sustainability



Justin Dowley
Non-executive Chairman

Melrose was founded in 2003 to empower businesses to unlock their full potential for the collective benefit of stakeholders, whilst providing shareholders with a superior return on their investment. This has been delivered through Melrose's "Buy, Improve, Sell" strategy, which means we buy good quality manufacturing businesses that are underperforming their potential and then invest heavily to improve performance and productivity as they become stronger, better businesses under our stewardship. At the appropriate time, we then find them good owners for the next stage of their development and return the proceeds to shareholders.

We firmly believe that a focus on sustainability is the right thing to do, integral to our "Buy, Improve, Sell" model, and a central enabler of industrial success.

This year, I am pleased to report that we have set and implemented our inaugural Group sustainability targets and commitments, aligned to the UN Sustainability Development Goals and the sustainability issues that are most material to our businesses and key stakeholders.

Our Group targets are aligned to our materiality analysis, including short, medium and long-term objectives for

the reduction of Greenhouse gas emissions, transition to renewable electricity, and reduction in waste that will help drive a transformation in the sustainability of their own production.

The Melrose centre is small with a tiny carbon footprint, which we nonetheless offset. Under our decentralised model, the primary focus is on our businesses, many of which operate in industries where achieving meaningful progress towards decarbonisation remains a tough global challenge. Through our active investment in operational excellence and innovative research and development we continue to drive our businesses to directly address society's most complex longer-term sustainability challenges as we transition to a net zero economy before 2050. We provide our businesses with the strategic focus and investment to enable them to mitigate the Group's impact on the environment, and to develop and deliver innovative product solutions and processes to help their customers and key stakeholders decarbonise some of the hardest to abate sectors of the global economy. Notable examples of this during 2021 include GKN Automotive's position at the heart of the electric vehicle transition, and Melrose's investment in the establishment of the hydrogen economy through the UK hydrogen production start-up

HiiROC and the hydrogen storage business GKN Hydrogen. Further, GKN Aerospace is at the forefront of the development of technologies to achieve zero emissions aviation with projects like the hydrogen propulsion system H2GEAR, or electric aircraft currently in testing phases like Eviation Alice, Joby and Vertical.

Investment in people is a key driver of commercial success throughout the Group, underpinned by employee engagement and a firmly integrated culture of employee development, diversity and inclusion. By providing a safe working environment, encouraging diversity and inclusion at all levels, and ensuring all our employees have access to training and career development opportunities, we will continue to attract and retain the best talent. However, we do not shy away from making the difficult decisions that are necessary to build better, stronger businesses to unlock their full potential, which we recognise can impact certain stakeholders and their wider business communities. To be well placed to navigate those tough decisions when they arise and ensure strong engagement with our businesses and their key stakeholders, our Workforce Advisory Panel provides an important, ongoing forum for direct engagement and consultation between the workforce and our businesses' executive teams.

Our efforts to improve our businesses are supported by a foundation of robust governance, risk management and compliance. We instil the highest standards of integrity, honesty, and transparency within the businesses we acquire, and we require them to demand the same of their supply chains. Responsibility for Group sustainability matters, including the setting of our Group sustainability targets, ultimate oversight of Group sustainability risk, and the setting of all our Group policies, sits with the Board with support from the Melrose senior management team, and in the case of risk management, the Audit Committee. The Board is regularly updated, at least quarterly, on key climate and sustainability-related risks and opportunities.

We see environmental, social and governance priorities as an important part of our "Buy, Improve, Sell" strategy. We see no reason why these improvements cannot be implemented whilst improving returns for our shareholders. It is a journey and there remains plenty of improvement for us to deliver, but it has been nonetheless pleasing to see our improvement to date being recognised by several of the key benchmarking agencies, including MSCI who have given us an "A" rating, and Sustainalytics who have placed us in the top quartile of our peers.

This inaugural standalone Sustainability Report is published alongside our 2021 Annual Report, which I refer you to for further details.

Justin Dowley
Non-executive Chairman
3 April 2022





Our sustainability principles are to:

- (i)

Respect and protect the environment.
- (ii)

Continue to invest in and support our businesses as they develop products and services aligned with a net zero future.
- (iii)

Promote diversity, prioritise and nurture the wellbeing and skills development of employees, and support the communities that we are part of.
- (iv)

Exercise robust governance, risk management and compliance.

Our strategy and business model

Our business model

– driving improved sustainability performance

The success of our “Buy, Improve, Sell” model relies on building better businesses that are positioned to prosper over the longer-term. The sustainability improvements that we promote and encourage among our businesses benefit from our long-term view and are underpinned by our focus on conducting business with the highest standards of integrity, honesty, and transparency.

Buy

- Good manufacturing businesses whose performance can be improved.
- Use low (public market) leverage.
- Melrose management are substantial equity investors.

Improve

- Free management from bureaucratic central structures.
- Change management focus, incentivise well.
- Encourage and implement sustainable business practices.
- Set strategy and targets and sign off investments.
- Drive operational improvements and sustainable production.
- Invest in the business and support research and development, particularly sustainable products.
- Focus on profitability, sustainability, and operating cash generation – not growth for the sake of growth.
- Improve products and customer relationships.
- Invest in research and development capabilities, to enable our businesses to develop products that are more sustainable and safer.
- Enable our businesses to help their customers and wider industries transition to a net zero economy by 2050.
- Engage closely and often with key external stakeholders.
- Invest in the workforce, closely monitor health and safety, and secure the financial health of workplace pension schemes.

Sell

- Commercially choose the right time to sell to good homes for the next stage of their development, often between three and five years, but flexible.
- Return value to shareholders from significant disposals.
- Equip businesses with sustainability strategies and strong sustainability targets to drive long-term ESG performance.

Sustainability

The Melrose “Buy, Improve, Sell” model necessarily means that we inherit businesses that are underperforming in a number of different areas, including from a sustainability perspective.

Within our improved strategy, we implement Melrose’s four sustainability principles within each business:

- Respect and protect the environment.
- Continue to invest in and support our businesses as they develop products and services aligned with a net zero future.
- Promote diversity, prioritise and nurture the wellbeing and skills development of employees, and support the communities that we are part of.
- Exercise robust governance, risk management and compliance.

The manufacturing businesses that we acquire often operate in the industries that are some of the most difficult to decarbonise. By the very nature of our model, (a) we provide the focus and investment that our businesses need to deliver significant financial returns and sustainability improvements; and (b) our Group sustainability performance and ratings will fluctuate during our investment cycle as we acquire new businesses in need of improvement, and sell businesses that we have improved.

Implementing Melrose sustainability principles – our decentralised approach
We encourage, support and invest in our businesses to implement the four Melrose sustainability principles and contribute to a sustainable future for the benefit of our stakeholders, as detailed further in this Sustainability Report.

Focused investment
We invest in our businesses to bolster their research and development capabilities, to enable them to make products that are more sustainable and safer, with a focus on helping their customers and their wider industries to transition to a net zero economy by 2050. We encourage our businesses to champion the interests, safety and skills development of their employees. We implement secure pension scheme funding, operational and financial best practice, and lead in promoting diversity.

Strong sustainability targets
We work with our businesses to set meaningful sustainability targets, alongside financial metrics, and we provide the investment to achieve them. We set a positive example for our businesses and provide them with a platform to share Group best practices and accelerate the pace of change within their organisations, whilst influencing positive change within our other businesses.

Robust ethics and governance
We instil strong ethical values supported by high governance standards, through our Melrose Code of Ethics and Group policies, together with training and internal controls, supported by renewed management and governance structures.



Our sustainable improvement strategy

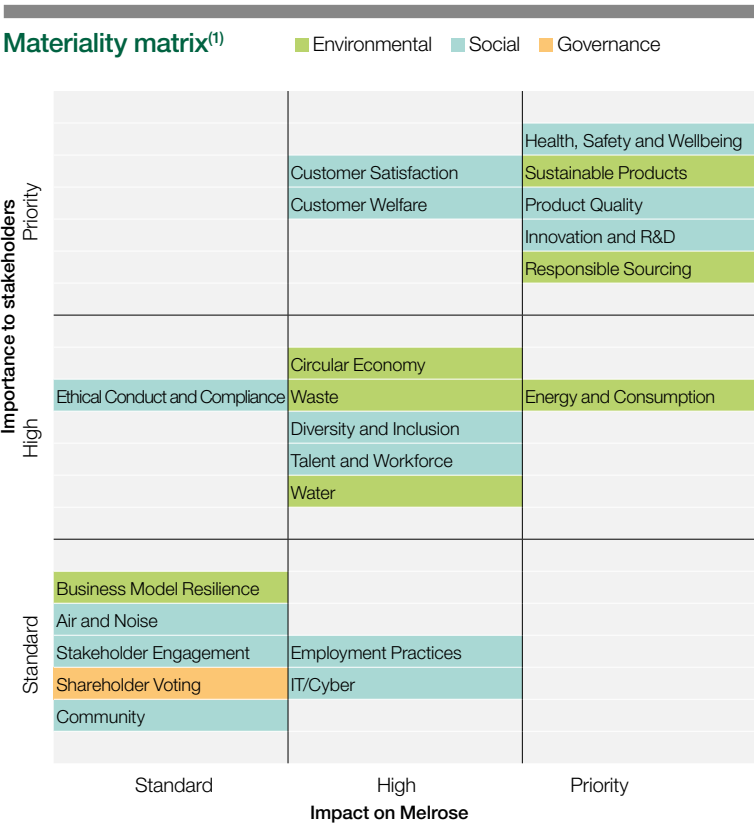
The success of our “Buy, Improve, Sell” model relies on building better businesses that are positioned to prosper over the longer term. The sustainability improvements that we promote and encourage among our businesses benefit from our long-term view and are underpinned by our focus on conducting business with the highest standards of integrity, honesty, and transparency.

In line with the “Sell” aspect of our strategy, our absolute metrics across all areas will fluctuate year-on-year. By implementing a stronger culture of operational and financial improvement, we rebuild our businesses’ resources and capabilities, and enable them to pursue commercially attuned sustainability improvement initiatives that can continue beyond our ownership.

In 2020, we undertook a materiality assessment which identified the key sustainability issues that impact our ability to create value over time and are of most concern to our stakeholders.

During 2021, as part of our ongoing executive review of our material sustainability topics, and in response to our developing sustainability strategy and the evolving macro business environment, we have elevated the importance and prominence of Responsible Sourcing and Water across the Group. Both topics will receive greater focus during 2022 and beyond.

As we enter a new year, we have renewed and reiterated our four sustainability principles to better reflect the current ESG ecosystem and the positive impact we can have on the industrial sectors in which our businesses operate, whilst continuing to engage with key internal and external stakeholders to ensure all our businesses better understand and deliver upon their expectations.



(1) The exclusion of topics from this list does not mean that they are not considered to be important to Melrose and its businesses or are not being actively managed.

Our Group sustainability targets and commitments established in 2021 support our four overarching sustainability principles and are aligned with our material sustainability issues. The integration of the UN Sustainability Development Goals (“UN SDGs”) with our targets and commitments, and our strategy and business model, links our sustainability objectives with those of society and aligns our value creation strategy with our stakeholders. Below we have summarised our sustainability objectives and the associated strategic sustainability improvement principles, linking them to our targets, commitments and material topics.

Our sustainability principles	Environmental	
	Respect and protect the environment	Continue to invest in and support our businesses as they develop products and services aligned with a net zero future
	<div>7 AFFORDABLE AND CLEAN ENERGY</div> <div>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</div> <div>13 CLIMATE ACTION</div>	<div>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</div> <div>13 CLIMATE ACTION</div>
	<ul style="list-style-type: none">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, waste disposal, and water usage.Align with recognised frameworks such as SASB, the TCFD and CDP to increase transparency of actions as a core driver for change.	<ul style="list-style-type: none">Invest in research and development (“R&D”) to support and harness product innovation and quality within 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.
	Buy Improve Sell	Buy Improve Sell
UN Goals		
Our sustainability improvement principles		
Links to strategy		
Our Targets and Commitments	<p>Targets</p> <ul style="list-style-type: none">Source our global electricity from renewable sources:<ul style="list-style-type: none">Source 50% of our electricity from renewable sources by 2025 and 75% by 2030⁽¹⁾Divert our waste from landfill:<ul style="list-style-type: none">Divert 95% of our waste from landfill by 2025 and 100% by 2030⁽²⁾Reduce our global Scope 1 and Scope 2 emissions intensity:<ul style="list-style-type: none">Reduce CO₂e/£m revenue by 20% on average across the businesses by 2025 and 40% by 2030⁽³⁾Achieve net zero Greenhouse gas emissions before 2050	<p>Targets</p> <ul style="list-style-type: none">Increase expenditure on R&D relating to climate-related solutions that contribute to the decarbonisation of the sectors in which our businesses operate:<ul style="list-style-type: none">Achieve 50% of total R&D expenditure on climate-related R&D per year to contribute to the decarbonisation of the sectors in which our businesses operate by 2025, 75% by 2030 and 100% by 2040Develop new products that contribute to the decarbonisation of the sectors in which our businesses operate:<ul style="list-style-type: none">Achieve 50% of new products which contribute to the decarbonisation of the sectors in which our businesses operate by 2025, 75% by 2030 and 100% by 2040
Melrose materiality issue	<ul style="list-style-type: none">Energy and ConsumptionResponsible SourcingWaste	<ul style="list-style-type: none">Innovation and R&DSustainable ProductsCircular Economy
Further information	Environmental Pages 14 to 29	Environmental Pages 14 to 29

Social	Governance
Promote diversity, prioritise and nurture the wellbeing and skills development of employees, and support the communities that we are part of	Exercise robust governance, risk management and compliance
<div>3 GOOD HEALTH AND WELLBEING</div> <div>5 GENDER EQUALITY</div> <div>8 DECENT WORK AND ECONOMIC GROWTH</div>	<div>8 DECENT WORK AND ECONOMIC GROWTH</div>
<ul style="list-style-type: none">Drive our businesses to ensure the highest standards of health, safety and wellbeing for their people, as well as the protection of human rights, and encourage positive contributions to the communities in which they operate.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.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.Promote inclusion and diversity at all levels.Promote fair employment and skills development.Ensure that our people have a voice and can inform executive decisions.	<ul style="list-style-type: none">Direct, oversee and challenge divisional management teams in implementing and enforcing effective compliance policies and business practices.Ensure each division conducts business with integrity and in a responsible, ethical and sustainable manner.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 respect these principles throughout their supply chains.Protect information security and data privacy.Carry out prudent and responsible financial and tax planning and management and pay tax responsibly when due.Maintain sensible and sustainable leverage to support investment.
Buy Improve Sell	Buy Improve Sell
<p>Targets</p> <ul style="list-style-type: none">Protect our employees from injury and lost time accidents (LTAs):<ul style="list-style-type: none">Achieve and maintain an LTA rate below 0.1	<p>Commitments</p> <ul style="list-style-type: none">All employees, suppliers and contractors must comply with our Code of Ethics, conducting business with integrity and in a responsible, ethical and sustainable manner
<p>Commitments</p> <ul style="list-style-type: none">Ensure that all permanent employees receive regular (annual) formal performance reviews by 2022⁽⁴⁾Invest £10 million over five years through the Melrose Skills FundAchieve by 2021 and maintain a Board and executive committee comprising at least 33% female membershipMaintain achievement of the Parker Review recommendations	<ul style="list-style-type: none">Ethical Conduct and ComplianceBusiness Model Resilience
Health, Safety and Wellbeing Community Diversity and Inclusion Talent and Workforce Employment Practices	
Social Pages 30 to 43	Governance Pages 44 to 51

(1) Where renewable electricity is commercially and reasonably available in the relevant jurisdiction.
(2) Excluding hazardous waste, which is already disposed of correctly outside landfill.
(3) Target baselined on 2021 performance. Baseline was set in conjunction with the timeframe of the Group’s target setting process.
(4) Where permitted by local laws and employee representative bodies.

Delivering on sustainability



Simon Peckham
Chief Executive

Against the backdrop of continued turbulence in connection with the global pandemic, 2021 provided the opportunity to demonstrate the strength of the Melrose "Buy, Improve, Sell" model from a sustainability perspective, whilst still delivering above average returns for shareholders.

Over the course of the year, we sold approximately 20% of the Group. Except for Ergotron, all the businesses from the Nortek acquisition were also sold during the year, putting the Company on track to double shareholders' investment in that acquisition. Under our ownership, operating margins of these businesses were approximately doubled while we invested heavily in their transformation.

We converted Nortek Control into a technology business through a mix of organic and acquisition actions, while we refocused and completely revitalised the product portfolio of Broan Nutone that reawakened a sleeping giant previously drifting into decline. Most notably, we were instrumental in Nortek Air Management developing and commercialising the revolutionary Statepoint Liquid Cooling technology, capable of delivering 90% water and 30% energy savings for cooling systems servicing the booming data centre market – which quickly became a clear benchmark for the industry. As a result, Nortek Air Management enjoys an enviable and growing order book and customer list that includes all the key global technology companies.

These are examples of the strong targeted investments we make in businesses under our own ownership during the "Improve" phase. We are well progressed in this phase for the GKN businesses, having invested over £300m in climate-related research and development over the past two years.

(1) References to electrified vehicle platforms refer to full hybrid or battery electric propulsion systems.

GKN Automotive is also seeing major benefits from the accelerating transition to electric vehicles, and is converting its decades' long experience in the sector into significant wins on e-Drive platforms for both its 3-in-1 solutions and core sideshaft products for electric vehicles. It was a busy year for production launches and included the award of the first fully outsourced 3-in-1 system for a major German manufacturer. Excluding China, GKN Automotive is now a supplier on seven of the top ten global electric vehicle platforms⁽¹⁾ and has an order book that is matching the market in the shift to electric vehicles.

In 2021, we continued to deliver on our promise to improve our businesses' longer-term financial and operational performance, while delivering against our four overarching sustainability principles.

Divisional sustainability highlights for 2021

Looking at the largest businesses in the Group:

- **GKN Aerospace's** network of Global Technology Centres are a key enabler for Melrose investment into the development of decarbonising technology, like the H2GEAR hydrogen propulsion system and the creation of the first prototype of emission free aircraft such as the Eviation Alice.
- **GKN Automotive** saw major benefits from the accelerating transition to electric vehicles in 2021, and is converting its decades' long experience in the sector into significant wins on e-Drive platforms for both its 3-in-1 solutions and core sideshaft products for electric vehicles.
- As highlighted in its capital markets day in May 2021, **GKN Powder Metallurgy** has better clarity on its electric vehicles transition strategy, which is well on the way to execution. It has exited some low margin ICE business and is developing a number of exciting opportunities for e-motors and magnet technology for electric vehicles.

- **GKN Hydrogen** has been separated from GKN Powder Metallurgy and launched as a standalone business, focusing on commercialising proprietary metal hydride technology to store hydrogen in a safe, compact and green manner.

Further details for each business are included in the Divisional overview on pages 10 to 13.

Key 2021 sustainability milestones

- **Reducing the Group's total absolute Scope 1 and Scope 2 GHG emissions (-14%), energy consumption (-6%) and water withdrawal (-8%).** Intensity ratios increased, reflective of the disposals of Nortek Air Management, Brush and Nortek Control during the period. However, we remain on track to meet our targets.

MSCI — ESG score (2020: BB)



This places us above average for Global Industrial Conglomerates.

Sustainalytics — ESG Risk Management score (2020: 28.4 "average")



Our Sustainalytics ESG Risk Exposure score is 34.2 which places us in the top 12% of Global Industrial Conglomerates.

- **Achieving and maintaining Board gender diversity of 42% female representation (+12%),** and achieving the Parker Review target of having one director on the Board from an ethnic minority background.
- **Introducing Group-level sustainability targets and commitments** set through extensive consultation with our businesses. Our targets and commitments aim to reduce the environmental impacts of all aspects of our businesses – driving sustainable management of our input resources, improving operational efficiency, and minimising the impact of their inputs and outputs, as well as ensuring a safe working environment for all.

Each of our businesses are at a different stage of their respective strategic sustainability improvement journey, and they are at different points in their Melrose ownership. By the very nature of our "Buy, Improve, Sell" strategy, our Group sustainability performance will fluctuate during our investment cycle as we acquire new businesses in need of improvement, and sell businesses that we have improved. These differences among our businesses, and the unique nature of our business model, have been assessed and considered in setting the parameters of the Melrose Group sustainability targets and commitments.

- **Elevating the importance and prominence of Water and Responsible Sourcing across the Group** as material group sustainability topics. Both topics will receive greater focus during 2022 and beyond.
- **Improving disclosure through engagement and action** resulting in significant improvement in stakeholder awareness. Throughout the year we undertook a major programme of engagement with key ESG benchmarking organisations that our investors rely upon.

In October 2021, we received our revised ESG scores from **MSCI** and **Sustainalytics**, which both demonstrated notable improvements and highlighted the Group's increased management focus and delivery of improvement actions to mitigate the impact of sustainability risks. The scores provide a snapshot as at 31 December 2020, meaning that the considerable improvements made throughout 2021 will be reflected next year.

- **Continuous bolstering of our Group sustainability governance framework** through the formal compilation of our key environmental and human commitments, within our inaugural Group Environmental and Human Rights policies.

In addition, in July 2021 we submitted our inaugural CDP Climate Change questionnaire for which we scored a C rating, which reflects our performance as at 31 December 2020. Our CDP submission enabled us to support a number of our customers by supplying emissions data to enhance their Scope 3 emissions reporting. We look forward to building on this in 2022 and broadening the scope of our engagement with, and submissions to, CDP.

- **Aligning with non-financial reporting frameworks.** As a UK premium listed company, Melrose complies with the requirements of the new Listing Rule on climate-related disclosures, reporting against all the key areas recommended by the Task Force on Climate-related Financial Disclosures ("TCFD"). During the second half of 2021, the Melrose senior management team worked with Ernst & Young and the divisional sustainability leaders to carry out a qualitative climate scenario analysis exercise to identify high-level exposure to climate change. Our TCFD disclosures can be found in the Annex to this Sustainability Report on pages 54 to 55.

To further enhance the transparency of our non-financial reporting, we have provided additional disclosure on our sustainability performance in line with the Sustainability Accounting Standards Board ("SASB") requirements for Aerospace and Defence and Auto Parts sector standards, which are referred to in the Annex to this Sustainability Report on pages 56 to 57.

- **Setting business-level sustainability strategies** following the establishment and subsequent implementation and embedding of our Group sustainability principles aligned with the UN Sustainable Development Goals in 2020. During 2021, we kick-started our businesses' formulation of their own sustainability strategies, in pursuit of our Group material sustainability issues, targets and commitments. Their strategies are set in alignment with our Group strategy, and sensitive to the context, needs and priorities of their respective sectors. In line with our decentralised business model, we empower and shape the foundations of our businesses to support sustainability improvements that they can carry forward responsibly and proactively after they inevitably leave the Group, in line with our "Buy, Improve, Sell" strategy.

