

Melrose provides the focus and investment to make our businesses sustainable and valuable, for the benefit of our stakeholders

A focus on sustainability



Justin Dowley
Non-executive Chairman

Improving the sustainability performance of our businesses is central to our “Buy, Improve, Sell” strategy. We acquire good manufacturing businesses that are underperforming their potential from a financial, operational and sustainability perspective. We then invest heavily to improve their longer-term financial and operational performance in a sustainable manner, before identifying suitable new owners who will take them to the next stage of their development, generating significant value for our shareholders.

Inherent in the nature of the manufacturing businesses we acquire is that they often operate in the industries that are some of the most difficult to decarbonise. We provide the focus and investment that these businesses need to deliver significant financial returns and sustainability improvements for the benefit of our stakeholders. 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.

By the very nature of our “Buy, Improve, Sell” strategy, 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. By turning around the performance of those businesses under our ownership, we will have added value for the benefit of our stakeholders.

We redirect and refocus our businesses on helping their customers and key stakeholders tackle pressing climate change challenges in pursuit of transitioning to a net zero emissions economy by 2050. Through a combination of investment and oversight, we redirect and refocus our businesses to work closely with their customers to develop and deliver innovative product solutions that directly address society’s most complex longer-term sustainability challenges.

Our efforts to improve our businesses are supported by a foundation of robust governance, risk management and compliance. We instill 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. We also spend time listening to our key stakeholders so we can make more informed strategic decisions and deliver on their needs. This includes our employees, whose wellbeing and skills development is a key priority, as well as the communities in which our businesses operate.

We take our role as a responsible corporate citizen seriously by encouraging innovation and implementing measures to drive positive change and to proactively reduce the potential negative impact of our businesses’ and our customers’ operations on society and the planet.

Progress in 2020

In 2020 we delivered significant progress against our four overarching sustainability principles, which are: (i) to respect and protect the environment; (ii) to purposefully engage with key stakeholders to better understand and deliver on their expectations; (iii) to prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of; and (iv) to exercise robust governance, risk management, and compliance. Despite the disruption caused by the COVID-19 pandemic, our businesses continued to excel in cultivating the technical capabilities required to provide innovative solutions to the emerging sustainability challenges that their customers face. We are already taking active steps to anticipate how climate change will affect our businesses and they, in turn, are investing in sustainable product development that will help their customers achieve their sustainability ambitions. Highlights in 2020 included the launch of a groundbreaking hydrogen propulsion project led by GKN Aerospace, which aims to deliver a hydrogen-powered aircraft with zero carbon emissions to the skies from as early as 2026, and GKN Automotive’s continued market leadership in developing highly efficient all-wheel drive (“AWD”) and eDrive systems that enable customers to improve fuel efficiency and reduce their carbon emissions.

Across the Group, we took further steps to implement a more comprehensive sustainability framework to support the execution of our “Buy, Improve, Sell” strategy. We refined our Group sustainability objectives and strengthened our controls, which included the development of a formal sustainability framework covering the following:

- completion of a materiality assessment;
- alignment to the UN Sustainable Development Goals (UN SDGs);

Introduction

Following our inaugural ESG report last year, we have continued to embed our four Melrose sustainability principles within our businesses. This 2020 Sustainability report sets out the results of our material sustainability issues assessment, illustrates the alignment of the Melrose sustainability principles to the UN SDGs, and provides updated detail and case studies that demonstrate the efforts that our businesses have made to promote those principles and goals throughout 2020. Highlights include our:

- Further efforts made to continue to **embed sustainability** within our businesses.
- Additional investment in our businesses to make **products that are more sustainable and safer**, with a focus on helping our businesses' customers and their wider industries to support the transition to a net zero emissions economy by 2050.

- Progress towards **making the impact of our businesses' production activities more environmentally friendly**.
- Continued focus on **prioritising the health and safety of our employees and contractors**.
- Continued **investment in the wellbeing and skills development of our employees and the communities that they are part of**, including our efforts to **promote diversity**.
- **Further strengthening of our governance, risk management, and compliance framework**, and maintaining **strong ethical conduct and business practices** throughout the Group.

- establishment of a Group internal sustainability reporting and performance function to support our businesses;
- implementation of a refreshed Melrose Code of Ethics, applicable to all of our businesses; and
- refreshing our Group compliance policies and introducing a new Group-wide conflict minerals policy.