Having made huge strides in 2021 towards building a more sustainable future, we recognise that our journey towards decarbonising our business' industries has much further to go. Further details about our outlook for 2022 can be found on page 51.

Simon Peckham
Chief Executive
3 April 2022



GKN Aerospace

GKN Aerospace is a world-leading multi-technology manufacturer of airframe and engine structures and electrical interconnection systems for the global aerospace industry, across both civil and defence platforms. With operations in 12 countries, it is at the forefront of improving the efficiency of existing aircraft, and developing the next generation of greener aircraft, based on technological innovation, advanced processes and engineering excellence. GKN Aerospace's products enable aircraft to fly safely and more efficiently. GKN Aerospace is structured according to its three core customer markets – Civil Airframe, Defence Airframe and Engines. Its technology is used throughout the aerospace industry: from high-use single aisle aircraft and the world's longest haul passenger planes, through to business jets, helicopters, the world's most advanced fighter jets and space launchers.

During 2021, GKN Aerospace took a further step forward in its sustainability strategy. Investment was made in technology to support and enable this strategy to achieve reductions in energy, material and waste in its current factories, and to enable improvements in efficiency and revolutionary capabilities in next generation aircraft and engine platforms, which will assist the future of zero emissions flight. At the forefront of this strategy is a new network of Global Technology Centres ("GTCs"), to develop and demonstrate capability, drive collaboration and accelerate technological breakthroughs in each of its businesses. In 2021 GKN Aerospace opened its £32 million UK GTC in Bristol, as well as its Dutch GTC in Hooogeveen, to complement the Swedish and US hubs that are already established.

GKN Aerospace is now developing the next generation of lighter and more sustainable aerostructures and engine products, as well as lightweight additive manufacturing solutions and future zero-emission propulsion systems. Putting this technology strategy into action, GKN Aerospace established its position at the

forefront of four major European propulsion programmes during 2021. Two of these – the £54 million H2GEAR project in the UK and H2JET in Sweden – are ground-breaking hydrogen projects aiming to develop propulsion systems to power aircraft using liquid hydrogen, eliminating carbon dioxide emissions.

Through collaboration in the European Clean Sky 2 programme, GKN Aerospace also delivered the first Intermediate Compressor Case for the Rolls-Royce UltraFan™ engine demonstrator, which is expected to achieve significant fuel efficiency improvements compared with current engines. Further details are contained on page 20.

There were also notable achievements in developing more sustainable aerostructures solutions. During 2021, GKN Aerospace manufactured and delivered the first fully integrated wings, tail and wiring system for Eviation's Alice electric aircraft, as well as producing and delivering the first composite fixed trailing edge for Airbus' "Wing of Tomorrow" project, both from its new UK GTC.

Each of the above projects form important ingredients on the sector's path to achieve net zero Greenhouse gas emissions by 2050 and have helped to establish GKN Aerospace's position as a sustainability leader in the aviation industry.



GKN Automotive

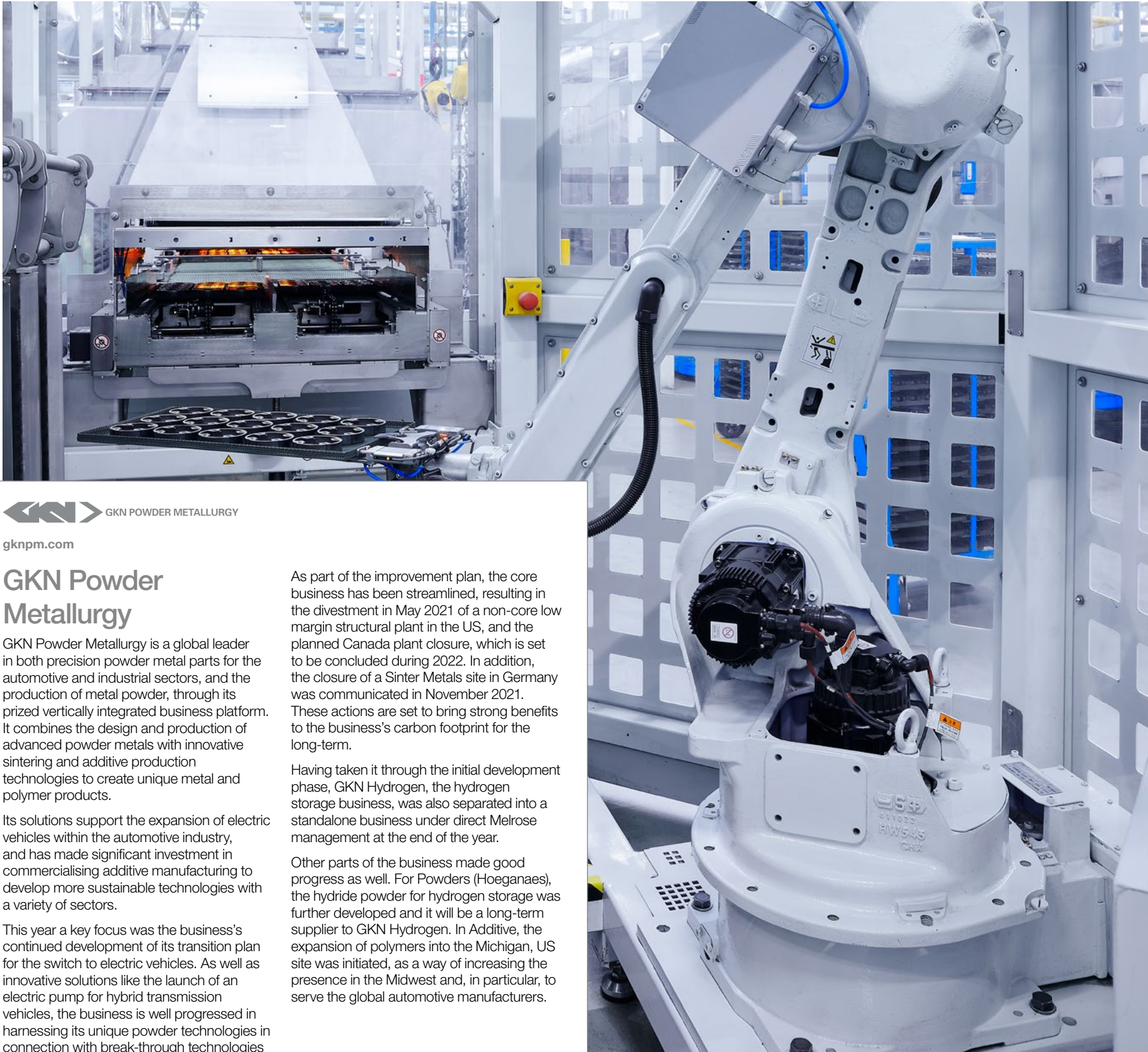
GKN Automotive is a leading supplier of driveline technologies to the global automotive industry and a trusted partner to over 90% of the world's car manufacturers for electrification, all-wheel drive programmes and new vehicle concepts. It is leading the way in electric vehicle drive system technology, and continues to make significant investment into a range of e-Drive capabilities.

Headquartered in the UK and operating in 20 countries, it also has a leading presence in China thanks to its long-standing joint venture, Shanghai GKN HUAYU Driveline Systems Co Limited, with local partner HASCO.

GKN Automotive's Driveline division is a global leader that demonstrates strength in depth and breadth, with an extensive portfolio of drive system products that combine value with technological leadership spanning all light vehicle types, from high-volume low-cost to premium models for both conventional and electrified propulsion systems. The ePowertrain division offers solutions for all electrified vehicles and is a go-to technology partner for Global OEMs with decades of experience. Its ability to fully integrate e-Drive systems derives from its all-wheel drive heritage and leadership.

In 2021, the Driveline division accelerated its shift towards electrification by further adapting its portfolio to match the changing demands of new-energy vehicles. The business completed 48 new programme launches and continued to secure a significant share of new business wins on electrified vehicle platforms, reinforcing the division's industry-leading position through its premium core products. The ePowertrain division is increasingly benefitting from light vehicle electrification and delivering impressive growth. In 2021, the business saw the production launch of 12 new programmes across 11 different global brands powered by GKN Automotive technology.

The next generation of e-Drive systems is now in development with a focus on reduced weight and increased efficiency and power density. With deep expertise across all elements of e-Drive, a heritage of manufacturing excellence and a global footprint, ePowertrain is a leading development partner for major leading electrified vehicle manufacturers, featuring components on seven of the top ten global platforms outside of China. New business wins in 2021 included the award of the first fully outsourced 3-in-1 system for one of the major German manufacturers.



 **GKN POWDER METALLURGY**
gknpm.com

GKN Powder Metallurgy

GKN Powder Metallurgy is a global leader in both precision powder metal parts for the automotive and industrial sectors, and the production of metal powder, through its prized vertically integrated business platform. It combines the design and production of advanced powder metals with innovative sintering and additive production technologies to create unique metal and polymer products.

Its solutions support the expansion of electric vehicles within the automotive industry, and has made significant investment in commercialising additive manufacturing to develop more sustainable technologies with a variety of sectors.

This year a key focus was the business's continued development of its transition plan for the switch to electric vehicles. As well as innovative solutions like the launch of an electric pump for hybrid transmission vehicles, the business is well progressed in harnessing its unique powder technologies in connection with break-through technologies for magnets for e-motors.

As part of the improvement plan, the core business has been streamlined, resulting in the divestment in May 2021 of a non-core low margin structural plant in the US, and the planned Canada plant closure, which is set to be concluded during 2022. In addition, the closure of a Sinter Metals site in Germany was communicated in November 2021. These actions are set to bring strong benefits to the business's carbon footprint for the long-term.

Having taken it through the initial development phase, GKN Hydrogen, the hydrogen storage business, was also separated into a standalone business under direct Melrose management at the end of the year.

Other parts of the business made good progress as well. For Powders (Hoeganaes), the hydride powder for hydrogen storage was further developed and it will be a long-term supplier to GKN Hydrogen. In Addition, the expansion of polymers into the Michigan, US site was initiated, as a way of increasing the presence in the Midwest and, in particular, to serve the global automotive manufacturers.



Other Industrial

Having sold Brush and Nortek Control during the year, the Other Industrial division now consists of Ergotron and the newly formed GKN Hydrogen business.


ergotron.com

Ergotron

Ergotron is a leading designer, manufacturer and distributor of ergonomic products for use in a variety of working, learning and healthcare environments. Based in Minneapolis, US, Ergotron comprises three business segments: Healthcare, Workspace, and Custom. Ergotron is respected for high quality, professional-grade products that last.

Customers' buying behaviour in Ergotron's key end markets saw several shifts following the onset of the COVID-19 pandemic, which have been most notable and impactful for Ergotron within the Workspace segment. During 2021 there was continued acceleration towards hybrid office working models, and increased focus on mind, body and ergonomics to improve health and productivity. Ergotron's solutions and offerings relating to adaptable and flexible working environments continued to evolve during 2021, including Ergotron's innovative monitor arm technologies and solutions that create seamless workflows and support larger multiple monitor systems, to accommodate variability in working environments and encourage ease of movement, whilst enhancing employees' ability to collaborate regardless of their physical location.

In the Healthcare segment, Ergotron continued to innovate its medical carts solutions during 2021, offering health and wellness benefits that increase workplace productivity and healthcare service efficiency, and improve physical risk mitigation within a variety of care settings to enable the delivery of both increased caregiver comfort and high-quality patient care. Ergotron's innovative product designs are agile to support a variety of care settings including nurse stations, mobile clinical delivery, home environments and virtual delivery.

 **GKN HYDROGEN**
gknhydrogen.com

GKN Hydrogen

GKN Hydrogen offers a state-of-the-art metal hydride storage solution that was initially developed under the umbrella of the GKN Powder Metallurgy business. It harnessed GKN Powder Metallurgy's unique and industry leading knowledge of powder technology to create the most reliable and secure hydrogen storage solution currently available today. The robust system stores hydrogen compactly and safely in proprietary metal hydrides and it can be used in a wide range of industrial and commercial applications.

Having produced and tested pilot systems during 2021, the business has been separated into a standalone business within the Melrose Group in order to maximise the growth opportunity. GKN Hydrogen will now move into the commercialisation phase with increased focus in 2022 and beyond.

Environmental leadership and climate change

Melrose’s sustainability objectives in this area are to respect and protect the environment, and to continue to invest in and support our businesses as they develop products and services aligned with a net zero future.

Our Sustainability Objective	UN Goal
Respect and protect the environment	<div><div>7</div><div>7</div><div>7</div></div> <div><div>9</div><div>9</div><div>9</div></div> <div><div>13</div><div>13</div><div>13</div></div>
Continue to invest in and support our businesses as they develop products and services aligned with a net zero future	
Material Issue	Melrose Group Performance Target
Source our global electricity from renewable sources	<ul style="list-style-type: none">Source 50% of our electricity from renewable sources by 2025 and 75% by 2030⁽¹⁾
Divert our waste from landfill	<ul style="list-style-type: none">Divert 95% of our waste from landfill by 2025 and 100% by 2030⁽²⁾
Reduce our global Scope 1 and Scope 2 emissions intensity	<ul style="list-style-type: none">Reduce CO₂e/£m revenue by 20% on average across the businesses by 2025 and 40% by 2030⁽³⁾Achieve net zero Greenhouse gas emissions before 2050
Increase expenditure on research and development (“R&D”) relating to climate-related solutions that contribute to the decarbonisation of the sectors in which our businesses operate	<ul style="list-style-type: none">Achieve 50% of total R&D expenditure on climate-related R&D per year to contribute to the decarbonisation of the sectors in which our businesses operate by 2025, 75% by 2030 and 100% by 2040
Develop new products that contribute to the decarbonisation of the sectors in which our businesses operate	<ul style="list-style-type: none">Achieve 50% of new products which contribute to the decarbonisation of the sectors in which our businesses operate by 2025, 75% by 2030 and 100% by 2040

We are believers in industry and its potential to help solve society’s most pressing needs. We buy high-quality but underperforming industrial businesses, with established positions in markets that are often among the most difficult to decarbonise.

Melrose approaches its environmental strategy from two perspectives. Firstly, addressing its own emissions, both at a Group level and within each of the businesses that it owns, through the introduction of targets and providing support and targeted investment to the businesses. Secondly, by helping our businesses’ customers to address their emissions and to contribute to the decarbonisation of their respective industries.

We recognise the serious threat posed by climate change and the urgent need for meaningful action. The manufacturing businesses that we acquire often operate

in the industries that are some of the most difficult to decarbonise. We invest in and encourage our businesses to improve their operations and market offerings to minimise their impact on climate change and make them less vulnerable to climate-related risks, while safeguarding their long-term commercial success. We aim to effect meaningful change and improvement within our businesses during our ownership period. By setting a strong focus on sustainability improvement within each business we acquire, we want our businesses to continue their trajectory even after our ownership period.

Improving the sustainability performance of our businesses whilst helping their customers and key stakeholders tackle pressing climate challenges is at the core of Melrose’s “Improve” strategy. Through a combination of investment in our own operations, strategic

oversight and ground-breaking research and development, we and our businesses are directly addressing society’s most complex longer-term sustainability challenges. By developing and delivering innovative product solutions and processes, we are supporting the transition towards a net zero economy before 2050.

While under our ownership, we enable and support fast and sustainable operational improvement through targeted investment, helping to shape the long-term profitability and sustainability of our businesses. Our ambition is to achieve net zero Greenhouse gas (“GHG”) emissions in our Group’s operations before 2050 in line with the UK Government’s target, and in order to achieve the goals of the Paris Agreement. To meet this goal, each of our businesses have agreed and implemented sustainability targets and commitments aligned with our Group sustainability targets, which are aligned to the UN Sustainability Development Goals (“UN SDGs”) and the sustainability issues that are most material to our key stakeholders.

In 2021, the Group achieved reductions in total absolute Scope 1 and Scope 2 GHG emissions (-14%), energy and consumption (-6%) and water withdrawal (-8%). The Group also reported some Scope 3 emissions for the first time. Despite these absolute reductions, there were increases in the Company’s chosen intensity ratios, as shown on pages 52 to 53. This is reflective of the fact that Nortek Air Management, Brush and Nortek Control, which were disposed of during the period (and therefore are not included from both an emissions and a revenue perspective for 2021), had less resource-intense operations than the Group’s remaining businesses, as well as Nortek Air Management’s revenues being less impacted in 2021 than the GKN businesses in particular.

Melrose sets a positive example and enables and empowers its businesses to follow its lead. Although the central Melrose carbon footprint is relatively limited, we offset the emissions that we generate. The Melrose corporate offices have attained the CarbonNeutral® company certification for 2019, 2020 and 2021 through a combination of internal energy efficiency initiatives and financing high-quality, high-impact emissions reduction projects in accordance with The CarbonNeutral Protocol⁽⁴⁾. The Melrose corporate office in the US also has the HinesGo (Green Office) designation in recognition of its sustainability practices and energy efficiency performance, among other environmental and wellbeing criteria.

In 2021, we developed our Group Environmental policy to demonstrate our commitment towards driving sustainable production methods and infrastructure, and minimising the potential negative impact that our businesses may have on the environment over the longer term. The policy, which applies to all individuals working across our businesses and has been approved by the Board, can be found on our website (<https://www.melroseplc.net/media/2805/environmental-policy.pdf>). Our Conflict Minerals policy, which sets out the expectations of Melrose and its business units towards their suppliers with regards to conflict minerals can also be found on our website (<https://www.melroseplc.net/media/2593/conflict-minerals-policy.pdf>).

“ Our businesses work closely with their customers and world-class research institutions to develop market-leading, cost-effective innovations, delivering solutions that address environmental challenges.”

(1) Where renewable electricity is commercially and reasonably available in the relevant jurisdiction.
(2) Excluding hazardous waste, which is already disposed of correctly outside landfill.
(3) Target baselined on 2021 performance. Baseline was set in conjunction with the timeframe of the Group’s target setting process.
(4) Source: <https://carbonneutral.com/the-carbonneutral-protocol>.

Helping customers
address climate change

Product responsibility is central to the Melrose model of acquiring and improving underperforming manufacturing businesses. This is grounded in investing in safe and sustainable production practices, and demonstrated by sustainable product performance and effective product life cycle management. Furthermore, we recognise the risks and opportunities that the transition to a net zero economy presents for our businesses and their customers. Despite our business often operating in some of the hardest industries to decarbonise, we work closely with them to ensure that they are well positioned to meet emerging regulatory requirements and wider environmental expectations.

Climate-related issues have a direct impact on product strategy, development and financial planning across all our businesses. Our businesses work closely with their customers and world-class research institutions to develop market-leading and cost-effective innovations, delivering solutions that address environmental challenges.

In 2021, our businesses invested over £153 million in developing products that help their customers improve their energy efficiency and to reduce their GHG emissions, water consumption and waste generation compared with conventional technologies.

Pages 16 to 20 set out further details on how each of the GKN businesses are helping their customers address climate change. More information on high profile projects can be found on pages 12 to 29 of our 2021 Annual Report.

GKN Aerospace

GKN Aerospace continues to invest a significant proportion of its research and development spend each year in enhancing fuel efficiency and reducing emissions within aircraft. The business leverages publicly available funding to support climate-related research and development, such as Clean Sky in Europe. GKN Aerospace is a signatory to the Joint Declaration of European Aviation Stakeholders related to Clean Aviation in Horizon Europe, committing to a European Partnership towards achieving the goals of the Paris Agreement. GKN Aerospace has also committed to achieving net zero GHG emissions by 2050 and to designing products that will enable its customers to develop aircraft that emit net zero GHG emissions throughout their life cycle by 2050.

Notable achievements in new and ongoing projects to help support this goal include:

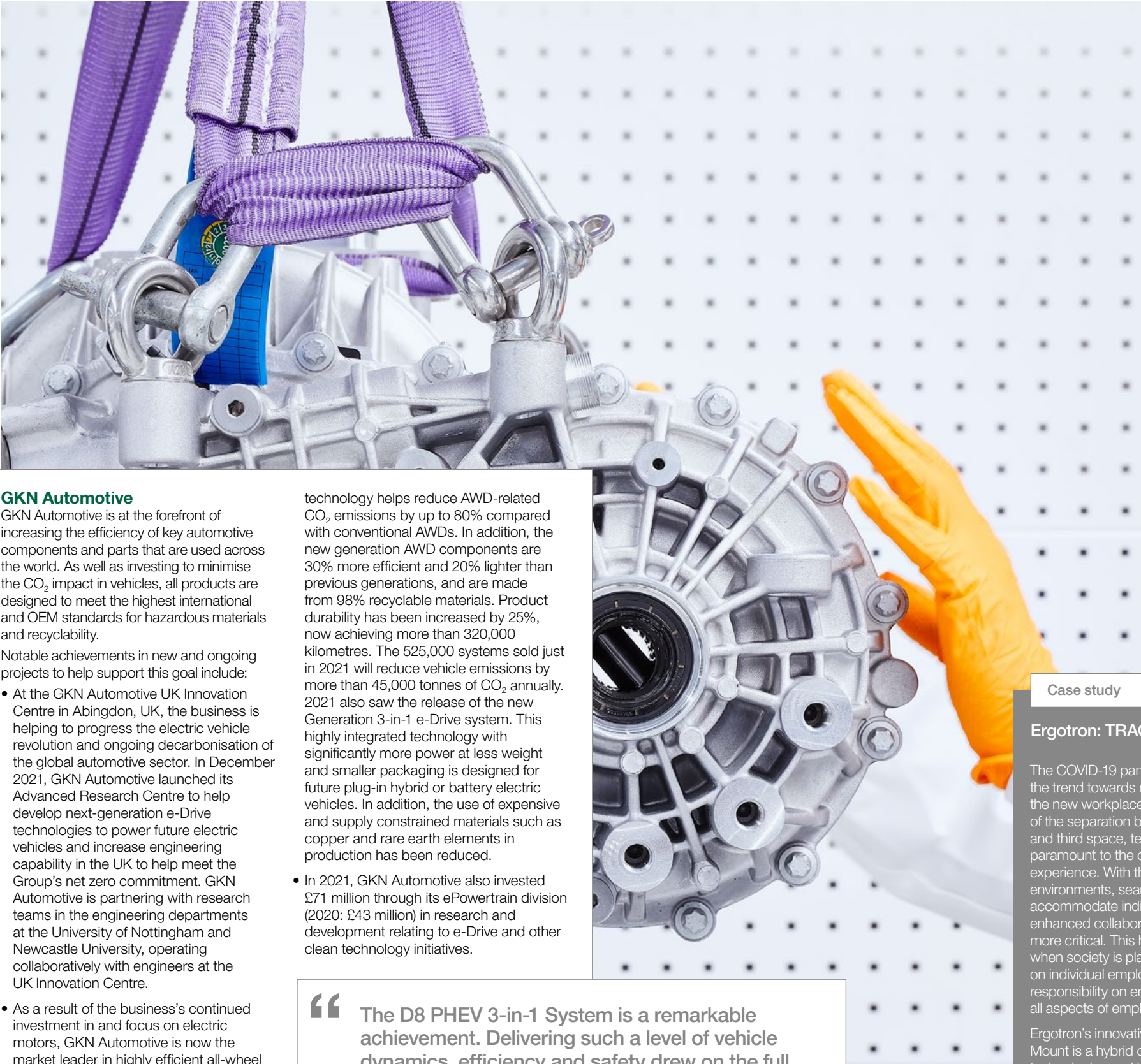
- **Leading the ground-breaking development in liquid hydrogen technology.** The £54 million collaborative H2GEAR programme focuses on technology to accelerate aerospace decarbonisation, with the goal of zero CO₂ emissions hydrogen-powered sub-regional aircraft entering the skies as early as 2026. The programme is expected to create more than 3,100 jobs across the UK and will reinforce the UK's position at the forefront of aerospace technology research and development.

- **Developing, in collaboration with HiiROC, a “turquoise hydrogen” technology developer, a hydrogen gas generation solution for the GKN Aerospace Global Technology Centre (“GTC”) in Bristol, UK.** The project, which is in its early stages, aims to combine HiiROC's H2 generation technology with current hydrogen storage technology from GKN Hydrogen to replace the use of natural gas at the GTC. If successful, this may present a significant opportunity across the wider business in terms of reducing energy and emissions footprint.

- **The manufacture and delivery of the first fully integrated wings, rear fuselage, tail plane, movable devices and wiring system for Eviation's Alice experimental electric aircraft in 2021.** The Eviation Alice aircraft is the world's first bespoke designed all electric aircraft in the new sub-regional electric air vehicle market, which boasts zero tail pipe emission in operation and incredibly low operational cost. In August 2021, GKN Aerospace was engaged in refining the configuration of the aircraft certification standard. Successes on the Eviation Alice programme have reinforced GKN Aerospace's position as an industry leader in developing and delivering fully equipped major aerostructure modules and in the field of producing rapid tailored solutions for the sustainable aviation market.

- **Being a key partner in Airbus' “Wing of Tomorrow” composite spar project.** The UK Aerospace Technology Institute-funded programme, led by Airbus UK, aims to provide technologies for a sustainable future single aisle wing. A composite wing is the most significant opportunity for the single aisle airframe to improve aerodynamic performance, and to reduce CO₂ emissions by many millions of tonnes every year. The work is being undertaken in GKN Aerospace's new GTC in Bristol, UK, with the business investing more than £25 million in the programme over three years. During 2021, GKN Aerospace used its expertise in resin transfer moulding technology to deliver its first composite wing spar and fixed trailing edge. Sustainability has been firmly in mind in designing the manufacturing system to complete the assembly tasks. These developments will provide significant manufacturing improvements through reduced energy consumption, reduced production waste and increased opportunity for equipment modification or repurposing, leading to reduced environmental impact both in GKN Aerospace and through the equipment supply chain.
- **Leading in the testing of sustainable aviation fuels.** Pioneering development in the use of biofuels in aviation could lead to huge reductions in carbon emissions. Test flights using the Gripen RM12 engine powered 100% by biofuel have so far shown excellent performance both in flight and on the ground. GKN Aerospace's leading engine technology enables biofuels to be used interchangeably with normal jet fuel.





GKN Automotive

GKN Automotive is at the forefront of increasing the efficiency of key automotive components and parts that are used across the world. As well as investing to minimise the CO₂ impact in vehicles, all products are designed to meet the highest international and OEM standards for hazardous materials and recyclability.

Notable achievements in new and ongoing projects to help support this goal include:

- At the GKN Automotive UK Innovation Centre in Abingdon, UK, the business is helping to progress the electric vehicle revolution and ongoing decarbonisation of the global automotive sector. In December 2021, GKN Automotive launched its Advanced Research Centre to help develop next-generation e-Drive technologies to power future electric vehicles and increase engineering capability in the UK to help meet the Group's net zero commitment. GKN Automotive is partnering with research teams in the engineering departments at the University of Nottingham and Newcastle University, operating collaboratively with engineers at the UK Innovation Centre.
- As a result of the business's continued investment in and focus on electric motors, GKN Automotive is now the market leader in highly efficient all-wheel drive ("AWD") and e-Drive systems, enabling its customers to improve fuel efficiency and reduce their carbon emissions. The Disconnect AWD

technology helps reduce AWD-related CO₂ emissions by up to 80% compared with conventional AWDs. In addition, the new generation AWD components are 30% more efficient and 20% lighter than previous generations, and are made from 98% recyclable materials. Product durability has been increased by 25%, now achieving more than 320,000 kilometres. The 525,000 systems sold just in 2021 will reduce vehicle emissions by more than 45,000 tonnes of CO₂ annually. 2021 also saw the release of the new Generation 3-in-1 e-Drive system. This highly integrated technology with significantly more power at less weight and smaller packaging is designed for future plug-in hybrid or battery electric vehicles. In addition, the use of expensive and supply constrained materials such as copper and rare earth elements in production has been reduced.

- In 2021, GKN Automotive also invested £71 million through its ePowertrain division (2020: £43 million) in research and development relating to e-Drive and other clean technology initiatives.

“ The D8 PHEV 3-in-1 System is a remarkable achievement. Delivering such a level of vehicle dynamics, efficiency and safety drew on the full capability of GKN Automotive’s technology and its systems engineering. A technology that meets the high demands of Jaguar Land Rover.”
Jaguar Land Rover

GKN Powder Metallurgy

GKN Powder Metallurgy's new proprietary electric pumps are substituting engine driven pumps on vehicle transmissions. A conventional automobile pump system causes the pump to be constantly driven, resulting in unnecessary energy wastage. GKN Powder Metallurgy's new electric pump system operates on demand, actuated from the electronic controlling unit of the car, thereby reducing energy waste. This ground-breaking technology can achieve a fuel benefit of up to 10% compared to a conventional engine driven pump operating within a conventional driving mode. For full hybrid and electric vehicles, the electric pump is set to become the leading solution for lubrication and cooling.

GKN Powder Metallurgy has also developed a number of technological solutions that focus on supporting vehicle electrification, including motor components and magnet technology.



Case study

Ergotron: TRACE™ and Constant Force™

The COVID-19 pandemic has accelerated the trend towards multiple workspaces as the new workplace reality. With the blurring of the separation between office, home and third space, technology has become paramount to the overall employee experience. With this variability in working environments, seamless workflow to accommodate individual needs and enhanced collaboration has become ever more critical. This has come at a time when society is placing greater focus on individual employee health and a responsibility on employers to support all aspects of employee wellbeing.

Ergotron's innovative TRACE™ Monitor Mount is a hybrid of Ergotron's best technologies and innovations, offering users the freedom to meet the needs of their unique workstyles and positively

impact their performance, wellbeing and satisfaction. Ergotron's Constant Force™ technology pairs with a linear guide system that allows for smooth monitor adjustment and 240 degrees pan for a flexible, ergonomic set-up. In personal or shared workspaces, users can work seated or standing, with their monitors at a customisable height to support the ideal posture for comfortable, healthy working. Ergotron's proprietary TRACE™ arm technology provides an easier and more intuitive positioning of the display. Set apart from traditional monitor arms, the TRACE™ Monitor Mount is designed with distinct vertical and lateral movements to move in a straight line, tracing the user movement along its natural path to effortlessly transition between individual and collaborative work, always returning to the personalised home position.



Case study

GKN Aerospace: advanced Engines technology targets 25% efficiency improvement

GKN Aerospace's world-leading Engines business fulfilled a major milestone in 2021, with the development of a range of brand new technologies to optimise the next generation of aircraft engines. GKN Aerospace successfully delivered a ground-breaking Intermediate Compressor Case ("ICC") to the Rolls-Royce UltraFan™ engine demonstrator programme, which is aiming to achieve a 25% improvement in fuel efficiency over the first generation of Trent engines.

The ICC structure is situated between an engine's compressor cases, and carries the rotor gas loads to the engine casing and thrust mounts. The development, manufacture and testing of GKN Aerospace's latest ICC will demonstrate and validate a range of new technologies, including a low-cost and robust 'sectorised' fabrication concept with castings. This approach makes use of an innovative welding method based on computer simulations and model-based design methods. It also incorporates optimised bleed system aerodynamics and acoustics, as well as shorter duct design and 3D printing of attaching parts.

GKN Aerospace's additive manufacturing expertise in electron beam melting has enabled it to efficiently create and incorporate over 15 individual components into the ICC duct design, optimising the ICC's design through cutting-edge manufacturing technologies and methods.

GKN Aerospace is a Rolls-Royce Core Partner in the European Clean Sky 2 programme, with responsibility for design and manufacture of the ICC. UltraFan™ is Rolls-Royce's next-generation engine family and features a new engine core architecture and introduces a geared design. The aim is for full engine ground testing during 2022, with flight-testing to follow.

Clean Sky 2 is the largest European aeronautics research programme, developing innovative, cutting-edge technology aimed at reducing CO₂ emissions and noise levels produced by aircraft. Funded by the EU's Horizon 2020 programme and Europe's aviation industry, Clean Sky 2 contributes to strengthening European aero-industry collaboration, global leadership and competitiveness.



Product life cycle management

Our businesses assess the impact of their products on the environment in terms of material usage, waste, energy usage and CO₂ emissions throughout each product life cycle. By incorporating circular economy principles into their design and manufacturing processes, our businesses can reduce their environmental impact and deliver products to their end-markets with increased durability and longevity, and reduced waste. Across the Group, life cycle assessments have been completed for 14% (by revenue) of total products sold in 2021.

To limit the end-of-life product impact on the environment, a number of our businesses are actively involved in product take-back programmes.

GKN Automotive is involved in an initiative whereby old driveshafts are collected from designated garages and transformed into "as good as new" products with savings on energy, water, CO₂ and steel production. In addition, 100% of GKN Automotive's driveline products can be remanufactured for reuse.

GKN Powder Metallurgy performs life cycle product assessments certified with applicable standards (ISO 14040 and/or ISO 14044). The process is reviewed during third party external audits. Hazardous substances, GHG emissions and raw materials are included in the review. Risks and opportunities are considered across all processes: design, development, procurement, production, transport, packaging, use, end-of-life treatment and end-of-life cycle. Several improvement actions have been identified following the completion of these assessments, including:

- recycling of metals and other materials to reduce landfill;
- conducting surveys on compressed air systems to reduce energy consumption from air leaks;
- eliminating or reducing the use of petroleum products; and
- improving manufacturing operations to improve energy efficiency and GHG emissions.

In addition, the products from GKN Powder Metallurgy's Powders (Hoeganaes) division are 100% recyclable, and their powder is made from scrap. It also takes back green (not yet sintered) scrap and unused powder from internal and external customers, re-mills it and mixes it back into new products.

Ergotron performs life cycle product assessments in accordance with the ANSI/BIFMA e3:2014 standard to reduce energy use, water use and hazardous materials in production processes and in end products. Life cycle assessments are performed on 100% of new office products. In addition, in 2021, Ergotron implemented a "no foam" policy for all new products in development, with the goal of removing all EPS ("polystyrene foam plastic") and EPE ("polyethylene foam plastic") from packaging over time as part of its long-term sustainability plan. Early successes in this effort include the elimination of EPS in the five highest volume products and voluntarily reduced customer-specified EPE in the private label arms. Reduction or elimination of foam will reduce its carbon footprint significantly over time.

Melrose Group disclosures in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD")

In complying with the requirements of the new Listing Rule on climate-related disclosures, we have included disclosures against all the key areas recommended by the TCFD. This is our first report following the recommendations of the TCFD and covers our approach as at 31 December 2021. We recognise that we will need to build on the efforts started in 2021 and are committed to continuously improving our approach.

In the table in the Annex to this Sustainability Report on pages 54 to 55, we summarise our disclosures against each of the TCFD recommendations and we cross-refer to where the disclosures are in our 2021 Annual Report. In assessing coverage, we took into consideration the output of our first qualitative climate scenario analysis as summarised on pages 22 to 23, and the guidance documents referred to in the guidance notes to the relevant Listing Rule.

Climate scenario analysis in 2021

The Group is exposed to climate risks and opportunities through our individual businesses. We are aware that the effects of climate change on specific sectors and businesses are highly variable. In 2021, we engaged with external consultants, Ernst & Young, to carry out our first climate scenario analysis to qualitatively assess the likelihood and impacts of climate change related risks on our Group⁽¹⁾.

The climate scenarios that were used for the assessment were:

Lower carbon scenario (RCP 2.6)

Very stringent decarbonisation pathways through policy and technology shifts. In this scenario, emissions start declining immediately and reach zero by 2100. It is likely to keep warming below 2°C, resulting in lower expected physical climate risks.

Higher carbon scenario (RCP 6.0)

Some emissions mitigation. Emissions rise to 2080 and fall. Warming is likely to exceed 2°C degrees, resulting in higher expected physical climate impacts.

The analysis focused on a selection of climate-related risk categories across physical and transition risk areas. Given the nature of the analysis and the sectors that our businesses operate within, we identified key areas of material risk exposure that are in various stages of mitigation across the businesses. We have provided an overview below of the Group's physical and transition climate risk exposure and responses.

Overview of Melrose Group transition climate risks and opportunities

Risk description	Risk trends and impacts	Lower carbon scenario	Higher carbon scenario																																
Technology Technology transition risks through increasing demand for lower carbon technologies that render current products obsolete. There are also potential risks from unsuccessful investment in new technologies. Risks and Opportunities	The businesses are exposed to increasing technology risks over time under both the lower and higher carbon scenarios. This is due to rising pressure on their sectors and customers to develop and scale new lower carbon technologies to drive down emissions (for example, use of hydrogen, zero carbon aircrafts, increasing penetration of battery electric and plug-in hybrid electric vehicles). <i>Potential financial impacts include increased operating costs on research and development to respond to technology and market trends and increasing capex to invest in new and specialist machinery.</i>	<table><tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr><tr><td>2023</td><td></td><td></td><td></td></tr><tr><td>2026</td><td></td><td></td><td></td></tr><tr><td>2040</td><td></td><td></td><td></td></tr></table>		Low	Medium	High	2023				2026				2040				<table><tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr><tr><td>2023</td><td></td><td></td><td></td></tr><tr><td>2026</td><td></td><td></td><td></td></tr><tr><td>2040</td><td></td><td></td><td></td></tr></table>		Low	Medium	High	2023				2026				2040			
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Market Market risks from changing demand for products due to shifting customer sentiment towards lower carbon options. Risks and Opportunities	This risk is intricately linked with Technology risks and Sector reputation risks. Under the lower carbon scenario, market risk exposure remains a stable medium across all time horizons. Under the higher carbon scenario, the risk exposure does not manifest until 2040. <i>Potential impacts to revenue due to changing product demand (for example, reduced demand for internal combustion engine parts and increasing demand for electric vehicle parts in the automotive sector).</i>	<table><tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr><tr><td>2023</td><td></td><td></td><td></td></tr><tr><td>2026</td><td></td><td></td><td></td></tr><tr><td>2040</td><td></td><td></td><td></td></tr></table>		Low	Medium	High	2023				2026				2040				<table><tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr><tr><td>2023</td><td></td><td></td><td></td></tr><tr><td>2026</td><td></td><td></td><td></td></tr><tr><td>2040</td><td></td><td></td><td></td></tr></table>		Low	Medium	High	2023				2026				2040			
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Carbon policy and regulations Risks from carbon policies and regulation, including taxes and bans on specific products and processes. This also includes carbon pricing on carbon intensive materials such as steel and plastic. Risks	Due to the energy intensive nature of manufacturing, the divisions are exposed to increasing carbon policy and regulatory risks in short, medium and long-term horizons, particularly under the lower carbon scenario. The higher carbon scenario assumes less near-term regulatory intervention and as such, risk exposure does not begin to manifest until 2040. <i>Potential impacts to operating cost and revenue due to carbon taxes and regulatory interventions. Potential impacts due to increasing cost of the raw components in manufacturing.</i>	<table><tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr><tr><td>2023</td><td></td><td></td><td></td></tr><tr><td>2026</td><td></td><td></td><td></td></tr><tr><td>2040</td><td></td><td></td><td></td></tr></table>		Low	Medium	High	2023				2026				2040				<table><tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr><tr><td>2023</td><td></td><td></td><td></td></tr><tr><td>2026</td><td></td><td></td><td></td></tr><tr><td>2040</td><td></td><td></td><td></td></tr></table>		Low	Medium	High	2023				2026				2040			
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Sector reputation Risk that high-emitting, hard to decarbonise sectors are exposed to increased sector stigmatisation. This may affect the attractiveness of investments in companies exposed to carbon intensive industries, including within the aerospace sector and other manufacturing sectors. Risks and Opportunities	Reputation risks were found to be low in the short-term under the low carbon scenario but expected to increase in the medium and long-term. Reputation risk was the only climate risk that was found to be higher under the higher carbon scenario. This is due to assumptions around increased stakeholder pressure to the limited carbon policies assumed in this scenario. <i>Potential impacts include reduced access to capital due to investor preference for companies less exposed to high emitting activities.</i>	<table><tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr><tr><td>2023</td><td></td><td></td><td></td></tr><tr><td>2026</td><td></td><td></td><td></td></tr><tr><td>2040</td><td></td><td></td><td></td></tr></table>		Low	Medium	High	2023				2026				2040				<table><tr><th></th><th>Low</th><th>Medium</th><th>High</th></tr><tr><td>2023</td><td></td><td></td><td></td></tr><tr><td>2026</td><td></td><td></td><td></td></tr><tr><td>2040</td><td></td><td></td><td></td></tr></table>		Low	Medium	High	2023				2026				2040			
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(1) Ergotron was excluded from the analysis due to low materiality. Its revenue weighting for the Group was 3% based on H1 2021 data.

Overview of Melrose Group physical climate risk

In the scenario analysis, physical climate risks were given a single combined risk rating across both scenarios assessed. This is because physical outcomes do not begin to diverge significantly until after 2040 under the scenarios used. Please see below for an overview of the Group's physical climate risk exposure.

The analysis assessed the following physical climate risks categories:

- **Property** – risks from physical damage to property because of extreme weather events (acute) or changes to the climate experienced over a period of time (chronic).
- **Supply chain** – risks from disruption to the supply chain because of extreme weather events (acute) or changes to the climate experienced over a period of time (chronic). For example, impacts of extreme weather events in key supplier locations.
- **Production** – risks to the production process or demand for products because of changes in the climate. For example, potential impacts of higher temperatures on labour productivity and production outputs.

Melrose Group-level exposure to physical climate risks

	Across both scenarios (RCP 2.6 and RCP 6.0) ⁽¹⁾								
	2023			2026			2040		
	Low	Medium	High	Low	Medium	High	Low	Medium	High
Property									
Supply chain									
Production									

(1) Physical risks have been given a single combined risk rating across both scenarios used.

Overall, physical climate risk exposure was found to be significantly lower across the divisions relative to transition risk. The scenario analysis found low exposure to material or unmitigated physical climate risk across divisions in the short and medium-term time horizons under both scenarios. Physical risks begin to increase in the longer-term time horizon (from 2040), for example through increasing likelihood of river flooding risk in the UK or increasing wildfire risk in California.

The businesses have prioritised the most material climate risk exposures, namely the transition risks outlined in the table opposite. However, physical climate risks will continue to be monitored as part of the Group strategic risk framework. Please see the Risks and uncertainties section on page 47 of our 2021 Annual Report for more details on the Group's approach to climate risk management.

Environmental reporting

Our environmental reporting covers all entities over which the Group had financial control for a period of at least one year as at 31 December 2021. Emissions from entities acquired or disposed of during the reporting period (i.e. disposed of before 31 December 2021 or acquired on or after 1 January 2021) are not accounted for in this section in respect of 2021 data.

Given that the Melrose business model is to “Buy, Improve, Sell” businesses, the consolidated Group emissions data contained in this report can often show significant year-on-year changes, which may not reflect the underlying performance of each individual business in the Group.

In 2021, the Group achieved reductions in total absolute Scope 1 and Scope 2 GHG emissions (-14%), energy consumption (-6%) and water withdrawal (-8%). The Group also reported some Scope 3 emissions for the first time.

Our emissions and other environmental disclosures are set out in the Annex to this Sustainability Report on pages 52 to 53.

The Group’s chosen intensity ratio is emissions, energy consumption and water withdrawal reported above normalised tonnes, MWh, or m³ per £1,000 of turnover, which we believe remains the most appropriate intensity ratio for Melrose given our business model and structure. Although absolute emissions, energy and water decreased in 2021, the Scope 1 and Scope 2 emissions, energy consumption and water withdrawal intensity ratios increased.

The increase in the intensity ratios in 2021 is reflective of the fact that Nortek Air Management, Brush and Nortek Control, which were disposed of during the period (and therefore are not included from both an emissions and a revenue perspective for 2021), had less resource-intense operations than the Group’s remaining businesses, as well as Nortek Air Management’s revenues being less impacted in 2020 than the GKN businesses in particular.

No material environmental fines or penalties were issued against any of the businesses in 2021 or in the previous four years.

Greenhouse gas emissions

The GHG emissions for the Group, broken down by Scope 1, Scope 2 and some Scope 3 emissions, can be found in Table 1 on page 52 of the Annex to this Sustainability Report.

Table 2 on page 52 of the Annex to this Sustainability Report shows a breakdown of the Group’s GHG emissions by type and by where those emissions were incurred. Our Scope 1 and Scope 2 emissions for 2021 encompass methane (CH₄) and nitrous oxide (N₂O). The vast majority of our emissions are from carbon dioxide (CO₂), which is common among most industrial businesses. There have been reductions in all GHG emission types between 2020 and 2021 across the Group. The reductions in SF₆ are attributable to the sale of Brush and the reductions in R134a are attributable to the sale of Nortek Air Management, which were historically responsible for these emissions. Scope 2 N₂O and CH₄ emissions have decreased in line with the general reduction in year-on-year energy usage and a decrease in the emission factors for many countries.

Table 3 on page 53 of the Annex to this Sustainability Report is new for 2021 and shows the CO₂ arising from the combustion process associated with biofuels (in this case wood pellets), which have much lower associated emissions than an equivalent energy usage of fossil fuels. The 60% increase in emissions is attributable to an increase in the amount of wood pellets burnt at the sites. This is presented for completeness to demonstrate the Group’s efforts to move away from fossil fuels and use net zero fuels where possible. The emissions arising from this process are assumed to be absorbed by the growth of the biofuel source, i.e. the trees used to make the wood pellets.