Actions for 2021

In executing our "Buy, Improve, Sell" strategy and effecting continuous, long-term improvement within our businesses, we recognise that our work is far from complete. We are committed to continuing to improve the contribution that our businesses make to sustainable development, and to further enhance our sustainability framework. Our plans for 2021 include:

- developing a multi-year sustainability action plan to embed sustainable performance targets within the Group which reflect our "Buy, Improve, Sell" strategy and our three to five-year investment cycle. We will disclose these performance targets in due course;
- further developing our sustainability management and governance structure, including our internal sustainability reporting capabilities and information capture across our businesses;
- commencing the process of reporting our sustainability performance under the Sustainability Accounting Standards Board (SASB);
- making our inaugural CDP (formerly the Carbon Disclosure Project) submission;
- publishing an assessment of how we are mitigating climate change risks in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); and
- setting targets in line with the selected UN SDGs that measure the contribution of our businesses to those goals.

Much of this work is already underway and we look forward to accelerating our progress during 2021.

J Dowley

Justin Dowley
Chairman
4 March 2021

Embedding Sustainability

In 2020 we undertook a materiality assessment to identify the key sustainability issues that impact our ability to create value over time and are of most concern to our stakeholders. This process has helped prioritise the main sustainability topics that are impacted by our businesses' activities and has informed our Group strategy. We do not view these as isolated issues. We appreciate that they are often interconnected and recognise that a change to one can have an impact on others.

Our materiality assessment included a review of relevant reporting frameworks and standards, peer group benchmarking across our businesses' respective Aerospace, Automotive, Materials Science and Industrial peers, direct consultation with the CEOs and executive management teams of our largest businesses, integrating feedback from their ongoing interaction with external stakeholders including industry bodies, customers and suppliers, and the views of our shareholders through our ongoing investor engagement activities. The issues that we identified were placed into a matrix, and positioned for their level of importance to the Group and our businesses' stakeholders. We have identified the following issues as having the greatest potential impact on the Group:

Materiality matrix

■ Environmental ■ Social ■ Governance





Importance to stakeholders	High	Priority		
		Standard	High	Priority
High	High		Health and Safety	
			Customer Satisfaction	Sustainable Products
			Customer Welfare	Product Quality
				Innovation and R&D
Standard	Standard		Circular Economy	
		Ethical Conduct and Compliance	Waste	Energy and Consumption
		Responsible Sourcing	Inclusion and Diversity	
			Talent and Workforce	
Standard	Standard	Business Model Resilience		
		Air and Noise	Water	
		Stakeholder Engagement	Employment Practices	
		Shareholder Voting	IT/Cyber	
Standard	Standard	Community		

Commitment to playing our part

In conjunction with the development of our materiality assessment, we have reconfirmed our commitment to prioritising the pursuit of our four overarching sustainability principles, and aligned them with the UN SDGs and relevant underlying targets that apply to our business model, the businesses that we currently own, the sectors in which they operate, and their key stakeholders.

The integration of UN SDGs and their targets into our business model links our sustainability objectives with those of society and aligns our value creation strategy with our stakeholders.

Below, we have summarised our relevant UN SDGs, their respective targets, and examples of how we and our businesses are contributing to them.

Our Sustainability Principles	UN SDG	Our Sustainability improvement objectives
1 Respect and protect the environment	  	<ul style="list-style-type: none"> Invest in research and development 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. 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 (GHG) emissions and water usage. <div> <div>Improve</div> <div>Sell</div> </div>
2 Promote diversity and prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of	  	<ul style="list-style-type: none"> Drive our businesses to ensure the highest standards of health and safety for their people, as well as the protection of human rights, and encourage positive contributions to the communities in which they operate. 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. <div> <div>Buy</div> <div>Improve</div> <div>Sell</div> </div>
3 Exercise robust governance, risk management and compliance		<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. <div> <div>Improve</div> <div>Sell</div> </div>
4 Purposefully engage with key stakeholders to better understand and deliver on their expectations		<ul style="list-style-type: none"> Engage where appropriate in regular, constructive dialogue with a variety of key stakeholders at each stage of our "Buy, Improve, Sell" cycle, and encourage and empower our businesses to do the same. Maintain an informed focus on delivering improved returns for shareholders whilst also meeting best practice for sustainability performance, that is attuned to their expectations and concerns. <div> <div>Buy</div> <div>Improve</div> <div>Sell</div> </div>