Table 4 on page 53 of the Annex to this Sustainability Report shows the energy consumption by type for the Group, broken down by UK and overseas consumption, in accordance with the requirements of the SECR regulations. The Company’s chosen intensity ratio in this regard is megawatts usage (“MWh”) per £1,000 of turnover.

Water

Water is an essential resource for multiple production processes utilised within our businesses. It is acknowledged, however, that water scarcity is a global challenge, causing a range of issues that cannot be solved unilaterally. Whilst water withdrawal for the Group is not considerable compared to peers, water conservation is becoming an increasingly important issue for some of our stakeholders and therefore water has been elevated to a key sustainability topic in terms of materiality.

We encourage our businesses to reduce their water withdrawal and consumption through implementing measures to lessen water use through their production processes. This not only decreases the impact of our businesses’ activities on water sources at a local level, but also reduces the risk of water scarcity impacting operations.

In 2021 we made progress in our water data collection and undertook a mapping exercise to identify any operational sites within the businesses that are in current or potential future areas of water stress. The improved data collection processes and scope will enable us to establish more robust baselines for reporting our future progress, to establish a water target, and to highlight sites located in water stressed areas where engagement is required to reduce water withdrawal.

Water withdrawal data is presented in Table 5 on page 53 of the Annex to this Sustainability Report, showing a decrease in 2021 compared to 2020. The increase in the water intensity ratio for 2021 is reflective of the fact that Nortek Air Management, Brush and Nortek Control, which were disposed of during the period (and therefore are not included from both an emissions and a revenue perspective for 2021), had less resource-intense operations than the Group’s remaining businesses, as well as Nortek Air Management’s revenues being less impacted in 2020 than the GKN businesses in particular.

During the year, we also conducted a high-level analysis of our operations in water stressed⁽¹⁾ areas. We reviewed whether we have any manufacturing or office sites⁽²⁾ operating in areas of ‘high’ (40%-80%) or ‘extremely high’ (>80%) baseline water stress, according to the World Resources Institute’s (“WRI”) Aqueduct Water Risk Atlas tool. Areas of high or extremely high water stress, according to the WRI definition, are areas where human demand for water exceeds 40% of resources. We have identified that 20% of our businesses’ current sites are located in areas of ‘extremely high’ baseline water stress, and a further 15% of current sites are currently located in areas of ‘high’ baseline water stress. This analysis is being built upon alongside ongoing engagement with our businesses to work towards reducing withdrawals in these regions.

Waste management

Our businesses are actively encouraged to reduce the amount of waste they generate and to divert waste from landfill. To support this, we have implemented a Group-level target to divert 95% of non-hazardous waste to landfill by 2025 and 100% by 2030⁽³⁾.

Table 6 on page 53 of the Annex to this Sustainability Report shows the waste generation data for the Group in 2021, showing an overall increase in the total waste generated compared to 2020. This was partially driven by the reopening of sites following shutdowns caused by the pandemic. Despite the increase in absolute waste weight, there have been significant reductions in the proportion of non-hazardous waste that is incinerated and sent to landfill. Additionally, a larger proportion of waste is being sent to higher waste hierarchy options of recycling and hazardous waste treatment in 2021 compared to 2020.

This section has been prepared for the reporting period of 1 January 2021 to 31 December 2021, 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 the Streamlined Energy and Carbon Reporting guidance dated March 2019. The Greenhouse Gas Protocol standard covers the accounting and reporting of seven Greenhouse gases covered by the Kyoto Protocol.

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors’ Reports) Regulations 2013 and under the UK’s Streamlined Energy and Carbon Reporting (“SECR”) requirements. All material emissions from within the organisational and operational scope and boundaries of the Group are reported.

These sources fall within our Consolidated Financial Statements. We do not have responsibility for any emission sources that are not included in our Consolidated Financial Statements. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), and data has been gathered in accordance with our GHG reporting procedure. The emission factors from the UK Government’s GHG Conversion Factors for Company Reporting 2021 (DEFRA factors) have been used to calculate the GHG emission figures together with IEA country-specific factors for the associated overseas electricity usage.

Due to the decentralised nature of the Group and differing operations of businesses which the Company may acquire, there are no standardised environmental KPIs used throughout the Group. Businesses provide data for relevant environmental indicators, including energy consumption, CO₂ emissions, water withdrawal, waste disposal, solid waste generation, and recycling.

(1) For these purposes, baseline water stress measures the ratio of total water withdrawals to available renewable surface and groundwater supplies. Water withdrawals include domestic, industrial, irrigation, and livestock consumptive and non-consumptive uses. Available renewable water supplies include the impact of upstream consumptive water users and large dams on downstream water availability. Higher values indicate more competition among users. Source: WRI Aqueduct 2019 (https://www.wri.org/applications/aqueduct/water-risk-atlas/#/?advancel=0&basemap=hydro&indicator=w_awr_def_tot_cat&lat=30&lng=-80&mapMode=view&month=1&opacity=0.5&ponderation=DEF&predefined=false&projection=absolute&scenario=optimistic&scope=baseline&threshold&timeScale=annual&year=baseline&zoom=3).

(2) For these purposes a ‘site’ is defined as a manufacturing site or office that is under the operational control of the relevant business. It excludes sites in which the Group holds an interest of 50% or less, and supplier or third-party facilities.

(3) Excluding hazardous waste, which is already disposed of correctly outside landfill.

(4) Data has been collected from 54% (by revenue) of the Group.

Environmental
stewardship

To enable the Group to meet its climate-related targets, our businesses are seeking to reduce energy usage and GHG emissions within their operations through more efficient use of electricity, fuel and heat, by increasing the proportion of renewable energy where commercially viable, and by implementing other climate-positive actions such as sustainable transport initiatives for employees.

During 2021, the Group as a whole invested in the following areas:

£1,936,419
on LED lighting retrofits

£917,525
on more efficient air conditioning and heating systems




£53,388
on renewable energy installations⁽⁴⁾

£953,738
on insulation improvements

£6,003,353
on energy efficient equipment

Key operational improvements to reduce energy consumption and emissions in 2021

The businesses take an appropriately tailored approach to implementing climate-related initiatives that are most relevant and impactful to improving their business activities and requirements, and their operational and market environments. Each business is at a different stage in their climate strategy depending on their maturity in this area, but all have implemented or are in the process of implementing a wide range of positive actions as outlined in the following table.

Action	 GKN AEROSPACE	 GKN AUTOMOTIVE	 GKN POWDER METALLURGY	ergotron [®]
Manufacturing processes	GKN Aerospace has implemented multiple improvements on manufacturing efficiencies across various sites, including the installation of new machines, reduction of compressed air production through the elimination of leaks, and refurbishing existing equipment to reduce electrical consumption. New close down procedures paired with a variety of timers, insulation and sensors led to reductions in the electrical consumption of machinery at the Portsmouth, UK site.	GKN Automotive has implemented a number of process improvements with the aim of reducing energy and emissions. For example, reduction of compressed air production through the elimination of leakages, furnace stand by temperature reduction, and introduction of standby mode in washing machinery.	GKN Powder Metallurgy has implemented energy efficient hydraulic valves on hydraulic presses. This project started in 2021, with completion planned during 2022.	–
Lighting retrofits	Most sites now operate with LED systems. Examples from 2021 include the Hoogetveen, Netherlands site, which has retrofitted the paint spray and dry cabins, resulting in a reduction in electrical consumption. The sites in Phoenix, US and Cromwell, US have also installed sensors to further reduce lighting consumption when areas are not being used.	There has been ongoing replacement of LED lighting across global sites. For example, at the Olesnica, Poland site, gradual replacement of fluorescent lamps with LED lighting has resulted in a saving of 53 MWh, and at the Tochigi, Japan site, a saving of 150 MWh has been achieved.	Most of the sites in Europe have already turned to LED lighting systems as part of extensive energy efficiency programmes within the region.	The business spent US\$31,600 in upgrades to light fixtures for LED lighting in office areas within the US. At the China sites, 550 fluorescent lights were replaced with LED lights.
Efficient air conditioning and heating systems	Ongoing maintenance, calibration and new technology upgrades have resulted in incremental improvements. For example, the replacement of an air conditioning system to a high efficiency ductless system in Amityville, US, the tuning and installation of timers to boilers and space heaters in El Cajon, US, and the construction of a 3,000 sq.ft. site in Phoenix, US using a high efficiency and programmable climate control system.	Improvements in building ventilation systems has led to a number of energy savings. For example, 150 MWh at Köping, Sweden and 130 MWh at Bruneck, Italy.	Installation of more efficient systems is being implemented on a site-by-site basis. For example, new energy efficient systems have been installed at the sites in China.	The installation of additional fans to reduce the cooled air loss in the workshops at the sites in China was completed in 2021. Other activities include the installation of new energy efficient air conditioning units at the Netherlands site.
Renewable energy installations	In 2021, the Hoogetveen, Netherlands site recorded a total solar energy production of 486,436 kWh. Other sites note similar plans for the near future.	Installation of rooftop solar system in Pune, India has resulted in an annual energy saving of 575 MWh.	–	–
Improvements to building insulation and its design	Improvements have been made to buildings through improved insulation or the installation of novel cooling systems. For example, the Filton, UK site employed heat recovery systems on two of their ventilation systems. The El Cajon, US site installed piping insulation for their rooftop steam lines, and the Mexicali, Mexico site renewed the external painting and protection of the facility.	–	–	The business has installed ceiling insulation at the Dongguan, China site, applied insulation on the windows in the workshop to block sunshine and reduce heat, and applied sealant to the exterior walls of the Netherlands site to reduce energy loss due to air flow through the building envelope and utility loads.
Investment in energy efficient equipment	Various facilities have taken action to invest in and use more efficient equipment. These range from upgrading milling tools to more energy efficient alternatives, the use of low-ink printers, and undertaking maintenance works to electric panels and motion sensors.	At the Newton, US plant, reducing the idle temperature of the furnaces from 850°C to 450°C, as well as shutting off completely over weekends and holidays, has resulted in a saving of 7,300 MWh per year.	A key focus area of 2021 was the sintering furnaces, with a team working on re-evaluating options for process and design that can further optimise energy efficiency. For new equipment, energy efficiency is part of the procurement strategy, with a strong focus on replacing old and less efficient equipment.	–
Reducing the impact of employee transportation	Multiple solutions have been employed to reduce the footprint of employees. The impact of commuting has reduced through increased working from home, as well as encouragement to use public transport and carpooling. The Mexicali, Mexico site utilises highly efficient buses for employee transportation, and the Kongsberg, Norway site has made e-bikes available for employees. The Filton, UK site has also renewed its membership to the North Bristol Suscom (which is a sustainable commuting group).	Some sites have designated areas with bike racks and sheds to encourage employees to cycle to work. The business is working with a lease provider in the UK to offer employees the option to opt for an electric or hybrid car via a salary sacrifice scheme.	Current initiatives in the concept phase include projects for generating green energy, adding charging stations for e-bikes, together with benefits for employees to acquire e-bikes for the purposes of commuting.	–

Responsible sourcing

We are committed to ensuring that our businesses source raw materials and manufacture products in a responsible, ethical and sustainable manner. This applies to our businesses' global supply chains and is important in mitigating the risk of supply chain shocks.

This year we have elevated the importance and prominence of responsible sourcing across the Group as part of our ongoing executive review of our material sustainability topics and in response to our developing sustainability strategy and the evolving macro business environment. Responsible sourcing will therefore receive greater focus during 2022 and beyond.

We require our businesses to work closely with their suppliers to ensure they respect human rights and promote good working conditions across their supply bases. In practice, this means that suppliers are expected to treat their workers equally and with respect and dignity, for all workers to be of an appropriate age in compliance with the local legal minimum age for work, for all workers to be paid a fair wage that meets or exceeds the legal minimum standard or prevailing industry standard, to eliminate excessive working hours for all workers in compliance with local laws, and for all workers' health and safety rights to be protected at work.

In line with our decentralised business model, while the Board retains oversight of supplier-related Group policies that have applicability across the Group, responsibility for the implementation and management of supplier-related Group policies rests with divisional management. Such supplier-related Group policies include the Conflict Minerals policy (<https://www.melroseplc.net/media/2593/conflict-minerals-policy.pdf>), the Human Rights policy (<https://www.melroseplc.net/media/2806/human-rights-policy.pdf>), and the policy principles laid out in the Melrose Code of Ethics (<https://www.melroseplc.net/about-us/governance/code-of-ethics>). Our businesses are required to operate in a manner that supports the Group's commitment to acting ethically and responsibly and to implement the relevant actions to achieve this.

Supplier qualification
Our businesses implement supplier qualification processes where relevant which, at a minimum, require suppliers to complete a risk assessment. Many of the businesses require suppliers to sign their supplier code of conduct or equivalent policies and depending on the determined level of risk, may also result in an audit or further reviews.

The GKN businesses each have a supplier code of conduct that applies globally to all their suppliers and is based on the ethos of "doing the right thing", safeguarding both human rights and the natural environment. During the onboarding process, all new suppliers must sign a declaration confirming understanding and compliance with the relevant code of conduct. Ergotron requires all suppliers to be Responsible Business Alliance ("RBA") Code of Conduct compliant, which is assessed through its Supplier Business Survey and verified by audits.

In 2021, GKN Aerospace added new direct material suppliers to the REACH⁽¹⁾ compliance assessment process covering all suppliers, which was performed in 2020, and updates have been performed on selected suppliers based on changes. Training on REACH is planned for 2022.

At GKN Automotive, all new suppliers must complete the GKN Automotive procurement request for information form as well as agree to its general purchasing conditions, which require compliance with the GKN Automotive supplier code of conduct.

Within GKN Powder Metallurgy, risk assessments are made in relation to specific equipment or products to be procured rather than the supplier. For equipment, there is a checklist regarding environmental and occupational safety aspects and energy efficiency that must be filled out by the supplier in advance. In the case of products such as oils and chemicals, a check is made during the procurement process to see whether the product has already been approved in the relevant site's register of hazardous substances. If not, a safety data sheet is requested from the supplier and sent to the respective safety specialist at the relevant site.

Conflict minerals
We require our businesses to have strict procedures in place in respect of sourcing products or raw materials containing 3TG minerals to the extent required by applicable laws or customer expectations, and to seek to identify whether 3TG minerals are sourced responsibly and from conflict-free regions of the world, as set out in the Group's Conflict Minerals policy. As a minimum, relevant suppliers are required to:

- perform due diligence to ascertain whether any 3TG minerals in products are conflict-free; and
- complete the Responsible Minerals Initiative reporting template or equivalent, as required by the respective business.

GKN Aerospace's long-term supplier agreement stipulates the requirement for adherence by suppliers to any conflict mineral laws and requires a supplier to have its own policies and procedures in place to ensure compliance by their employees and sub-tier supply chain. In addition, its general purchasing conditions require suppliers to comply with the GKN Aerospace supplier code of conduct as well as all applicable laws, regulations and codes.

GKN Automotive's own detailed policy on this topic requires the business to regularly undertake a conflict minerals analysis with relevant suppliers, who are requested to perform due diligence and analysis and respond via the CFSI ("Conflict-Free Sourcing Initiative") reporting template.

GKN Powder Metallurgy's standard purchasing agreement includes questions regarding country of origin of raw materials, and other specific content from the Conflict Minerals policy.

Training
The Group supports its businesses in implementing and managing policies across their respective supply chains. In line with the Group's decentralised model, and the nature and geographical representation of the businesses' respective supplier bases, responsibility for the implementation and management of all supplier-related policies rests with divisional management. Key to ensuring the success of this is ensuring that the procurement function is fully trained in compliance with the relevant policies and that new suppliers are onboarded in line with applicable human rights and environmental regulations and the Group policies in this regard.

(1) EU Directive (EC) No 1907/2006 on chemicals and their safe use for the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).



Ensuring the highest standards of product quality and safety

We are committed to ensuring that our businesses achieve the highest standards of product quality, reliability and safety. In recognition of the importance of our businesses in protecting the wellbeing of the ultimate end-users of their products, each business follows strict product design and development procedures to ensure precise delivery to customer specification, and to seek opportunities to enhance quality and safety performance.

The Group takes a preventative approach to product responsibility. We ensure that effective controls and processes are in place around social factors such as safety and quality assurance, including crisis management procedures and processes including, but not limited to, potential recall programmes.

In 2021, 98% of the Group's product portfolio (by revenue) was certified to a recognised international quality management standard of ISO 9001, ISO/IATF 16949 or EN/AS9100.

Almost 100% of the GKN Aerospace product portfolio, and total units produced or repaired at GKN Aerospace controlled sites, comply with EN/AS9100 accreditation. The relevant certifying bodies audit the manufacturing facilities and support functions at least once per year for surveillance audits and re-certify the sites once every three years. During 2021, the new GKN Aerospace facility in Jingjiang, China attained AS9100 certification.

All GKN Automotive and GKN Powder Metallurgy products are certified to the IATF 16949 standard (an automotive standard that includes and covers ISO 9001 requirements), except for certain GKN Powder Metallurgy products which are certified to ISO 9001. All of GKN Automotive's individual plant IATF certifications were successfully transferred into the single corporate scheme during 2021. In addition, 100% of the Ergotron product portfolio is covered by ISO 9001 certification, covering 100% of units produced. Surveillance audits of all quality management systems are conducted annually by all businesses to ensure the standards are maintained, and re-certification occurs every three years.

These high standards of product quality are recognised by our customers, with multiple industry awards received for excellence in quality, service and performance.

GKN Automotive has won numerous top performing supplier awards over the year, including the Ford Q1 2021 award, presented by the Ford Motor Company to the Newton, US site, recognising excellent performance in quality, delivery, operating systems, materials management, and compliance with environmental system requirements. In addition, the site was presented with the 2021 Assembly Plant of the Year award by the Assembly Magazine, chosen for its successful use of automation, continuous improvement, flexible production processes and quality controls. For the second year in succession, the GKN Automotive Brazil team were awarded the prestigious General Motors Supplier Quality Excellence Award, recognising suppliers that have met and exceeded a very stringent set of quality performance criteria and have contributed significantly to the cross-functional support of the entire General Motors organisation throughout the year. In addition, the Toyota Quality Excellence award was received by the GKN Automotive Japan team in recognition of five years with zero quality concerns.

GKN Powder Metallurgy has also received recognition from its customers and suppliers, with the Bad Brückenau, Germany site selected by Ford as one of the Dagenham Engine Plant and Diesel Centre's outstanding quality performers for achieving zero quality rejections in 2021. The Pune, India team also earned a recognition award from Ford for its contribution towards achieving Zero QR and Zero Warranty Claims throughout 2021, as well as receiving a Zero PPM achievement award from Toyota.

Our people

At Melrose, we promote diversity and prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of.

Our Sustainability ObjectiveUN Goals

Promote diversity and prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of



Material Issue	Melrose Group Targets and Commitments
Talent and Workforce	<ul style="list-style-type: none">Ensure that all permanent employees receive regular (annual) formal performance reviews by 2022 where permitted by local laws and employee representative bodies
Community	<ul style="list-style-type: none">Invest £10 million over five years through the Melrose Skills Fund
Diversity and Inclusion	<ul style="list-style-type: none">Achieve by 2021 and maintain a Board and Executive Committee comprising at least 33% female membershipMaintain achievement of the Parker Review recommendations
Health, Safety and Wellbeing	<ul style="list-style-type: none">Protect our employees from injury and lost time accidents ("LTAs") and achieve and maintain an average LTA frequency rate below 0.1

The Melrose Code of Ethics reinforces our Group sustainability principles and provides our businesses with clear guidance as to how the Board expects them to conduct business, and the consequences of non-compliance. The Melrose Code of Ethics outlines the policies and procedures in place to drive best practice and to promote diversity and inclusion at all levels. The code has been approved by the Board and can be found on our website (<https://www.melroseplc.net/about-us/governance/code-of-ethics>).

A great place to work

For our businesses to perform well and achieve their potential, it is important to nurture an engaged, capable and enthusiastic workforce. We want our people to enjoy the work they do, and to trust that their safety and wellbeing is our priority. We value and champion diversity in its broadest sense and drive our businesses to create working environments that encourage and nurture employees to grow, develop and act with integrity.



Employee engagement

We recognise the importance of engaging with our employees in a meaningful way to support their development and for us to deliver better business performance. We and our businesses regularly consult with employees across the Group, and we are highly responsive in addressing employee concerns.

During the course of the year, all of our businesses undertook all-employee engagement surveys. Upon receipt of survey results, the relevant information is shared with the businesses' executive teams, plant directors, HR teams and other people leaders. These results are then further analysed through such mediums as employee focus groups. Across all our businesses, action plans are developed to help address areas for improvement, be that on a global, site or individual team level. The survey feedback and resulting measures are then shared with employees through various other engagement tools, such as town hall meetings.

In 2019, Melrose established a Group Workforce Advisory Panel ("WAP") to enable key views of the workforce to be heard and considered by our businesses' executive teams where they can have maximum impact. The WAP reports to the Board annually to provide visibility and oversight of key workforce views, which are then discussed at Board meetings. Such oversight by the Board also ensures that the WAP and its underlying engagement processes are operating effectively for each business.

The WAP is chaired by a member of the Melrose senior management team and comprises the Chief Human Resources Officer (or equivalent) from each business. Each member of the WAP is responsible for promoting workforce engagement, disseminating information and collating the voice of their workforce. Each member of the WAP is in turn responsible for demonstrating how key workforce views are fed into executive management decisions, as well as ensuring that the workforce is aware of their impact on such executive management decisions. One of the key workforce views in 2021 related to learning and development opportunities. Please refer to the talent and

career management section on page 36 for examples of how this has been addressed.

Melrose requires all of its businesses to safeguard the contractual and statutory employment rights of their respective employees. Each business is also encouraged to maintain constructive relationships with employee representative bodies, including unions and works councils. We respect the rights of workers across all businesses to participate in collective bargaining and freedom of association. Workers, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively in relation to a host of employee-related matters. Workers' representatives are not discriminated against and have access to carry out their representative functions in the workplace. Trade union membership fluctuates year-on-year depending on the Group composition. In 2021, 25,550 (64%) of our employees belonged to a recognised trade union (2020: 40%)⁽¹⁾.

Melrose and each of its businesses pay all UK employees at least the real living wage, save for year-in industry students (of which there were seven in the Group as at 31 December 2021), who are paid in accordance with the national minimum wage rates for their age group. In addition, Melrose and each of its businesses offer all employees in the UK the opportunity to work for at least 15 hours per week.