Our Key Sustainability actions

Further information

<ul style="list-style-type: none"> Melrose as a Group will achieve net zero GHG emissions by 2050. Through 2021, we will develop a multi-year sustainability action plan to embed sustainable performance targets within our Group and business structure. 	Environmental Leadership Pages 68 to 73
<ul style="list-style-type: none"> We will minimise the impact that we and our businesses' products have on the environment through innovative design and operational excellence. We are committed to ensuring that our businesses achieve the highest standards of product quality, reliability and safety. We will act ethically and with integrity and expect our suppliers to do the same. Where applicable, we have strict procedures in place to seek to identify whether 3TG (Tungsten, Tantalum, Tin, and Gold) minerals are sourced responsibly and from conflict-free regions of the world. 	Sustainable and Safe Products Pages 62 to 67
<ul style="list-style-type: none"> Stop all preventable accidents for employees and contractors. Promote safe behaviours and monitor unsafe behaviours encouraging an enhanced focus on hazard identification and awareness. 	Health and Safety Pages 74 to 77
<ul style="list-style-type: none"> We seek to create better-funded pension schemes with more prudent targets under our stewardship. Melrose has achieved the 2021 Parker Review target of having one director from an ethnic minority on its Board. Melrose is committed to achieving the Hampton-Alexander Review target in 2021 of having 33% female representation on its Board and has already achieved the Hampton-Alexander Review target of having at least 33% female representation within its Executive Committee and direct reports. Melrose is committed to investing £10 million over five years through the Melrose Skills Fund in order to help build the UK's industrial base. Our "Buy, Improve, Sell" business model improves financial performance, which in turn contributes to the economic development of the communities in which our businesses operate. 	Our People Pages 78 to 85
<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. 	Ethics and Compliance Pages 86 to 87
<ul style="list-style-type: none"> Melrose provides a consistent and transparent flow of information and management insight to shareholders and the wider investment community. Melrose and its businesses regularly engage with employees across the Group, and enable key views of the workforce to be heard and considered by business unit executive teams where they can have the most impact. Melrose has regular dialogue with various governmental and regulatory bodies regarding the undertakings and commitments given in connection with the acquisition of GKN. 	Our stakeholders Page 61 Section 172 statement Pages 54 to 57

Our stakeholders

The success of our "Buy, Improve, Sell" model and our commitment to investing in our businesses to improve their sustainability performance relies on maintaining strong support from our key stakeholders, including our investors. Melrose provides a consistent and transparent flow of information and management insight to shareholders and the wider investment community, and we take an honest, transparent and open approach to investor relations and communications. We recognise that shareholders, as well as other stakeholders such as corporate governance agencies and independent reporting bodies, require robust information and guidance to best inform their decision-making. We deliver this through enhanced disclosure on topics that are material to the Company including sustainability, supported by active and transparent engagement, to enable our stakeholders to accurately review and assess our performance in line with best practice.

In addition to our annual programme of key information publications and engagement initiatives including the annual general meeting, general meetings on specific material items, publication of full and half year results, regular trading statements, and this Annual Report, the Board and the Melrose senior management team meet and communicate with shareholders on a frequent and proactive basis throughout the year, including at specific capital markets days on the different businesses we own.

Although the COVID-19 pandemic constrained our face-to-face activities in 2020 (and continues to do so), we continued to engage with our investors by providing trading updates, published more frequently during 2020 to ensure that investors were appropriately informed as to the Group's performance, and virtual capital markets presentation days to provide shareholders, analysts, and their representatives with direct access to the Directors and the opportunity to engage directly with the executive management teams of our largest businesses. Further information is available on the Investors section of our website.

Details about our stakeholder engagement during 2020, including our engagement with employees, suppliers and customers, and government bodies, can be found in our Section 172 statement on pages 54 to 57.

Sustainable and Safe Products

UN SDG	Our Sustainability Principle	Our Key Sustainability actions
 7 AFFORDABLE AND CLEAN ENERGY	Respect and protect the environment	We will minimise the impact that we and our businesses' products have on the environment through innovative design and operational excellence.
 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE		We are committed to ensuring that our businesses achieve the highest standards of product quality, reliability and safety.
 13 CLIMATE ACTION		We will act ethically and with integrity and expect our suppliers to do the same. Where applicable, we have strict procedures in place to seek to identify whether 3TG (Tungsten, Tantalum, Tin, and Gold) minerals are sourced responsibly and from conflict-free regions of the world.

Product responsibility is a core tenet of the Melrose model of acquiring and improving underperforming manufacturing businesses. This is grounded in safety and sustainable production practices, and demonstrated by sustainable product performance and effective product life cycle management. Examples of this include GKN Automotive's torque vectoring technology for all-wheel drive ("AWD") products that improves vehicle safety, and AQH's product development focus on improving the air quality inside the home by safely eliminating pollutants that can adversely impact human health. Furthermore, we recognise the risks and opportunities that the transition to a net zero emissions economy presents. Despite operating in some of the hardest industries to decarbonise, our businesses are well positioned to meet emerging regulatory requirements and wider environmental expectations. Through our significant investment, we help our businesses and their customers tackle pressing environmental challenges such as climate change.



Helping our customers address climate change

Cultivating the technical capabilities, innovation and foresight to provide effective solutions to the emerging sustainability challenges that our businesses' customers face is a key priority. We are taking active steps to anticipate how climate change will affect our businesses, and to drive positive climate action. We will continue to strengthen our understanding of the specific climate-related risks our businesses face, and work to mitigate these risks through alignment with the recommendations of the TCFD during 2021.

Climate-related issues have a direct impact on product strategy, development and financial planning across all of our businesses. 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.

In 2020, our businesses invested over £150 million⁽¹⁾ 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. More information on high profile projects including GKN Aerospace's investment and continued innovation in Additive Manufacturing to enable the development of their leading Fan Case Mount Ring structural design, GKN Automotive's cutting edge eDrive technology, and Nortek Air Management's StatePoint Technology® sustainable data cooling system, can be found within the Divisional reviews on pages 14 to 33.



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.”

⁽¹⁾ Data has been collected from 95% (by R&D) of the Group.

GKN Aerospace continues to invest a significant proportion of its R&D spend each year⁽¹⁾ on enhancing fuel efficiency and reducing emissions within aircraft. The business leverages publicly available funding to support climate-related R&D, such as Clean Sky in Europe. Examples of recent and ongoing activities include:

- Signing the Joint Declaration of European Aviation Stakeholders related to Clean Aviation in Horizon Europe in June 2019, committing to a European Partnership towards achieving goals of the Paris Agreement. GKN Aerospace has committed to achieving net zero GHG emissions by 2050 and designing products that enable its customers to develop aircrafts that emit net zero GHG emissions throughout their life cycle by 2050. In order to meet these longer-term goals, GKN Aerospace has set an interim target of reducing its Scope 1 and Scope 2 GHG emissions by 5% annually.
- GKN Aerospace is a key partner in the 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, reducing global CO₂ emissions by many millions of tonnes every year. The work is being undertaken in GKN Aerospace's new Global Technology Centre in Bristol, UK, with the business investing more than £25 million in the programme over three years.
- GKN Aerospace is leading the development of a ground-breaking liquid hydrogen propulsion system for aircraft. The c.£55 million collaborative H2GEAR programme will push hydrogen technology and accelerate aerospace decarbonisation with the goal of zero CO₂ emissions hydrogen-powered sub-regional aircraft entering the skies as early as 2026. The H2GEAR programme will create more than 3,100 jobs across the UK and reinforces the UK's position at the forefront of aerospace technology research and development, as well as putting GKN Aerospace at the heart of the technology developments needed for the future of more sustainable aviation.
- Eviation and GKN Aerospace continue their quest to deliver the world's first electric commuter aircraft (Alice). In development since 2015, Alice will be capable of operating in the lower end of the regional market carrying nine passengers and two crew members on journeys up to 800km. Regional and domestic air travel account for a large part of aviation's CO₂ emissions, with CO₂ produced per km per passenger for flights of less than 500km almost double that of flights over 1,000km. Battery-powered aircraft are a key part of the journey towards zero-emission aviation. GKN Aerospace is providing its expertise across the integration of large-scale components including the complete wing, the complete tail including empennage, and electrical wiring interconnection systems. Design and manufacturing activities are already ongoing on-site at Eviation in Israel and in several GKN Aerospace engineering centres across Europe, and the companies are targeting an Entry into Service date of 2022.
- GKN Aerospace Sweden is leading in the testing of Sustainable Aviation Fuels. Groundbreaking 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. The biofuel used is fully interchangeable with normal jet fuel and no engine changes or modifications are required.