In addition to regular communications with representative bodies, during 2021 a number of event-driven consultation processes with relevant union representatives took place following the difficult decisions to close unviable GKN Automotive sites in Erdington, UK and Firenze, Italy. These decisions are never taken lightly, and we strive to treat people fairly and with open and clear communication. The closure of the Erdington assembly site was announced in January 2021. Despite significant effort and investment over the last ten years to reduce operating costs, the site

remained heavily loss-making. Throughout the redundancy consultation process, GKN Automotive worked with employees, unions and employee representatives to provide support to those affected. In November 2021, it was announced that the 519 employees had accepted a revised redundancy package, and the plant is due to close in 2022. For Firenze, a process which involved local and national government, we were able to secure a reindustrialised future for the site with a new owner.

Group employees as at 31 December 2021	
Permanent employees	38,231
of which:	
Full-time employees	37,336
Part-time employees	895
Temporary employees	1,056
Apprentices	759
Total	40,046

(1) Data was collected 99% (by headcount) of the Group in 2020 and 2021.

Pensions

With every acquisition, Melrose seeks to strengthen pension scheme arrangements for the benefit of employees and retirees. We take pride in having substantially improved all of the UK pension schemes under our ownership, with many of them becoming fully funded on departure from the Group. For example, under Melrose ownership, the McKechnie UK pension scheme was improved from 58% funded at acquisition to more than fully funded upon leaving the Group, and the FKI UK pension scheme was improved from 87% funded at acquisition to fully funded upon its departure from the Group. Both of those schemes were sold into Honeywell International Inc., a US-listed group with the financial covenant strength expected of a market capitalisation exceeding US\$140 billion. For further details, please refer to page 5 of our 2021 Annual Report.

Our focus on strengthening pension schemes begins from when we acquire a new business, and the GKN pension schemes are the latest example of this. The GKN UK defined benefit pension schemes had been chronically underfunded, and we were proactive, transparent and constructive in agreeing commitments with pension trustees during the acquisition of GKN. Prior to acquiring GKN, we committed to providing up to £1 billion of funding contributions, which included doubling annual contributions to £60 million, and providing £150 million of upfront contributions. In our short period of ownership, we have met our commitments and have significantly strengthened the pension schemes. For example, so far we have:

- Eliminated the GKN UK defined benefit pension scheme accounting deficit.
- Applied more secure funding targets of Gilts +25 basis points (GKN 2016 scheme prior to buyout) and Gilts +75 basis points (GKN 2012 schemes 1-4) to achieve more prudent funding targets.
- Rebalanced the GKN schemes across the GKN businesses to avoid overburdening any one business and to provide stability and better security for members.
- Having funded the GKN 2016 scheme to 115%, arranged a buyout with an appropriate insurer that secures the futures of over 8,000 pensioners' member benefits.

Our model for ensuring the long-term prosperity of our businesses' pension 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.

Securing our employees' and retirees' futures through responsible stewardship of their pensions is of strategic importance to the Board.

For further information on Melrose's engagement with pension scheme trustees and our investment in transforming the UK defined benefit pension schemes of our businesses, please refer to page 5 of our 2021 Annual Report.

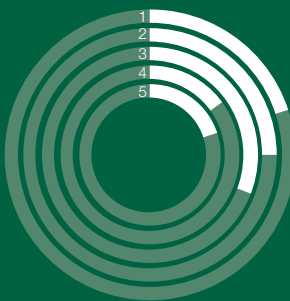
Reward and recognition

Our businesses have policies in place on recruitment, talent development and succession planning, supported by training programmes and effective management. Opportunities exist across all businesses for employees to discuss career development with their direct managers, and each business encourages internal applications for open positions. In 2021, 20% of open positions were filled by internal candidates (2020: 25%)⁽¹⁾.

Where permitted by local laws and employee representative bodies, performance evaluations are undertaken across our businesses, with 45% of employees receiving a performance appraisal in 2020 (2019: 49%)⁽²⁾. The reduction in performance evaluations in 2020 compared to 2019 was largely affected by COVID-19 induced lockdowns, as well as fewer employees in roles requiring annual performance evaluations in line with the guidance of local representative bodies. At the time of writing, performance evaluations for 2021 were ongoing. Annual salary reviews are aligned with performance evaluations to ensure that employees are paid fairly and correctly for the position they hold. In compliance with all applicable local laws relating to the provision of pensions, 32,936 (82%) of the Group's employees (by headcount as at 31 December 2021) benefit from being a member of a company-based pension scheme.

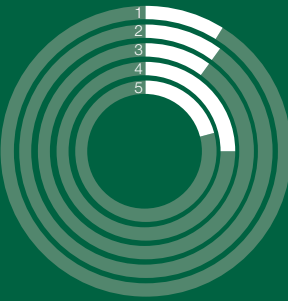
Other forms of employee recognition are in place across our businesses to identify and reward individuals for their contribution. For example, GKN Aerospace hosts annual Excellence Awards which are open to all employees. In 2021, over 140 entries were received showcasing the fantastic work that is being done across the business and within local communities. Winners and highly commended entries were selected across eight categories and from seven countries. These categories included Living the Culture Principles, Health and Safety, and Quality and Customer Excellence. Ergotron has a range of recognition programmes in place such as referral bonuses, innovation awards, sales contest awards, "shout out" recognition, and anniversary awards including a recognition meeting with the CEO.

Open positions filled by internal candidates⁽²⁾



1	2021	20%
2	2020	25%
3	2019	31%
4	2018	15%
5	2017	20%

Overall voluntary attrition⁽³⁾



1	2021	9%
2	2020	10%
3	2019	10%
4	2018	25%
5	2017	21%

(1) Data was collected from 82% (by headcount) of the Group in 2017, 96% (by headcount) in 2018, 66% (by headcount) in 2019, 66% (by headcount) in 2020 and 100% (by headcount) in 2021.
(2) Data was collected from 97% (by headcount) of the Group in 2019 and in 2020.
(3) Data was collected from 82% (by headcount) of the Group in 2017, 97% (by headcount) in 2018, 98% (by headcount) in 2019, 98% (by headcount) in 2020 and 100% (by headcount) in 2021.

External recognition

We are proud that the strong workplace culture our businesses foster and the benefits this brings to both their employees and the communities has resulted in external recognition, with multiple industry awards received for excellence in technology, workplace culture, service and performance.

GKN Aerospace was recognised by the UK Ministry of Defence with the Employer Recognition Scheme Gold Award, for its outstanding support to the UK Armed Forces community. In engineering and technology, GKN Aerospace also received the Special Award for Design Engineering at the 2021 British Engineering Excellence Awards for its role in the Ventilator Challenge UK consortium, which built almost 15,000 ventilators for the UK Government during the start of the pandemic. The technology team was also named as a finalist in the 2021 Engineers magazine 'Collaborate to Innovate Awards' for its 15-partner 'Skybus' technology programme, to explore a novel transport network based around a large electric vertical take-off and landing ("eVTOL") vehicle. GKN Aerospace also claimed the top prize at the Executive Platforms Awards 2021, a global awards event celebrating organisational culture. Success in the 'Best Workplace Culture' category recognised the business's roll-out of its Cultural Principles and internal engagement programme, called 'Great Place to Work'.

GKN Automotive won in the prestigious cooperation category at the 2021 CLEPA Innovation Awards for its 3-in-1 e-Drive system, developed in cooperation with Jaguar Land Rover. This technology provides zero-emissions plug-in hybrid capability to several new 2020/21 OEM premium plug-in hybrid electric vehicles ("PHEVs"). In addition, GKN Automotive's Brazil site received the Top Ser Humano Award from the Brazilian Association of Human Resources, acknowledging the focus on employee engagement through participation in the improvement of its processes.

Ergotron was the proud recipient of the Chicago Athenaeum: Museum of Architecture and Design and The European Centre for Architecture Art Design and Urban Studies 2021 GOOD DESIGN® Award for its TRACE™ Monitor Mount product, which adapts to the ergonomic needs of each employee to create agile workspaces that encourage healthy movement, productivity and collaborative spirit.

Diversity and
inclusion

We prioritise creating and maintaining a diverse, inclusive and safe environment within our businesses. We recognise the importance of diversity in building a high-calibre workforce, and we are committed to championing diversity in the broadest sense. We are actively engaged in finding ways to increase diversity across the Group, and the sectors in which our businesses operate.

Melrose ensures that entry into, and progression within, the Group is based on aptitude and the ability to meet set, fair criteria outlined in job descriptions. For any employees with a disability, we take steps to ensure reasonable adjustments are made where required. 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, society and economic growth.

The Melrose Code of Ethics highlights the importance of diversity and inclusion, and is supported by our Board of Directors’ Diversity policy and a Diversity and Inclusion policy for Melrose more generally, both of which are reviewed and approved each year by our Nomination Committee. Copies of these policies can be found on our website at <https://www.melroseplc.net/sustainability/data-reports-and-policies/>.



Gender pay gap reporting

The gender pay gap indicates the percentage difference in the mean and median base and bonus pay between all employees in the workforce. Gender pay gap reporting legislation in the UK requires employers with 250 or more employees to publish information every year indicating the pay gap between their male and female employees. This legislation is currently applicable to two companies within the Group.

GKN Aerospace Services Limited saw its trend in median gender pay gap markedly improve in 2020, having reported a median gender pay gap of 11.8% (2019: 14.7%). Its gender pay gap was significantly smaller than the UK’s national average median gender pay gap (15.4%) and the company also achieved a materially smaller median gender pay gap than the industry average for manufacturing companies (15.0%)⁽¹⁾.

Each of our Group companies that are required to report on their 2021 data will do so by the 4 April 2022 deadline.

(1) Source: Office for National Statistics Gender Pay Gap Tables 1.12 and 16.12.

Promoting diversity
at all levels

Melrose leads its businesses by example, starting at Board level. The Board requests diverse candidates within shortlists, 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. Further, 100% of Non-executive Director appointments within the last four years have been women, including the most recent two appointments made in 2021, and no departures from the Board have been women.

As at 31 December 2021, Melrose had 42% female representation on its Board, exceeding the Hampton-Alexander Review target of 33% female representation at Board level. This has increased to 45% following the retirement of Mr Archie G. Kane on 31 December 2021.

Melrose also recognises other forms of diversity, and has achieved the Parker Review target of having one Director from an ethnic minority background on the Board by the end of 2021.

Diversity is valued below Board level. The Melrose Executive Committee, having been established in 2020, as at 31 December 2021 consisted of 36% female representation, with a total 37% female representation for the Executive Committee and direct reports, exceeding the Hampton-Alexander Review target of 33% female representation within executive teams and their direct reports.

Whilst recognising that the Melrose “Buy, Improve, Sell” strategy means that we inherit the shape of our workforces, our businesses are encouraged to promote diversity once they have entered the Melrose Group. Examples of current business unit initiatives include the creation of employee resource groups, focused diversity and inclusion programmes, and mandatory unconscious bias training for leaders.



In 2021 GKN Aerospace established six Employee Resource Groups (Connected Women, LGBTQ+, African, Black Caribbean Professionals Network, Veterans & Reservists, Future GKN, and Mastering Neuro-diverse Strengths). This followed the re-launch of its Diversity, Inclusion and Belonging (“DIB”) policy along with the creation of a DIB Steering Committee in 2020. The business also has external partnerships to help promote diversity with OUTstanding (a network which commends LGBT+ executives and allies who are not only successful in their own careers but also in creating supportive workplaces for other LGBT+ people), and Where Women Work (an organisation which celebrates women’s achievements in the workplace while recognising the companies that support them).

In September 2021, over 50 women leaders from GKN Automotive’s locations in Brazil, Mexico, and the US participated in a Women in Leadership conference, which included sessions with senior female leaders from the business and input from external motivational experts on female progression.

Diversity unconscious bias training has also been rolled out within GKN Powder Metallurgy’s US sites as part of the onboarding process for new starters.

Ergotron continued its equity, diversity and inclusion programme through 2021, with a committee of 25 volunteers plus HR representatives designing infrastructure and educational opportunities. Three employee resource groups were established: People of Colour, Women in the Workforce, and Working Parents. In addition, new mandatory unconscious bias training for leaders has been implemented along with one-hour webinars offered to all employees throughout the year.

Through the Melrose Skills Fund, Melrose is working on a project to help improve socio-economic and ethnic diversity within the engineering sector as a whole. This project is being led by Enginuity, a not-for-profit organisation that leads on several initiatives to support the engineering and manufacturing sectors, and also involves input from Unite the Union. As part of the project, the team created an engineering task-orientated computer game contextualised for the aerospace sector with a focus on sustainable projects. The game was then piloted at secondary schools in the West Midlands and Bristol that met certain socio-economic and ethnic criteria in order to bring awareness to students of the engineering industry and potential job opportunities within it. The pilot project received positive feedback from students and teachers alike, and we are now working with Enginuity to roll out the game on a national scale.

Gender diversity at Board level

	Male	Female
At 31 December 2021	7 (58%)	5 (42%)
At 31 December 2020	7 (70%)	3 (30%)
At 31 December 2019	7 (70%)	3 (30%)

Total Group employee gender diversity at 31 December 2021

	Male	Female	Total	Male (%)	Female (%)
Total Group employees	32,204	7,842	40,046	80	20

Talent and career
management

Skills development

Melrose champions talent development and recognises the importance of investing in human capital. Our businesses are proactive in anticipating both short and long-term employment needs and skills requirements for the long-term success of their businesses. This is central to Melrose’s strategy to boost productivity and improve business performance. Extensive training opportunities are available and promoted to all workers at all stages of their careers to ensure that high skills levels are cultivated and maintained across the Group.

We are committed to promoting employee career development and life-long learning. Training programmes across the businesses start with new-hire onboarding programmes to accelerate knowledge and exposure to the business’s culture and objectives. All employees are encouraged to actively engage in their career development and a wide range of learning opportunities are available throughout their career, extending beyond functional skills development to personal development and leadership opportunities.

Leadership training is an integral part of ensuring the workforce remains engaged and innovative, whilst enabling the businesses to develop a diverse pipeline of successors for key roles and leadership positions. Annual talent reviews and regular check-ins between managers and employees identify individuals who have the ability and aspiration to grow into more stretching roles. Leadership training programmes are in place for high-performing employees to support their transition from individual contributor to first leadership position and beyond. The businesses have developed their own leadership programmes that are most relevant to their employees and organisations, with the programmes becoming increasingly popular and receiving positive feedback.



Leadership programmes in our
businesses

GKN Aerospace has a global development programme in place for new leaders. The programme, called Set4Success, was launched in 2021 with over 300 participants. It was initially mandated to all team leaders and group leaders in the business for their progression through the Lean Operating Model once they had completed an assessment centre. The objectives of the global programme are to ensure that each leader has the core fundamentals of soft skills to complete their role effectively, to lead an engaged team that works productively together, and to improve their communication style and skills. The programme has received positive feedback from participants, including that it has improved their focus on leading an effective team, and that it has made them more aware of how they work with their team and their leadership style.

GKN Aerospace has also continued to operate its Future Leaders Development Programme and its Leaders of Leaders Development Programme. These programmes enable the business to assess potential and identify employees who have the ability and aspiration to grow into larger roles, and who are successors for key roles and leadership positions. Selected employees participate in a rigorous assessment programme and benefit from having an accelerated development plan put in place. So far, 100 employees have participated in the Leader of Leaders Development Programme and over 75 employees have participated in the Future Leaders Development Programme.

GKN Automotive has continued to operate its Accelerated Leadership Programme, which is underpinned by the business’s values and behaviours. The programme aims for its participants to: (i) stretch and challenge themselves through participating in a range of development activities; (ii) increase their self-awareness by gaining a deep insight into their strengths and development areas; and (iii) interact and network with other leaders across different regions globally. The programme is open to employees that lead transformational projects.

The **GKN Powder Metallurgy** Leaders Programme was launched in 2010, providing tools for middle management positions, such as plant and department managers, to learn the necessary skills for their current roles and next career steps. The programme was due to be re-launched in 2020; however, this was postponed due to the pandemic. A new cohort of 20 participants commenced the programme in 2021.

Ergotron launched its Leadership Toolkit in 2021, an on-demand resource for formal and informal leaders across the business. In addition, its Dongguan, China site hosted a six-day leadership workshop with the aim of creating a focused development plan for leadership across the three levels of the organisation. As well as leadership fundamentals, the workshop focused on increasing collaboration, building engagement and improving communication and feedback. In 2022, Ergotron plans to roll out a ten-week leadership fundamentals course with a focus on providing tools and training to build and strengthen collaboration between leaders.



Training opportunities across
the businesses

In-person training programmes were largely put on hold in 2020 due to the pandemic, with training adapted to focus on supporting the remote workforce, with modules such as ‘leading remote teams’ and ‘driving collaboration remotely’ introduced in a number of the businesses. Although the challenges of the pandemic remained in 2021, our businesses were better enabled to deliver flexible training programmes through a combination of online and in-person training, which is represented in the increased training time and spend per employee in 2021. Examples of training opportunities across the businesses include:

- **GKN Aerospace’s** Lean Learning Academy, which was launched in 2020. The curriculum is designed to provide frameworks to improve health and safety, and to improve performance and reduce inefficiencies using the Lean Six Sigma principles. The Lean Learning Academy manages the Lean Learning Curriculum, the Six Sigma Learning Curriculum, and the accompanying certification programme. In 2021, there was a continued focus on lean capability building and certification, with over 4,250 people

certified to lean foundation level, over 400 trained to lean advanced level, and over 150 certified to lean advanced level. In addition, over 300 people achieved the Six Sigma Green Belt, and the first Black Belt in Six Sigma was awarded.

- **GKN Powder Metallurgy’s** wide range of training programmes on offer to its employees ensures key competencies are covered. It completes an annual organisational planning process focusing on career opportunities, succession planning and specific training needs across all locations. In 2021, it launched the Fusion training platform to help manage and track learning activities. This is currently available to employees within the US, and is being expanded to cover Brazil and Mexico in 2022.
- **Ergotron** improved a number of training opportunities throughout the year, including expansion of a new employee welcome programme, talent management programmes, and global performance management. The business also has a tuition reimbursement scheme offering up to US\$5,250 to employees returning to school for a graduate programme or for ongoing education.

Training and development

	2021	2020	2019	2018	2017	2016
Average training time per employee (hours) ⁽¹⁾	23	13	15	3	9	–
Average training spend per employee (£) ⁽²⁾	209	166	222	128	142	152
Total number of training hours⁽³⁾	929,878	338,406	410,638	39,823	37,951	–
Total annual spend on workforce training (£)⁽⁴⁾	8,384,837	8,591,293	12,182,473	1,200,461	1,377,247	300,025

(1) Data was collected from 38% (by headcount) of the Group in 2017, 21% (by headcount) in 2018, 25% (by headcount) in 2019, 39% (by headcount) in 2020 and 100% (by headcount) in 2021. Data was not available in 2016.
(2) Data was collected from 99% (by headcount) of the Group.
(3) Data was collected from 38% (by headcount) of the Group in 2017, 21% (by headcount) in 2018, 25% (by headcount) in 2019, 39% (by headcount) in 2020 and 100% (by headcount) in 2021. Data was not available in 2016.
(4) Data was collected from 99% (by headcount) of the Group.

Apprenticeships and graduate programmes

Apprenticeship programmes assist with training a new generation of employees and help to ensure that knowledge is retained within the businesses. In 2021, over 750 apprenticeships were in place across the Group's businesses, providing a mix of on-the-job and classroom training.

GKN Aerospace runs a number of apprenticeship programmes. Its three-year high school programme admits 32 students annually, with the aim of transforming the students into highly skilled aerospace operators through gaining knowledge and experience of working with basic processes and manufacturing methods, as well as learning about materials and the industry's very high quality requirements. The programme provides qualifications to apply to technical education at university level and prepares each individual for a career in engineering. Engineering apprenticeships are also available, combining learning practical skills with classroom studies, preparing individuals for a future career at the heart of engineering.

GKN Aerospace also sits on the Aerospace Trailblazer Apprenticeship Employer Group to help shape future apprenticeships, as well as being an employer partner for the West of England Institute of Technology, which focuses on advanced engineering and high value manufacturing. GKN Aerospace Bristol's schools engagement team have been working on activities to recruit more female apprentices over the last five years. As a result, within the GKN Aerospace Bristol apprenticeship programme, 17% of the apprentice population is now female.

GKN Automotive runs an extensive apprenticeship programme with 524 apprentices in place at the end of 2021. The apprentices are largely located in Brazil, India and Spain, with the role and skills development dependent on local requirements. Female participation in the programme across these jurisdictions ranges from 13% to 25%, which typically exceeds female representation in the workforce in these countries.

Apprenticeships within **GKN Powder Metallurgy** combine learning practical skills with classroom studies and help to prepare apprentices for a future career in engineering. The business offers a formal apprenticeship programme in Germany and more localised opportunities within the US.

We also place a strong focus on training and developing graduates. In 2019, **GKN Aerospace** launched its Global Graduate Development Programme, a 27-month programme that provides a mix of real-world placements and structured development across the different business lines and functions, with the aim of preparing the graduates for strong and successful careers within the business. The programme has already delivered notable successes with UK and US graduates from the first cohort having won the GKN Aerospace Excellence Award in Sustainability for 2021, following the creation of the ME Sustainability e-Learning Modules, which can be widely used throughout the business to protect its people and the environment. The programme welcomed its third cohort in 2021.

GKN Automotive continues to support graduate recruitment and training through hiring at a more localised level, thereby better supporting the communities in which it works. It is currently recruiting for its 2022 UK Graduate Programme, which will start in September 2022. This is a two-year programme presenting graduate opportunities across the five strategic functions: Finance, Human Resources, Commercial, Communications, and Strategy.

GKN Powder Metallurgy runs graduate programmes in China and India, hiring local talent and developing them for the future needs of the business. GKN Powder Metallurgy also offers a two-year graduate development programme known as the Graduate Rotational Excellence Programme. The programme offers graduates a guaranteed overseas placement as well as peer and executive mentors to help build their knowledge and network and help the next generation of talent launch their careers.

Apprenticeship and graduate programmes across the GKN Aerospace and GKN Automotive businesses are supported by the Melrose Skills Fund. The Melrose Skills Fund was launched in 2019 to provide financing to develop the capabilities required to build the UK's industrial base, with a commitment to invest £10 million over five years. As well as supporting apprenticeships and graduate programmes, the Melrose Skills Fund invests in STEM programmes, manufacturing hubs, digital skills and employee development, helping equip the UK with the future skills it needs to grow its industrial skillset.

Community

Our businesses promote the social wellbeing of their employees by encouraging them to actively contribute to local charitable and community projects, and lead by example through the sponsorship of such projects. The Group made cash donations to not-for-profit charitable organisations in 2021 of £703,408 (2020: £634,221)⁽¹⁾.

Our businesses continued to support their local communities through the continued impact of the pandemic. For example, GKN Aerospace in India responded to the local impact of the pandemic by donating dry ration kits to meet the basic needs of persons with disabilities, as well as providing nebulisers, hand wash, hand sanitisers and face masks for quarantine centres. Further, with hospitals and intensive care units in Brazil continuing to be under great stress, GKN Automotive in Brazil donated ten infusion pumps and a respirator to the Charqueadas hospital, near to the Porto Alegre plant. This much needed equipment will be used to continue to treat patients with COVID-19.



Melrose Skills Fund

Upon acquiring GKN in 2018, Melrose made public commitments aimed at building the UK's industrial base through the creation of the Melrose Skills Fund, which would invest £10 million over five years. It was initially intended that the Melrose Skills Fund would be directed by a Skills Board. However, we considered that time was best spent on immediately looking into projects and opportunities that we could invest into. Whilst the Melrose Skills Fund has been utilised for a number of varied projects (including our Enginuity diversity project highlighted on page 35), the following table demonstrates how we are meeting our commitments.

Commitment	Achievements
Support our businesses through the Melrose Skills Fund	GKN Aerospace has utilised the Melrose Skills Fund to accelerate the upskilling of its technical workforce. In particular, GKN Aerospace has opened a Learning and Education Hub at its Global Technology Centre in Filton, UK, which will act as a facility for delivering future training programmes and STEM activities, such as active engagement with early careers in schools and colleges, and providing a local college with dedicated learning and training facilities.
Enhance and grow the current R&D facilities at GKN Automotive's UK Innovation Centre in Abingdon	In 2021 alone, GKN Automotive utilised over £1.2 million of the Melrose Skills Fund to support its UK Innovation Centre in Abingdon. Part of this funding was used to support the creation and launch of its Advanced Research Centre, which is focused on developing next-generation e-Drive technologies for future electric vehicles. GKN Automotive has also partnered with the University of Nottingham and Newcastle University on the project, and the intention is to increase automotive electrification knowledge capability and strengthen research and development in the UK.
Create 100 to 150 new apprenticeships in engineering, technology and science	From 2018 up to 31 December 2021, 151 UK apprenticeship opportunities have been created within our GKN Aerospace and GKN Automotive businesses. This is considered further on the opposite page.
Support higher education colleges around our GKN Aerospace and GKN Automotive businesses in the South West, the Midlands and Oxford	The Melrose Skills Fund has been utilised by GKN Automotive to support the IMechE Formula Student Programme. As part of the programme, university teams worldwide compete to build and race a track cart and develop technical and business strategies to market it. GKN Automotive has sponsored the University of Nottingham and Oxford Brookes University, providing mentoring, technical and test cell support to develop their electric drive trains. As a result, the University of Nottingham became the first team to compete with an electric vehicle, finishing third overall at Silverstone.

(1) Data was collected for 62% (by administration expenses) of the Group in 2020 and 100% in 2021.

Safety first

We drive our businesses to prioritise the health, safety and wellbeing of employees and contractors. We are committed to setting high standards and have effective policies, procedures and training in place to support the health, safety and wellbeing of all employees and contractors across the Group. We recognise the increasing importance of taking a holistic approach to employee wellness, to protect employee physical and mental health and social wellbeing, and to foster a positive workplace culture that attracts and retains a highly skilled workforce. We are committed to ensuring that our employees are safe, and we require our businesses to protect and safeguard employee health and wellbeing across the Group. To this end, in 2021 we implemented a Group-level target, which all our businesses have implemented and aligned with their respective sustainability strategies, to achieve an annual lost time accident frequency rate of below 0.1. This underpins our overarching commitment to stop all

preventable accidents for employees and contractors, through the promotion of safe behaviours and an enhanced focus on hazard identification and awareness.

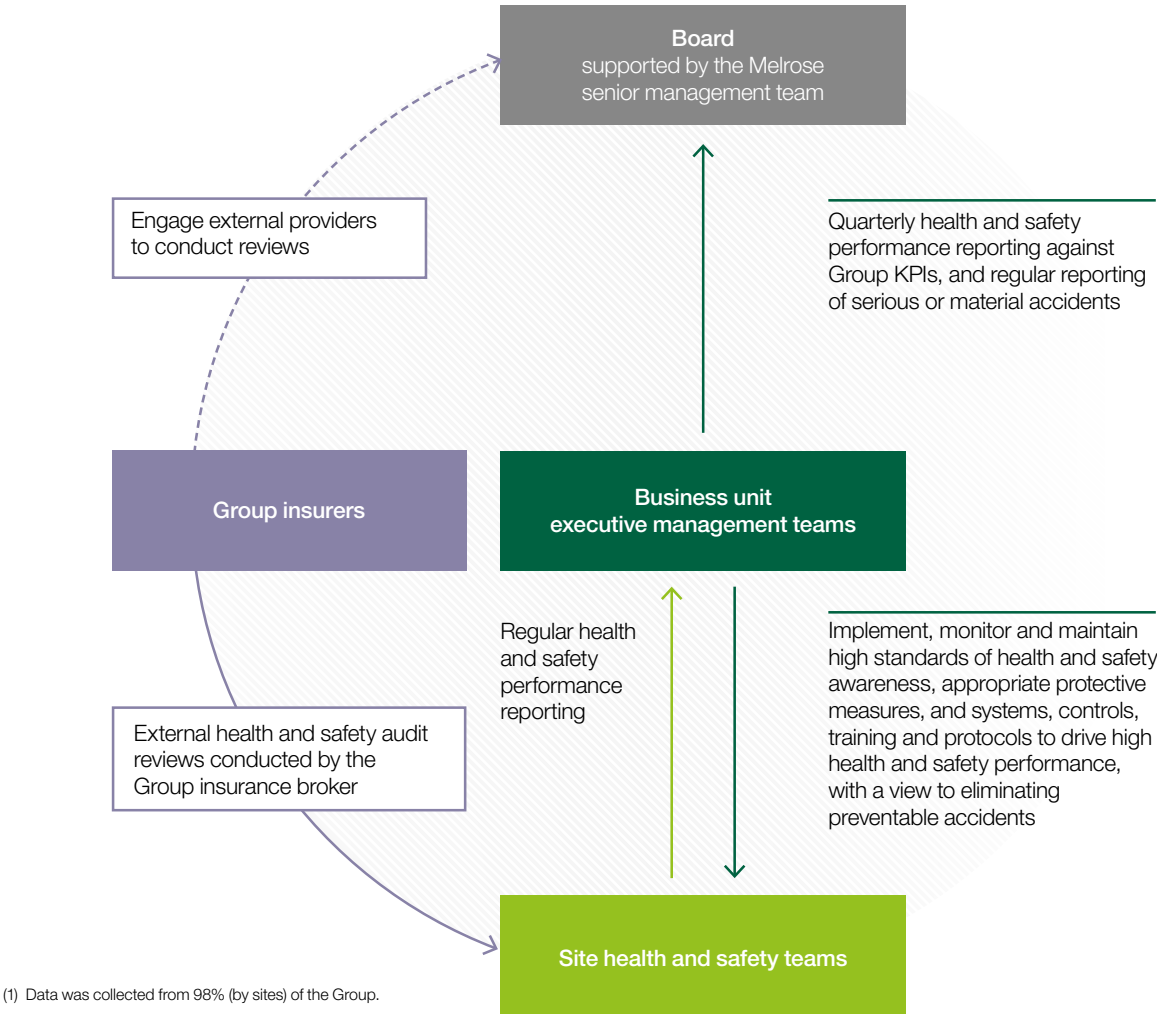
The Group operates a decentralised model, and in addition to the Group-level expectations for health and safety standards, each business is ultimately responsible for creating and maintaining their own safe and healthy workplaces, implementing operational best practices, and maintaining a robust culture of health and safety awareness, training and performance. This is delivered through the Group health and safety management framework.

Health and safety management systems are implemented across all our businesses to ensure that robust policies and procedures are in place to reduce risk and instil an enhanced focus on continuous improvement. Health and safety management systems are supported by internal health and safety effectiveness audits, external assurance reviews conducted by the Group's insurance

brokers, with regular oversight and challenge by the Melrose senior management team, quarterly reporting to the Board, and further regular Board and Melrose senior management team oversight over any material incidents or issues that arise.

As at 31 December 2021, 74%⁽¹⁾ of sites (inclusive of office, production and testing sites) within the Group were certified to the ISO 45001 international standard, with additional relevant sites progressing towards ISO accreditation. 100% of GKN Automotive production sites and test centres are ISO 45001 certified, with successful transition from OHSAS 18001 completed in 2021. GKN Aerospace released a Leader's HSE handbook in 2021 which details the requirements for effective management that all sites must comply with. To maintain ISO accreditation, all businesses must undertake third party auditing on a three-year certification cycle, with annual surveillance audits taking place in between to ensure standards are being maintained.

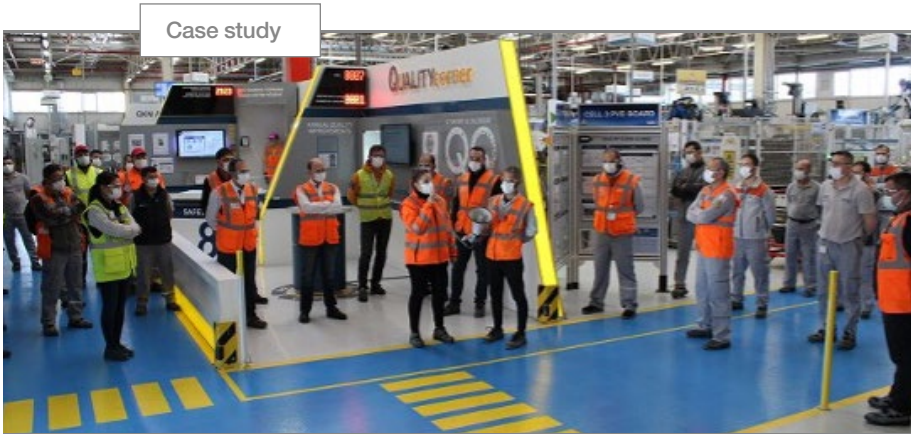
Group Health and Safety Management Framework



Health and safety performance

We are focused on cultivating a strong safety culture within our businesses through emphasising the importance of preventing avoidable incidents and implementing near miss reporting, which encourages an enhanced focus on hazard identification and awareness. Behaviour-based programmes and continuous training and awareness campaigns remain central to the approach of all divisions in improving their safety performance.

In line with the Melrose decentralised model, our businesses are each responsible for implementing and maintaining health and safety excellence across their respective operations. To provide visibility and oversight for the Board, information is collated quarterly on three key performance indicators ("KPIs") – major accident frequency, lost time accident frequency, and accident severity – for each business and covering all of their sites. A variety of additional health and safety KPIs are used by the businesses owned by the Group from time to time, which are specific to the exact nature of the business and its associated risks. Although responsibility for health and safety rests with the business units, in the unfortunate circumstance of a very serious incident, the Melrose senior management team will engage directly with the relevant business unit executive team and report any actions taken directly to the Board.



Eskisehir achieves 8 years without a lost time accident

In February 2021, GKN Automotive's Eskisehir, Turkey plant achieved eight years without a lost time accident. Health and safety, and a focus on eliminating even the smallest risks, are top priorities at the plant and this is recognised in the 2,923 consecutive days without a lost time related accident.

By working closely with health and safety experts, and encouraging all employees to complete risk notifications, any potential risks are rectified as quickly as possible. It is hoped that this strong health and safety record will continue, and it will celebrate its ninth year of no lost time accidents in 2022.

Method of calculation

All Melrose Group businesses report the same three KPI metrics for health and safety. Given the expansion and diversified nature of the Group, weightings have been applied to each division's reported health and safety performance according to the size of its workforce relative to that of the other divisions within the Group. Therefore, the larger the workforce, the more heavily such division's health and safety performance drives the Group-wide performance figures.

Strategic objective

The Company has an objective to stop all preventable accidents.

Target

The Company's target is to achieve and maintain an LTA frequency rate below 0.1.

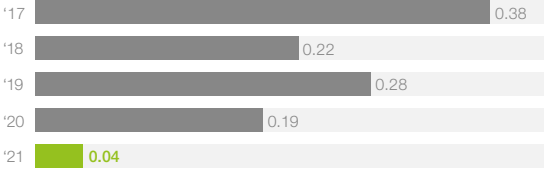
The Group has achieved an average LTA frequency rate of less than 0.1 in 2021, hence achieving the Group target for the year.

Performance⁽¹⁾

The Group's current businesses measure three health and safety KPIs:

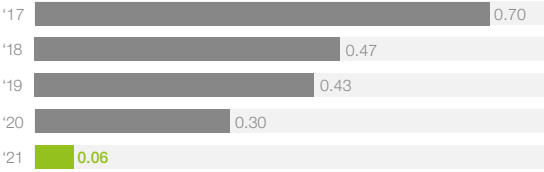
Major Accident Frequency Rate

Records the average number of LTAs that have resulted in more than three days off work (defined as 'major' accidents), per 200,000 hours worked.



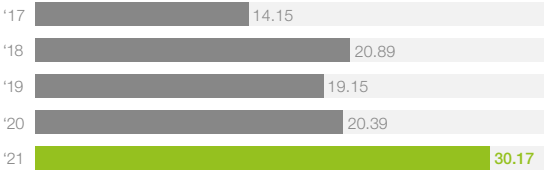
Lost Time Accident Frequency Rate

Records the average number of LTAs, both major and minor, per 200,000 hours worked.



Accident Severity Rate

Records the average number of days an employee takes off work following an accident at work.



(1) Data has been restated for 2018 and 2019.

The Group’s Major Accident Frequency rate and Lost Time Accident Frequency rate has decreased year-on-year for the GKN businesses. Specific incidents at GKN Aerospace, GKN Powder Metallurgy and Ergotron resulted in an increase in accident severity rate in 2021 compared to 2020. The Group’s trajectory of longer-term improvement continues, and our businesses continue to uphold and further develop high standards of health and safety performance. The general trend of improvement reflects the continued investment in health and safety initiatives across all businesses and highlights continual improvement in the GKN businesses since they were acquired in 2018.

The GKN Aerospace site in Papendrecht, the Netherlands, sadly suffered a tragic fatality in 2021. A thorough internal investigation was immediately conducted by the GKN Aerospace executive team and overseen by the Melrose senior management team, with regular reporting to the Board. This triggered a wholesale review of the GKN Aerospace group safety standards across the business. This review included risk assessment processes, and the underlying reporting and oversight systems and documentation which support the implementation and ongoing monitoring of GKN Aerospace’s safety standards, operating procedures and safety systems, both at a site and GKN Aerospace group level. The Dutch authorities are conducting their own investigation, in which the business is fully cooperating, and which remained ongoing as at the time of writing.

At the Board’s request, external health and safety compliance experts are engaged through the Group’s insurance brokers to review the health and safety audit function for each GKN business, with a focus on verifying its operation and where relevant to recommend continuous improvements as they evolve. This review programme uses a combination of remote and physical site visits and regular discussions with the health and safety leads at each of the GKN businesses to provide assurance of the robustness of health and safety systems that operate within the Group’s larger and most complex businesses. Recommendations are fed back to the Melrose senior management team for oversight and challenge as required, and to the relevant business executive team to manage their implementation, as part of overall continuous improvement measures.

During 2021, the Group’s insurance brokers continued to work with each of the GKN businesses to review and implement the recommendations resulting from their initial review of their health and safety functions and as recommendations were being implemented within the businesses, to provide assurance that improvements were being implemented as required and to provide further iterative recommendations to maintain strong health and safety practices as they evolve. Recent feedback has confirmed that each relevant business is operating to an acceptable standard, with further alignment with recommendations being evident and built upon, and a continued strong commitment to health and safety from each of the GKN businesses both centrally and at site level.

In parallel with existing business unit-led initiatives, the Group’s insurance brokers in the US continue to conduct independent health and safety compliance reviews across the GKN businesses’ US-based operations. Some site visits recommenced in 2021 but were limited due to prolonged pandemic travel restrictions. This review continues to focus on potential major and serious injuries and occupational health exposures, and further site visits are hoped to recommence in 2022 as this becomes practicable.

During 2021, each business in the Group maintained measures and protocols to address the risks of a COVID-19 outbreak within the workplace, and to support their employees in line with national guidelines.



Health and safety training

Health and safety training is a prerequisite to achieving our Group lost time accident frequency target, with all employees receiving training on a regular basis. Awareness of health and safety issues and the Group’s policy on health and safety is included in induction training for all new joiners across the Group. In 2021, 36,404⁽¹⁾ (91%) employees across the Group’s businesses received health and safety training.

All employees within the GKN businesses have access to the online thinkSAFE! training portal and must complete at least one module per quarter. Over 90% compliance was seen in 2021, and the Group will continue to build on and seek to increase this further. Training modules in 2021 included Stop Call Wait, My Safety Responsibility, Risk Identification, and My Hands.

Our businesses also carry out technical health and safety training related to specific business activities.



of employees across the Group’s businesses received health and safety training in 2021 (2020: 89%)

⁽¹⁾ Data was collected from 98% (by headcount) of the Group in 2020 and 99% in 2021.

Employee wellbeing

We recognise the increasing importance of taking a holistic approach to employee wellness by protecting physical health, mental health and social wellbeing. This helps to foster a positive workplace, and to attract and retain a highly skilled workforce. In line with our wider Group health and safety framework, employee wellbeing programmes are implemented at a business level to ensure they are relevant to each business and most impactful. This includes GKN Aerospace’s Mental Health & Wellbeing Committee, which shares best practice in supporting employees with mental health and wellbeing initiatives in each region, and its Think Health e-brochure, which highlights areas such as self-care and provides employees with information on support resources.

GKN Automotive, GKN Powder Metallurgy and Ergotron provide their employees with access to Employee Assistance Programmes (“EAPs”). The EAPs are designed to help employees and their families deal with difficult life issues on a free and confidential basis, 24 hours a day, seven days a week. Whilst the GKN Powder Metallurgy EAP is available to all employees and dependents, the GKN Automotive programme provides more localised assistance, and Ergotron’s EAP is available to all full time US employees.

In 2021, Ergotron created a wellness programme, which will be rolled out to employees in 2022. The programme aims to improve and promote the health and wellbeing of employees through education, communication, access to resources and a supportive work environment.

We also encourage our employees to drive their own initiatives. In GKN Automotive, employees at its site in Arnage, France are building a greater sense of belonging and increasing wellbeing through running and/or cycling together outside of work. They have created internal clubs which are accessible to all through dedicated webpages on the intranet.

Ethics and compliance

At Melrose we exercise robust governance, risk management and compliance.

Our Sustainability Objective

UN Goal

Exercise robust governance, risk management and compliance



Material Issue

Melrose Group Commitment

Ethical Conduct and Compliance
Business Model Resilience

- All employees, suppliers and contractors must comply with our Code of Ethics, conducting business with integrity and in a responsible, ethical and sustainable manner

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 and non-financial controls that are continually assessed, tested and reviewed. This robust framework is overseen by the Melrose Board and supported by an independent internal audit function, regular public

disclosure and financial reporting, external audits, public accountability and conformance with leading benchmarks set by the UK Corporate Governance Code (the "Code"). It is also supported by investor requests and direct engagement with them and corporate governance and proxy advisors, and extensive engagement with the Group's wider stakeholder base to ensure that best market practice is being implemented.



Melrose Board and Committees

The Board consists of four executive Directors, six Non-executive Directors (inclusive of the Senior Independent Director) and the Non-executive Chairman. Together, the Board brings a combination of skills, experience and knowledge to the Board that is complementary to the activities of the Company, and the Board is satisfied that there is sufficient challenge by the Non-executive Directors of executive management in meetings of the Board, and that no individual or small group of individuals dominates its decision-making. Biographies of the Directors are shown on our website at www.melroseplc.net.

The roles of each of the Chairman, the Executive Vice-Chairman and the Chief Executive of the Company are, and will remain, separate in accordance with the Code and Board policy.

The Chairman, with the assistance of the Executive Vice-Chairman, is responsible for leadership of the Board. The Chairman sets the Board agenda and ensures that adequate time is given to the discussion of issues in order to facilitate constructive discussions with effective contributions from the Non-executive Directors, particularly on those issues of a strategic nature. The Chairman, with the support of the Company Secretary, also facilitates constructive Board relations by providing accurate and clear information in a timely manner. Responsibility for ensuring effective communications are made to shareholders rests with the Chairman, the Executive Vice-Chairman and the three other executive Directors.

The Chief Executive is responsible for strategic direction and decisions involving the day-to-day management of the Company.

Alongside the Board, the Company has an Audit Committee, a Nomination Committee and a Remuneration Committee.

The Board has an overarching corporate governance framework to ensure continued alignment of the Board and Committee members' roles and division of responsibilities with the Code, Melrose's top-down Board and senior management risk oversight, and the business units' bottom-up risk management responsibilities. Each member of the Board is provided with a copy of the Company's corporate governance framework, which they review, discuss and update periodically.

Each of the Committees has its own written terms of reference. The Company Secretary supports the Committees in updating these terms of reference in order to comply with the Code and other good corporate practice. The terms of reference are continuously reviewed, although they are more formally reviewed on an annual basis in the Committee meetings. The terms of reference are available on our website at www.melroseplc.net.

For details on the time commitments and attendance of Directors at meetings, please refer to page 90 of our 2021 Annual Report, and for further details on the Audit Committee, Nomination Committee and Remuneration Committee, please refer to pages 94 to 116 of our 2021 Annual Report.

Non-executive Directors

The Company's Non-executive Directors are encouraged to, and do, scrutinise the performance of the executive Directors in all areas, including on strategy, risks and financial information, through their roles on the Company's Committees, at the Board's scheduled meetings and business review sessions, and on an ad-hoc basis. The Non-executive Directors come from a diverse range of backgrounds and as such are able to draw on their own specialist knowledge to give necessary guidance and advice, and to hold management to account.

In accordance with the provisions of the Code, consideration has been given to the independence of all Non-executive Directors. The Board considers all of the Non-executive Directors to be independent.

Upon Mr Justin Dowley's appointment to the role of Chairman he was considered independent, and has strong shareholder support for his current tenure to 2023, which was extended in 2020 with the support of shareholders, in order to facilitate succession planning arrangements and the development of a diverse Board, as well as to provide certainty and stability through the pandemic. Ms Liz Hewitt is the appointed Senior Independent Director, and acts as an intermediary for the other Directors and shareholders. She will be succeeded in this role by Mr David Lis upon her retirement in May 2022. In accordance with the Code requirements, at least half of the Board, excluding the Chairman, comprises Non-executive Directors determined by the Board to be independent. The number of independent Directors on the Board also increased during 2021 with the appointments of Mrs Heather Lawrence and Ms Victoria Jarman as independent Non-executive Directors in June 2021.

The Non-executive Directors are not entitled to any cash bonus or shares under the 2020 Employee Share Plan, nor do they receive taxable benefits or pension contributions.

Succession planning

Succession planning continued to be an area of focus for Melrose in 2021. The Nomination Committee and the Board considered the leadership needs of the Group, present and future, together with the skills, experience and diversity needed from its Directors going forward. We recognise that succession planning is an ongoing process and is critical to maintaining an effective and high-quality Board.

Succession planning is coordinated via the Nomination Committee, which consists of Non-executive Directors only, in conjunction with the Board, and includes all Directors and senior management. It was a core focus in 2021 and as explained on page 89 of our 2021 Annual Report, the Board and shareholders approved the extension of Mr Dowley's Chairmanship tenure in order to aid effective succession planning.

Succession planning arrangements for the Board as a whole were reviewed by the Nomination Committee and the Board. This included reviewing the skills set, tenure, diversity and independence of those already on the Board, and reviewing the Melrose senior management team, including the career planning and talent management programmes in operation for them. In each case this was to allow the Nomination Committee to ensure that the right balance of skills, experience and diversity were reflected and being developed.

Given the strength of Melrose's decentralised operating structure in achieving the Group's strategic objectives, the Nomination Committee does not have direct involvement in the succession planning arrangements of the divisions. However, the Nomination Committee has access to the divisional executive teams through the business review cycle.

Board evaluation

The Code requires that FTSE 350 companies undertake an externally facilitated Board and Committee evaluation once every three years. The last external Melrose Board and Committee review was in 2020, for which the Company engaged Lintstock Ltd. The Company will again be conducting an external evaluation in 2023.

Whilst the Company is not required to undertake another externally facilitated Board and Committee evaluation until 2023, during 2021 the Company continued its ongoing internal review of the Board and each Committee, both internally within each of those bodies and with the Chairman of the Board and Chairman of each Committee respectively. As in prior years, the Company also conducted an evaluation of the Chairman of the Board's performance. These evaluations were conducted and facilitated by the completion of questionnaires, and discussions at the applicable Board and Committee meetings, with follow-up actions taking place as relevant. Directors were also given the option for meetings to be scheduled with the Chairman of the Board or the Chairman of the relevant Committee about any relevant matters that they wished to raise as part of the ongoing review.

A range of topics were discussed as part of the evaluation including the mix of the Board, diversity of gender, race and thought, succession planning oversight, risk management and internal controls, strategic oversight, understanding of the views and requirements of key stakeholders, and the integration of sustainability into the Group's strategy and operations.

For details on the outputs of the evaluation, please refer to pages 90 to 91 of our 2021 Annual Report.

Stakeholder engagement

Through presentations and regular meetings between the executive Directors, analysts and institutional shareholders, including those following the announcements of the Company's annual and interim results and trading updates, the Company seeks to build on a mutual understanding of objectives with its shareholders and other stakeholders. During 2021, in addition to the usual disclosure rounds following the release of annual and interim results, the Company continued its programme of engagement with key investors and corporate governance bodies in respect of specific material topics, as well as open-agenda discussions between key shareholders and members of the Board. Engagement with key shareholders, proxy advisors, employee bodies, ratings agencies (including sustainability ratings agencies) and other governance bodies remains a central part of the Company's approach to stakeholder engagement and governance. Further details on the Company's engagement with stakeholders, including the material topics discussed with investors and corporate governance bodies, are contained in the Section 172 statement on pages 50 to 53 of our 2021 Annual Report.

Code of Ethics and Group compliance policies

The high standards of financial and non-financial controls, and strong governance backed by internal and, where required, external review of financial and non-financial compliance, are enforced throughout the Group. Directors, officers, employees, and contractors throughout the Group, whether permanent or temporary, and in respect of any entities over which Melrose has effective control, must comply with Melrose's Code of Ethics and Group compliance policies, which reflect current best practice and strong corporate citizenship. Each business is required to communicate and embed the Code of Ethics and Group compliance policies within their operations and activities to ensure that they conduct business with integrity and in a responsible, ethical and sustainable manner.

The Code of Ethics and Group compliance policies, which can be found on our website (<https://www.melroseplc.net/sustainability/data-reports-and-policies/>), have been approved by the Board and include policies covering best practice with respect to anti-bribery and corruption, anti-money laundering, anti-facilitation of tax

evasion, competition, conflict minerals, trade compliance, data privacy, whistleblowing, treasury and financial controls, anti-slavery and human trafficking, document retention, joint ventures, diversity and inclusion, environmental, and human rights.

During 2021, Melrose implemented new Environmental and Human Rights policies, and the Company also updated the Melrose Code of Ethics in light of key regulatory and legal developments and to align it with the new policies. The new policies and updated Melrose Code of Ethics have been fully implemented across all business units, and they (as well as all other Group compliance policies) continue to be monitored to ensure their effectiveness for the Group.

Implementation of the Code of Ethics and Group compliance policies is supported by risk assessments, audits and reviews and annual compliance certifications. 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.

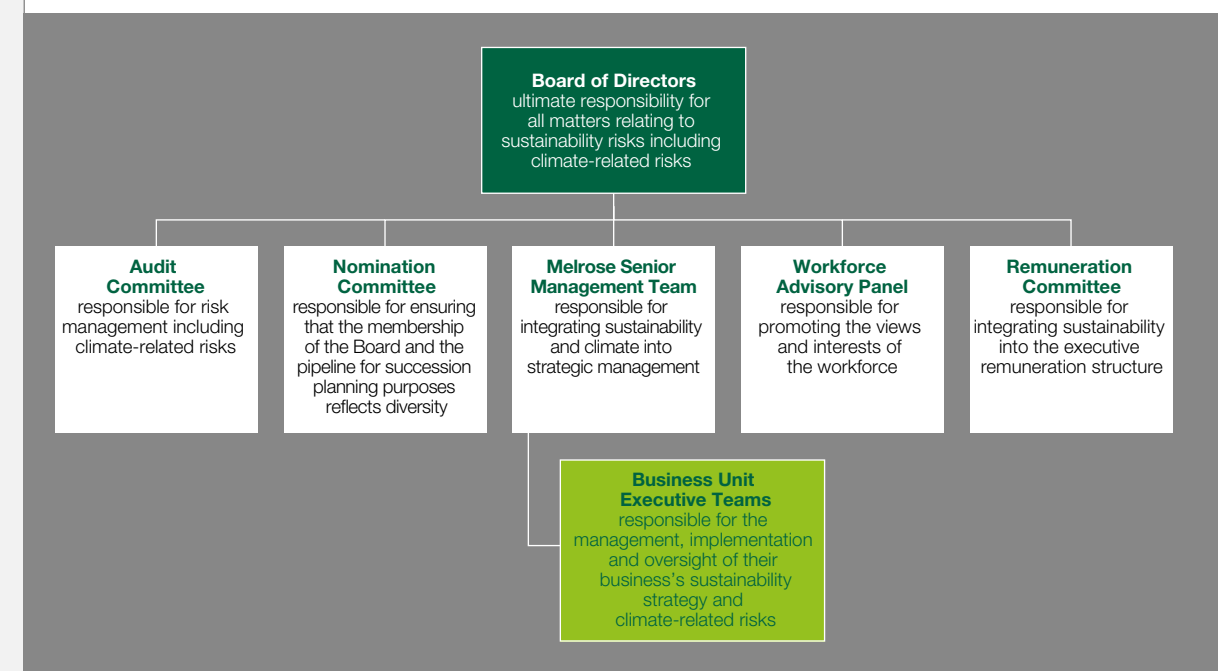
Anti-bribery and corruption

We take a zero-tolerance approach to bribery, corruption and other unethical or illegal practices, and are committed to acting professionally, fairly and with integrity in all business dealings and relationships, within all jurisdictions in which we and our businesses operate. Melrose 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 the collective benefit of stakeholders. This is outlined in our Anti-Bribery and Corruption policy, which is implemented and administered throughout the Group, and available on our website (<https://www.melroseplc.net/sustainability/data-reports-and-policies/>). During 2021, no employees were disciplined or dismissed due to non-compliance with the Anti-Bribery and Corruption policy.

In line with our Anti-Bribery and Corruption policy noted above, Melrose prohibits party political donations. We also recognise that from time to time our Group may comprise businesses that engage in policy debate and advocacy activities on subjects of legitimate concern to their respective industries and key stakeholders, including their staff and the communities in which they operate.

Integration of climate and sustainability in Melrose's governance framework

Below we have included a high-level overview of how sustainability and climate-related risk is integrated across our governance structure.



Whistleblowing

Melrose runs a Group-wide whistleblowing platform, which is overseen by the Audit Committee and supported by the Melrose senior management team, and ultimately reported to the Board. The platform is monitored by the businesses' legal, compliance and HR functions, with support from the Melrose senior management team. All employees have access to a multi-lingual online portal, together with local hotline numbers that are available 24/7, in order to raise concerns, confidentially and anonymously, about possible wrong-doing in any aspect of their business, including financial and non-financial matters.

The businesses take a number of actions to raise employees' awareness of the whistleblowing platform, using online and offline media as appropriate. Employees who come forward with a genuine concern are treated with respect and dignity and do not face retaliation. During 2021, 103 whistleblowing cases were recorded through the platform (2020: 120)⁽¹⁾. This highlights the effectiveness of awareness campaigns together with the trust placed by employees in the whistleblowing programme. Each case is investigated confidentially by the business with appropriate response measures taken. Whistleblowing cases are regularly reported to the Audit Committee and ultimately to the Board.

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 (<https://www.melroseplc.net/media/2759/modern-slavery-statement-fy2020.pdf>). Under Melrose's decentralised Group structure, each business is responsible (where applicable) for publishing their own Modern Slavery Statement 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 ensure slavery is not present within their supply chains.

Melrose drives its businesses to implement employee training with respect to anti-slavery and human trafficking, to ensure that employees understand the risks and are prepared to take the required action if they suspect that modern slavery is happening internally or within the supply chain.

Human rights

We are committed to acting in an ethical manner with integrity and transparency in all business dealings, and to create effective systems and controls across the Group to safeguard against adverse human rights impacts. The Group has a strong culture of ethics, which encompasses key human rights considerations and is set out in our Human Rights policy. The Group supports the principles set out in the UN Declaration of Human Rights.

Our businesses also implement effective and proportionate measures to identify, assess and mitigate potential labour and human rights abuses across their operations and supply chains. These include training, anti-slavery and human trafficking policies, employee handbooks and business-specific policies. All business-specific policies are reviewed locally within each business in order to ensure compliance with local laws and standards as a minimum.

There have been no violations reported on human rights by our businesses in 2021 or in the previous two years.

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 does not engage in aggressive tax planning. The Group's tax strategy is reviewed, discussed and approved by the Board annually. The Audit Committee periodically reviews the Group's tax affairs and risks.

The Group has adopted a policy in respect of the prevention of the facilitation of tax evasion which has been implemented by the businesses, along with guidance on undertaking risk assessments and training to employees in relevant roles.

The Group does not reside in countries considered as partially compliant or non-compliant according to the OECD tax transparency report, or in any countries blacklisted by the EU, for the purposes of tax avoidance and/or harmful tax practices, per the latest lists released as at 31 December 2021.

(1) These figures exclude any whistleblowing cases received by businesses that were no longer part of the Group as at 31 December 2021.



Risk and internal controls

Risk management

A key responsibility of the Board and Melrose senior management team is to safeguard and increase the value of the businesses and assets of the Group for the benefit of its shareholders. Achievement of their objectives requires the development of policies and appropriate internal control frameworks to ensure that the Group's resources are managed properly and that any key risks are identified and mitigated where possible.

The Board is ultimately responsible for the development of the Group's overall risk management policies and system of internal control frameworks and for reviewing their respective effectiveness, while the role of the Melrose senior management team is to implement these policies and frameworks across the Group's business operations. The Directors recognise that the systems and processes established by the Board are designed to manage, rather than eliminate, the risk of failing to achieve business objectives and cannot provide absolute assurance against material financial misstatement or loss.

The Board is committed to satisfying the internal control guidance for Directors set out in the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. In accordance with this guidance, the Board assumes ultimate responsibility for risk management and internal controls, including determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives (its "risk appetite") and ensuring an appropriate culture has been embedded throughout the organisation. The risk management and internal control system is complemented by ongoing monitoring and review, to ensure that the Company is able to adapt to an evolving risk environment.

Internal financial controls and reporting

The Group has a comprehensive system for assessing the effectiveness of the Group's internal controls, including strategic business planning and regular monitoring and reporting of financial performance. A detailed annual budget is prepared by senior management and thereafter is reviewed and formally adopted by the Board.

The budget and other targets are regularly updated via a rolling forecast process and regular business review meetings are held with the involvement of senior management to assess performance. The results of these reviews are in turn reported to, and discussed by, the Board at each meeting. The Group engages BM Howarth as internal auditor with additional support, as required, from Ernst & Young. A total of 42 sites across the Group were assessed by BM Howarth and Ernst & Young during 2021.

As was common across most large, geographically dispersed companies, COVID-19 disruption continued to present a number of challenges and limitations throughout the year due to restricted international travel and extended periods of remote working for many site-based finance teams. Further details about the additional assurance measures that were taken to mitigate the impact of COVID-19 disruption on internal controls during 2021 can be found in the Audit Committee report on pages 94 to 98 of our 2021 Annual Report.

The Directors can report that based on the sites visited and reviewed in 2021, there has been progress across the Group following the 2021 internal audit programme and that the majority of the recommendations presented in the internal audit report have been or are in the process of being implemented.

The Audit Committee also monitors the effectiveness of the internal control process implemented across the Group through a review of the key findings presented by the external and internal auditors. Management is responsible for ensuring that the Audit Committee's recommendations in respect of internal controls and risk management are implemented.

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 defence contracts.

The Melrose senior management team continues to work with the businesses' executive teams and external cyber security risk 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.

Melrose has deployed 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 cyber security 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.

The Board, supported by the Melrose senior management team, oversees the Group's cyber security risk profile and, in line with our decentralised model, each business is required to protect their business and personal information, ensuring safe and appropriate usage of their IT systems and processes by their employees.

To mitigate the impact of external cyber-attacks, the Melrose senior management team works with the executive teams of each business and external cyber security risk consultants to review each business's cyber risk profile to monitor and drive continuous improvement actions. The results of this ongoing review programme are reported to the Board on a quarterly basis.

Through a hosted, externally auditable self-assessment process, each business is reviewed and reports on their compliance in key areas of cyber management incorporating disaster recovery processes and business continuity plans, cyber incident response plans, applications and database management including access controls testing, appropriate security products, policies and procedures, confirmation of appropriate change management processes for all business-critical systems, IT inventory listings including all classified data to meet compliance with legal and regulatory requirements, monitoring and logging of all cyber incidents, physical environment access controls and network security, regular security training, and management of third party access control.

The businesses regularly perform internal and external testing of their perimeter defences through penetration testing, ensuring appropriate threat monitoring systems are in place. All of our businesses follow and work towards national and international business accreditations in varying aspects of cyber management where applicable and relevant to their business activities, including the UK's National Cyber Security Strategy ("NCSS"), ISO 27001, and industry-specific NIST in the defence sector and TISAX in the automotive sector.

As part of Melrose's overall information security strategy, IT security awareness training was provided by all businesses in 2021.

Outlook

In 2022, we will continue to drive our businesses to protect the workforce to uphold strong ethical and governance principles and practices, to work more closely with their customers to develop innovative low carbon products, and to make meaningful changes within their day-to-day operations, towards helping the planet transition to a net zero economy. Our plans for 2022 include:

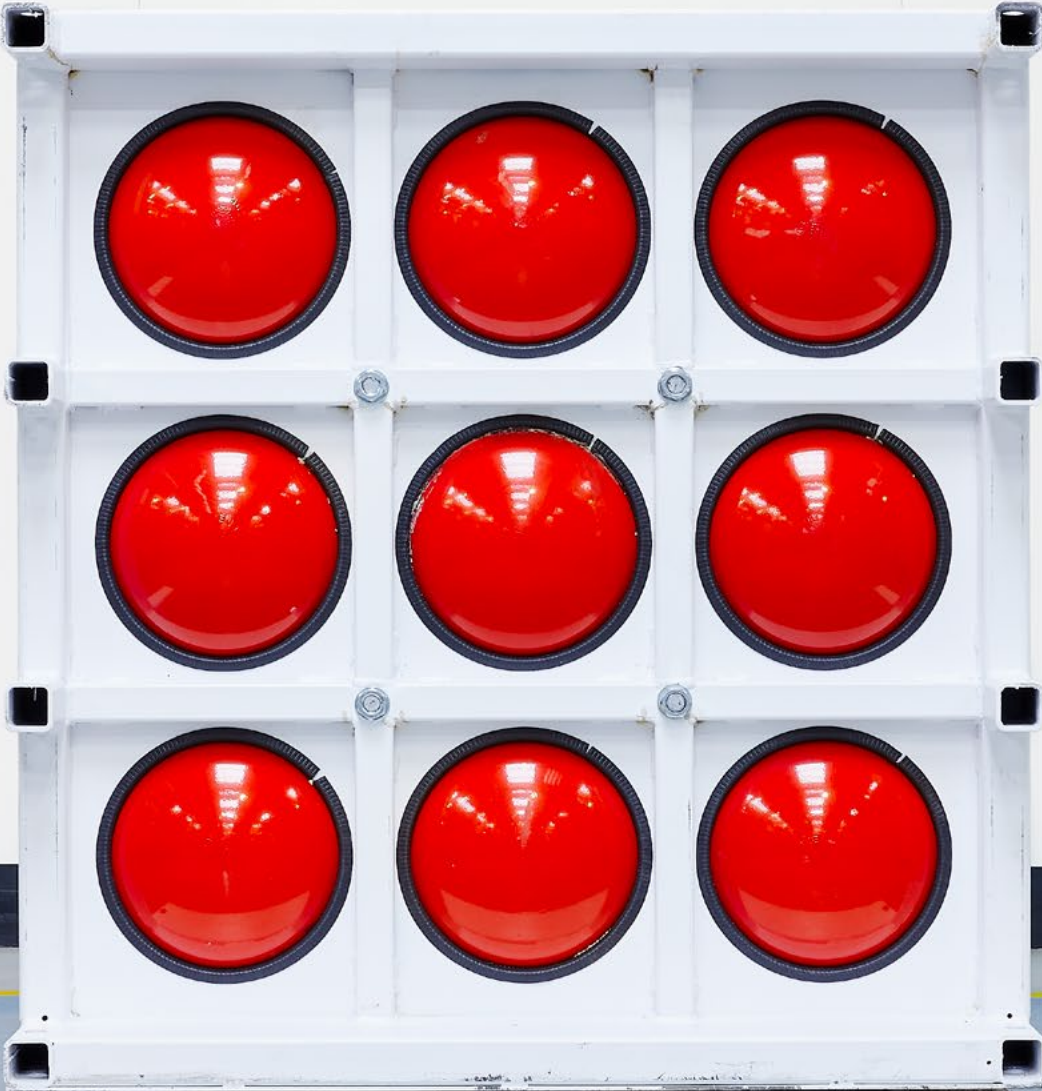
- continuing to develop our multi-year sustainability action plan, including a formalised transition plan towards a net zero economy before 2050;
- continuing to expand data collection and measurement, verified by external reviews in preparation for eventual third-party assurance in future years, to enable us to better track progress against targets;

- engaging with our supply chain through the collection and reporting of Scope 3 emissions and continuing to promote the strongest responsible, ethical and sustainable business practices through our businesses' stringent supplier qualification processes;
- making our inaugural CDP Water Security submission and developing a Group-level water reduction target; and
- providing ongoing support to our businesses as they develop their standalone sustainability strategies in preparation for their life beyond the Melrose Group.

Much of this work is already underway and we look forward to accelerating our progress during 2022.



Simon Peckham
Chief Executive
3 April 2022



Emissions and other environmental disclosures

Table 1 shows the GHG emissions for the Group, broken down by Scope 1, Scope 2 and some Scope 3 emissions.

Table 1: Total Melrose Group GHG emissions for the period 1 January 2021 – 31 December 2021 (tonnes CO ₂ e ⁽¹⁾ unless stated)				
	2021 ⁽²⁾	2020 ⁽³⁾⁽⁴⁾	2019 ⁽⁵⁾	Change (2021/2020)
Scope 1: Direct GHG emissions				
Combustion of fuel and operation of facilities ⁽⁶⁾	168,315	185,210	223,847	-9%
Scope 2: Indirect GHG emissions				
UK electricity	15,313	17,614	26,909	-13%
Overseas electricity	539,513	631,471	774,569	-15%
Total purchased electricity	554,825	649,085	801,478	-15%
Other purchased energy	220	2,045	3,165	-89%
Total Scope 2 ⁽⁷⁾	555,045	651,130	804,643	-15%
Total Scope 1 and Scope 2 emissions	723,360	836,340	1,028,490	-14%
Company's chosen intensity measurement:				
Emissions reported above normalised tonnes per £1,000 turnover ⁽⁸⁾	0.105	0.096	0.092	9%
Scope 3: Indirect GHG emissions in the value chain				
Business travel ⁽⁹⁾	6,873	–	–	–
Other ⁽¹⁰⁾	71,961	–	–	–
Total Scope 3 emissions	78,835	–	–	–

(1) CO₂e – carbon dioxide equivalent, this figure includes GHGs in addition to carbon dioxide, as set out in Table 2 below.
(2) The 2021 emissions data does not include Nortek Air Management, Brush or Nortek Control, as they were sold part way through the year. The emissions from these businesses fall below our materiality threshold.
(3) Our 2020 Scope 2 emissions data has been restated.
(4) The 2020 emissions data does not include GKN Wheels & Structures as it was sold part way through that year. The emissions from this business fell below our materiality threshold.
(5) The 2019 emissions data does not include the Walterscheid Powertrain Group as it was sold part way through that year. 2019 was chosen as the base year for the purposes of reporting Group emissions data in this report as it was the first full reporting year that GKN Aerospace, GKN Automotive and GKN Powder Metallurgy were reported as part of the Group.
(6) Our Scope 1 figures include emissions from fuel used on premises, transport emissions from owned or controlled vehicles, losses of refrigerant, and process and fugitive emission.
(7) Our Scope 2 figures 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.
(8) 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. For 2021, the turnover figure includes continuing businesses only.
(9) Inclusive of business travel and business travel well-to-tank. Rail and vehicle travel was collected from 17% (by revenue) of the Group and air travel was collected from 54% (by revenue) of the Group.
(10) Includes emissions from fuel-related well-to-tank, electricity transmission and distribution losses, and water supply.

Table 2 shows a breakdown of the Group's GHG emissions by type and by where those emissions were incurred. Our Scope 1 and Scope 2 emissions for 2021 encompass methane (CH₄) and nitrous oxide (N₂O). The vast majority of our emissions are from carbon dioxide (CO₂), which is common among most industrial businesses. There have been reductions in all GHG emission types between 2020 and 2021 across the Group. The reductions in SF₆ are attributable to the sale of Brush and the reductions in R134a are attributable to the sale of Nortek Air Management, which were historically responsible for these emissions. Scope 2 N₂O and CH₄ emissions have decreased in line with the general reduction in year-on-year energy usage and a decrease in the emission factors for many countries.

Table 2: Melrose Group GHG emissions by type (CO ₂ e) for the period 1 January 2021 – 31 December 2021 (tonnes CO ₂ e ⁽¹⁾ unless stated)							
	2021			2020 ⁽²⁾			Change in Total (2021/2020)
	UK	Global (excl UK)	Total	UK	Global (excl UK)	Total	
Scope 1⁽³⁾							
CO ₂	9,375	158,051	167,427	9,700	172,178	181,878	-8%
CH ₄	13	210	222	13	227	240	-7%
N ₂ O	6	135	141	6	137	143	-2%
SF ₆	0	0	0	2,075	741	2,816	-100%
R134a	0	0	0	0	59	59	-100%
Total Scope 1 CO₂e	9,394	158,921	168,315	11,794	173,677	185,471	-9%
Scope 2⁽⁴⁾							
CO ₂	15,156	537,980	553,136	17,455	630,886	648,341	-15%
CH ₄	58	281	339	54	451	505	-33%
N ₂ O	99	1,471	1,570	104	2,180	2,284	-31%
Total Scope 2 CO₂e	15,313	539,732	555,045	17,614	633,516	651,130	-15%

(1) CO₂e – carbon dioxide equivalent, this figure includes GHGs in addition to carbon dioxide.
(2) Our 2020 Scope 2 emissions data has been restated.
(3) Our Scope 1 figures include emissions from fuel used on premises, transport emissions from owned or controlled vehicles, losses of refrigerant, and process and fugitive emission.
(4) Our Scope 2 figures 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 is new for 2021 and shows the CO₂ arising from the combustion process associated with biofuels (in this case wood pellets), which have much lower associated emissions than an equivalent energy usage of fossil fuels. The 60% increase in emissions is attributable to an increase in the amount of wood pellets burnt at the sites. This is presented for completeness to demonstrate the Group's efforts to move away from fossil fuels and use net zero fuels where possible. The emissions arising from this process are assumed to be absorbed by the growth of the biofuel source, i.e. the trees used to make the wood pellets.

Table 3: Total Melrose Group GHG emissions outside of Scopes 1, 2 and 3 for the period 1 January 2021 – 31 December 2021 (tonnes CO₂)

Source	2021	2020	Change (2021/2020)
Wood Pellets	12,131	7,587	60%

Table 4 shows the energy consumption by type for the Group, broken down by UK and overseas consumption, in accordance with the requirements of the SECR regulations. The Company's chosen intensity ratio in this regard is megawatts usage ("MWh") per £1,000 of turnover.

Table 4: Melrose Group energy consumption by type for the period 1 January 2021 – 31 December 2021 (MWh unless stated)

Energy type	2021			2020			Change in Total (2021/2020)
	UK	Global (excl UK)	Total	UK	Global (excl UK)	Total	
Natural gas	50,903	787,088	837,991	52,132	809,336	861,468	-3%
LPG	76	37,748	37,824	317	37,716	38,033	-1%
Gas oil	0	4,894	4,894	0	5,669	5,669	-14%
Fuel oil	0	8,998	8,998	0	9,189	9,189	-2%
Diesel	202	8,467	8,669	261	6,809	7,070	23%
Petrol (gasoline)	28	1,594	1,622	13	667	680	139%
Steam	0	15,150	15,150	0	18,819	18,819	-19%
Wood pellets	0	34,719	34,719	0	21,713	21,713	60%
Total non-renewable fuels consumption	51,209	898,658	949,867	52,723	909,918	962,641	-1%
Total renewable electricity consumption	327	25,743	26,070	0	8,052	8,052	224%
Total non-renewable electricity consumption	72,118	1,684,384	1,756,502	75,549	1,864,732	1,940,281	-9%
Total electricity consumption	72,445	1,710,127	1,782,572	75,549	1,872,784	1,948,333	-9%
Total operational energy consumption	123,654	2,608,785	2,732,439	128,272	2,782,702	2,910,974	-6%

Company's chosen intensity measurement:							
MWh per £1,000 turnover ⁽¹⁾	0.018	0.379	0.397	0.015	0.318	0.332	19%

(1) 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. For 2021, the turnover figure includes continuing businesses only.

Water withdrawal data is presented in Table 5, showing a decrease in 2021 compared to 2020.

Table 5: Melrose Group water withdrawal⁽¹⁾ data for the period 1 January 2021 – 31 December 2021

	2021 ⁽²⁾	2020 ⁽³⁾	Change (2021/2020)
Water withdrawals (m ³) in operation	3,596,002	3,880,393	-8%
Company's chosen intensity measurement:			
m ³ per £1,000 turnover ⁽⁴⁾	0.519	0.443	17%

(1) For these purposes, water withdrawal is defined as the sum of all water drawn into the boundaries of the organisation (or facility) from all sources for any use over the course of the reporting period.
(2) Water withdrawal data was collected from 100% of sites across the Group in 2021.
(3) Water withdrawal data was collected from 147 sites (93%) across the Group's businesses in 2020. Although a small number of sites did not record their water withdrawal, to give an indication as to size, these sites accounted for less than 3% of the Group's total GHG emissions in 2020, and so these omissions are not material.
(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. For 2021, the turnover figure includes continuing businesses only.

Table 6 shows the waste generation data for the Group in 2021, showing an overall increase in the total waste generated compared to 2020. This was partially driven by the reopening of sites following shutdowns caused by the pandemic. Despite the increase in absolute waste weight, there have been significant reductions in the proportion of non-hazardous waste that is incinerated and sent to landfill. Additionally, a larger proportion of waste was being sent to higher waste hierarchy options of recycling and hazardous waste treatment in 2021 compared to 2020.

Table 6: Melrose Group waste generation data for the period 1 January 2021 – 31 December 2021

	2021 ⁽¹⁾	2020 ⁽²⁾	Change (2021/2020)
Weight of total non-hazardous waste (tonnes)	151,900	139,388	16%
Weight of total hazardous waste (tonnes)	10,436	11,087	-6%
Total waste generated (tonnes)	162,336	150,475	8%
Breakdown:			
– Total recycled (tonnes)	141,947	121,912	16%
– Total incineration (tonnes)	5,850	9,103	-36%
– Total landfill (tonnes)	9,175	15,601	-41%
– Hazardous waste disposed through legally approved treatment routes (tonnes) ⁽³⁾	5,394	3,859	40%

(1) Waste generation data was collected from 100% of sites across the Group in 2021.
(2) Waste generation data was collected from 136 sites (86%) across the Group in 2020. Although a small number of sites did not record their waste generation, to give an indication as to size, these sites accounted for less than 3% of the Group's total GHG emissions in 2020, and so these omissions are not material.
(3) 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.

Melrose Group disclosures in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (“TCFD”)

Taskforce on Climate-related Financial Disclosures (“TCFD”) Index

Governance	<p>a) Describe the board’s oversight of climate-related risks and opportunities.</p> <p>The Chairman and the Melrose Board oversee and have ultimate responsibility for Melrose’s sustainability initiatives, disclosures, and reporting. This includes, but is not limited to, climate risks and opportunities. The Board has responsibility for approving the sustainability strategy, sustainability report and sustainability targets, which also includes climate-related targets. Details of how the Board delegates risk management authority across the divisions is described in the Risk management section of our 2021 Annual Report on pages 40 and 41.</p> <p>The Board receives regular training, at least annually, on sustainability issues that impact our businesses, including climate change. The Board also receives quarterly updates on key sustainability and climate-related issues that impact the sectors in which the Group’s businesses operate, and on the specific measures that need to be implemented to drive improved climate-related performance of the businesses. Please see page 47 for details of how sustainability and climate-related issues fit into wider Melrose governance and Board responsibilities. Our Section 172 statement on pages 50 to 53 of our 2021 Annual Report describes in more detail the Board’s decision-making in 2021, including in relation to sustainability and climate-related matters.</p>	<p>b) Describe management’s role in assessing and managing climate-related risks and opportunities.</p> <p>The Melrose senior management team oversees the Group sustainability function. This responsibility includes the publication of this Sustainability Report and the setting of climate-related targets in line with the TCFD recommendations across the businesses in 2021. We integrate the management of sustainability and climate-related issues across our existing governance and committee structures. Please see page 47 for a diagram that outlines how climate is integrated into our governance and committee structures.</p> <p>We run a decentralised model and overseeing climate-related issues and implementing relevant actions and initiatives is most effective at the individual business level, where most impact can be had. Each business’s CEO and executive management team are accountable for climate change and sustainability. Throughout the year, the Melrose Group sustainability function has engaged with the CEOs and other relevant senior leaders of each business to set expectations and to ensure there is appropriate oversight of the impacts of climate and other material sustainability risks and opportunities. Please see the Divisional reviews on pages 12 to 29 of our 2021 Annual Report and pages 10 to 23 of this Sustainability Report for detail of how the divisions are engaging on climate change.</p>	
Strategy	<p>a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term.</p> <p>In alignment with our “Buy, Improve, Sell” business model, we view managing climate-related risks and opportunities with the aim of protecting and enhancing both the value of our businesses and their impact on the world. We have considered climate risk under short, medium, and long-term time horizons that reflect the investment and value creation cycle of our “Buy, Improve, Sell” model. We have included a description of the climate-related risks identified as part of our qualitative climate scenario analysis on pages 22 to 23. The time horizons used for the scenario analysis were as follows:</p> <ul style="list-style-type: none">• Short-term: until 2023 – aligned with Melrose investment and immediate improvement phases.• Medium-term: until 2026 – aligned with Melrose ownership, engagement and “Improve” period and beyond.• Long-term: until 2040 – expected to align with the period beyond Melrose ownership for our current businesses.	<p>b) Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.</p> <p>In 2021 we invested over £153 million across our businesses on climate-related research and development, for example, to develop products that help their customers to improve their energy efficiency and to reduce their GHG emissions compared with conventional technologies. Please see pages 10 to 20 for further examples. We have described how sustainability and climate-related issues are integrated into our broader strategy in the description of our strategy and business model on pages 4 to 5.</p> <p>Climate change has a direct impact on product strategy, development, and financial planning across all of our businesses. Our businesses work closely with their customers, partners, and world-class research institutions to develop market-leading, cost-effective innovations and deliver solutions that address environmental challenges. On pages 22 to 23, we have provided details on how we are embedding low carbon transition into our businesses alongside our relevant targets.</p>	<p>c) Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p> <p>To understand, and plan for, how Melrose will be impacted in plausible future climate scenarios and to improve our strategic resilience, we carried out our first climate scenario assessment, under two scenarios. These scenarios use Representative Concentration Pathways (“RCPs”), that set pathways for concentrations of GHGs and, effectively, the amount of warming that could occur by the end of the century. We used the same criteria to rate the climate-related risks that is used to rate other strategic Group risks. Further details of how our businesses are supporting the decarbonisation of their sectors are outlined on pages 10 to 20, and details of our 2021 qualitative climate scenario analysis can be found on pages 22 to 23.</p>
Risk management	<p>a) Describe the organisation's processes for identifying and assessing climate-related risks.</p> <p>Climate change will continue to have direct physical and transitional impacts on the businesses, although for each business the impacts will be different. Each business is individually responsible for developing and managing processes to monitor and manage their climate-related risks. The qualitative climate scenario analysis described on pages 22 to 23 was a key step in identifying climate-related risks and opportunities. Please see the Risks and uncertainties section on pages 42 to 49 of our 2021 Annual Report for details of our Group approach to assessing principal risks including climate change. This year we also assessed water stress. Please see pages 24 to 25 for details.</p>	<p>b) Describe the organisation's processes for managing climate-related risks.</p> <p>With Melrose's support, each 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. The executive management team of each business regularly reviews any significant climate-related issues, risks and opportunities related to the business. These reviews consider the level of climate-related risk that the business is prepared to take in pursuit of its business strategy and the effectiveness of management controls in place to mitigate climate-related risk. In line with our decentralised model, our businesses have frameworks in place for identifying principal risks and opportunities appropriate to their business and stakeholders, which include climate-related risks. Each business takes an appropriately tailored approach to improve relative to their maturity in this area at the time of becoming part of the Group.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.</p> <p>In 2021, the Group risk categories were expanded and refined to include climate change as a strategic Group risk, to reflect the emerging risks involved with the increased frequency of extreme weather and climate-related disasters, coupled with increased climate transition legislation and regulations in this area. Please see page 47 of our 2021 Annual Report for details on how climate change is integrated into our Group strategic risk profile.</p> <p>At the end of 2021, in recognition of the businesses’ strong focus on ensuring an efficient and sustainable use and management of energy, 112 sites (74%)⁽¹⁾ across our businesses were certified to ISO 14001 standard, and 28 sites (18%)⁽¹⁾ had achieved ISO 50001 certification. Compliance to the standards is ensured by independent auditing, with annual surveillance audits being completed and a full re-certification carried out every three years.</p>
Metrics and targets	<p>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.</p> <p>Improving operational efficiency is a key factor that shapes the long-term profitability and sustainability of our businesses and contributes to ensuring that they are responding appropriately to changing regulatory and stakeholder requirements and expectations. Our ambition is to achieve net zero GHG emissions in our Group’s operations before 2050 in line with the UK Government’s target, to achieve the goals of the Paris Agreement. As part of our evolving sustainability strategy, we have identified relevant Group-level KPIs to support us in better articulating our transition plan to meet our net zero ambition. These metrics include GHG emissions, water (withdrawal and stress) and waste. We have reported Scope 1 and Scope 2 emissions data for the Group for several years and have now set reduction targets for the short, medium and long-term. In 2021, we also began to report a limited number of Scope 3 emissions and will shortly incorporate these into our targets. Please see the tables included on pages 52 to 53 of the Annex to this Sustainability Report for our Scope 1, 2 and 3 emissions disclosures.</p>	<p>b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 Greenhouse gas (“GHG”) emissions and the related risks.</p> <p>We have reported Scope 1 and Scope 2 emissions data for the Group for several years. In 2021, we also began to report a limited number of Scope 3 emissions. Please see the tables included on pages 52 to 53 of the Annex to this Sustainability Report for our Scope 1, 2 and 3 emissions disclosures. Our Group emissions are closely linked with our Group climate transition risk exposure. Please see our 2021 qualitative climate scenario analysis on pages 22 to 23 for details on our climate transition risk and how our divisions are addressing and engaging with climate transition risks and opportunities.</p>	<p>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</p> <p>Each of our businesses are at a different stage of their respective strategic sustainability improvement journey, and at different points in their Melrose ownership. By the very nature of our “Buy, Improve, Sell” strategy, our Group sustainability performance will fluctuate during our investment cycle as we acquire new businesses in need of improvement, and sell businesses that we have improved. These differences among our businesses, and the unique nature of our business model, have been assessed and considered in setting the parameters of the Group sustainability targets, which cover net zero, Scope 1 and Scope 2 emissions intensity, renewable electricity sourcing, waste diverted from landfill, climate-related research and development expenditure and the development of new products that contribute to the decarbonisation of the sectors in which we operate. Please see page 14 for more details on our environmental targets including time horizons.</p>

(1) Data has been collected from 98% (by sites) of the Group.

(1) Data has been collected from 98% (by sites) of the Group.

Sustainability Accounting Standards Board (“SASB”) reporting
for 2021

The following tables detail our disclosures made against the SASB Aerospace and Defence and Auto Parts sector standards, with topics identified as being most relevant to our businesses and their sectors. All data and descriptions are for Melrose Industries PLC on a consolidated basis for continuing businesses and not solely the business unit(s) within the Group that are relevant to the Aerospace and Defence and Auto Parts sectors. The tables are structured by topic to take into account that some disclosure and indicator requirements appear in more than one SASB sector.

By reporting in line with the SASB standards, we are providing our investors and other stakeholders with comparable, consistent, and reliable data on financially material sustainability factors which directly impact our long-term enterprise value. As this is our first year reporting against the standards, there may be some disclosure gaps which we will look to close in time.

Table 1a: Aerospace and Defence & Auto Parts standard – accounting metrics

Topic	Metric	Response	SASB Code
Energy Management	1) Total energy consumed	1) 9,836,776 Gigajoules (“GJ”)	RT-AE-130a.1
	2) Percentage grid electricity	2) 58%	TR-AP-130a.1
Hazardous Waste Management	Amount of hazardous waste generated	Please refer to page 53.	RT-AE-150a.1
Waste Management	1) Total amount of waste from manufacturing	1) Please refer to page 53.	TR-AP-150a.1
	2) Percentage hazardous	2) 6%	
	3) Percentage recycled	3) 87%	
Data Security	Description of approach to identifying and addressing data security risks in (1) company operations and (2) products	1) 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 defence contracts. As a principal risk, information security and cyber is addressed through the Group’s risk management framework. Please refer to page 50 for more detail. Management processes to address these risks include, but are not limited to, employee training and incident and vulnerability management processes (detection and response), and a security champions network ensuring compliance and risk assessment on sites. GKN Aerospace’s Digital Security Programme (“DSP”) provides the policies and prescribed measures under which GKN Aerospace operates and safeguards its data and information systems to both reduce risk and minimise the effect of potential incidents. The DSP is endorsed by both GKN Aerospace’s CEO and CIO to establish and enforce the cyber security and data protection programme at GKN Aerospace. Controls include, but are not limited to, employee screening, supplier and vendor checks, third party penetration testing and 24/7 Security Operating Centre (“SOC”) service providers to detect, analyse and respond from alerts to incident response based on the security monitoring tools deployed. Please refer to page 50 for more detail. 2) n/a	RT-AE-230a.2
Product Safety	1) Number of counterfeit parts detected	1) 0 ⁽¹⁾	RT-AE-250a.2
	2) Percentage avoided	2) n/a as no counterfeit parts were detected or avoided ⁽²⁾	

(1) Data coverage for the Group is 63% (by revenue).
(2) Data coverage for the Group is 63% (by revenue).

Topic	Metric	Response	SASB Code
Fuel Economy & Emissions in Use-phase	Revenue from alternative energy-related products	£800,890,133 ⁽¹⁾	RT-AE-410a.1
	Description of approach and discussion of strategy to address fuel economy and Greenhouse gas (“GHG”) emissions of products	GKN Automotive is at the forefront of increasing the efficiency of the products it manufactures. As well as investing to minimise the CO ₂ impact in vehicles. GKN Automotive is now the market leader in highly efficient all-wheel drive (“AWD”) and e-Drive systems, enabling its customers to improve fuel efficiency and reduce their carbon emissions. The Disconnect AWD technology helps reduce AWD-related CO ₂ emissions by up to 80% compared with conventional AWDs. In addition, the new generation AWD components are 30% more efficient and 20% lighter than previous generations. Product durability has been increased by 25%, now achieving more than 320,000 kilometres. The 525,000 systems sold just in 2021 will reduce vehicle emissions by more than 45,000 tonnes of CO ₂ annually. GKN Automotive is now producing a significant volume of the new Generation 3-in-1 e-Drive system. This highly integrated technology with significantly more power at less weight and smaller packaging is designed for future plug-in hybrid or battery electric vehicles. Advanced analysis and development tools have been applied to increase power density of the new Generation 3-in-1 e-Drive systems by 25% and reduce the amount of expensive materials like copper and rare earth magnets at the same time. The UK Innovation Centre in Abingdon is focused on the development of the next generation e-Drive products with even better efficiency and weight to power ratio, and the reduction or even elimination of critical materials. The recently announced “UK Research Centre” jointly with the University of Nottingham and Newcastle University will strongly support the business’s medium and long-term strategy. GKN Aerospace has collaborated with other aerospace companies to develop a clear and aligned roadmap towards aviation’s goal of net zero by 2050. The components of this include replenishment and operational optimisation of existing fleets with the very latest and most efficient products, planned new aircraft and engine designs to further improve efficiency and reduce emissions, the introduction of sustainable aviation fuels to reduce the introduction of CO ₂ from fossil fuels entering the environment, and the development of brand new zero emission technology. GKN Aerospace has optimised its internal R&D plans to maximise its value contribution across this wide scope, stepping beyond its current scope of capabilities to also explore new zero emission technologies aimed at inspiring its people, customers and communities. GKN Aerospace has developed a strong collaboration culture linked to significant ecosystems of research centres, universities, SMEs and partners. Its R&D portfolio embraces the fantastic capabilities that exist in those ecosystems for mutual benefit, often leading government funded programmes such as its H2GEAR hydrogen electric propulsion programme, which enables universities and SMEs to benefit from this support. Please refer to pages 10 to 13 for more detail.	RT-AE-410a.2
Design for Fuel Efficiency	Revenue from products designed to increase fuel efficiency and/or reduce emissions	£1,039,320,847 ⁽²⁾	TR-AP-410a.1
Materials Efficiency	Percentage of products sold that are recyclable	88% ⁽³⁾	TR-AP-440b.1
	Percentage of input materials from recycled or remanufactured content	60% ⁽⁴⁾	TR-AP-440b.2
Business Ethics	Discussion of processes to manage business ethics risks throughout the value chain	Sound business ethics and integrity are core to the Group’s values and are fundamental for the success of our strategy. The high standards of financial and non-financial controls, and strong governance backed by internal and where required, external review of financial and non-financial compliance, are enforced throughout the Group. Directors, officers, employees, and contractors throughout the Group, whether permanent or temporary, and in respect of any entities over which Melrose has effective control, must comply with Melrose’s Code of Ethics and Group compliance policies, which reflects current best practice and strong corporate citizenship. The Code of Ethics and the Group compliance policies, which can be found on our website (https://www.melroseplc.net/about-us/governance/code-of-ethics/), have been approved by the Board and includes policies covering best practice with respect to anti-bribery and corruption, anti-money laundering, anti-facilitation of tax evasion, competition, conflict minerals, trade compliance, data privacy, whistleblowing, treasury and financial controls, anti-slavery and human trafficking, document retention, joint ventures, diversity and inclusion, environmental, and human rights. Please refer to pages 47 to 48 for more detail.	RT-AE-510a.3

Table 1b: Aerospace and Defence & Auto Parts standard – activity metrics

Activity Metric	Response	SASB Code
Number of employees	Please refer to page 35.	RT-AE-000.B

(1) Data coverage for the Group is 86% (by revenue).
(2) Data coverage for the Group is 49% (by revenue).
(3) Per the SASB standards, the scope of disclosure is limited to products that are automotive parts, components, and materials.
(4) Data coverage for the Group is 63% (by revenue).



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London Stock Exchange

Code: MRO

SEDOL: BZ1G432

LEI: 213800RGNXXZY2M7TR85

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