GKN Powder Metallurgy's new e-pumps are substituting engine-driven pumps on vehicle transmissions.

A conventional automobile pump system causes the pump to be constantly driven, whether or not it is required, which causes energy wastage. The new e-pump system operates on demand, actuated from the electronic controlling unit of the car. 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 e-pump is the leading solution for lubrication and cooling.

In addition, see pages 24 and 25 for an overview of GKN Powder Metallurgy's Hy2Green hydrogen fuel storage technology.



GKN Automotive is at the forefront of increasing the efficiency of the products it manufactures.

At the GKN Automotive UK Innovation Centre in Abingdon, Oxfordshire, the business is helping progress the electric vehicle revolution and the ongoing decarbonisation of the global automotive sector. Projects based at the UK Innovation Centre include a partnership with the University of Nottingham and Drive System Design to develop the future generation of eDrive system platforms, including the world's lightest and most efficient electric vehicle powertrain suitable for the volume market, and Advanced Cooling and Control of High Speed e-Drive ("Ace Drive") technology, which targets:

- (i) a 25% reduction in packaging size and cost; (ii) a 20% drop in weight; and
- (iii) a 10% increase in efficiency compared to current equivalents, and production readiness by 2023.

As a result of the business's continued investment and focus in electric motors, GKN Automotive is now the market leader in highly efficient AWD systems, enabling its customers to improve fuel efficiency and reduce their carbon emissions. The Disconnect AWD technology provides around 80% more reductions in AWD-related CO₂ emissions than conventional AWDs. 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%, and the use of expensive and supply constrained materials such as copper and rare earth elements has been reduced. These new products are more efficient, lighter (due to reduced material usage) and significantly longer lasting. The 510,000 systems of this type expected to be sold in 2021 will reduce vehicle emissions by more than 40,000 tonnes of CO₂ annually. In addition, the ePowertrain product line will invest approximately £70 million in 2021 in new products or in further enhancing existing products to support the CO₂ agenda.

Nortek Global HVAC through its Nortek Air Solutions division continues to develop best-in-class technologies that directly benefit communities around the world, and ensure continuity of critical infrastructure following a major weather or seismic event. Its air handling units rank 1, 2 and 3 in Miami-Dade County's High Velocity Hurricane Zone rating compliances for AHU cabinets. Earthquake-resistant climate control technology supplied to hospitals on the West Coast of the US have been proven to withstand a 6.7 magnitude seismic event for a duration of 30 seconds with virtually no damage.

Between 2018 and 2020, **AQH's** Broan division developed and introduced to market its AI Series Fresh Air System. Ever-increasing regulation to promote energy-efficient homes requires houses to be more airtight, which inherently creates a reduction in natural ventilation and can reduce air quality. The AI Series provides constant ventilation to homes to help improve indoor air quality,

while reducing the energy impact. The system requires less energy to heat or cool a house and get the best air quality, and has an energy recovery rate of at least 75% of the previous energy cost.

In response to a growing need for a network of easily accessible and cost-effective electric vehicle charging points across the UK, **Brush** commenced a pilot project to develop and provide an integrated and containerised electric vehicle charging station solution. Through a combination of innovative design and technical excellence, Brush built a self-contained solution which could operate autonomously, be remotely monitored, and would require very little maintenance or intervention while also supporting the transition to a net zero carbon economy. The prototype solution, which comprises a 33kV Transformer, Switchgear, Vacutap® VBO tapchanger and condition monitoring, will be delivered by July 2021.

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 2020, 92% 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. All GKN Automotive and GKN Powder Metallurgy

products are certified to the ISO/IATF 16949 standard, except for certain GKN Powder Metallurgy products which are certified to ISO 9001 (this standard is the application of ISO 9001 for automotive production and relevant service part organisations). Surveillance audits are conducted annually to ensure the standards are maintained, and re-certification occurs every three years. In addition, Nortek Global HVAC has committed to achieving ISO 9001 compliance across the entire organisation in 2021.

These high standards of product quality are recognised by our customers. GKN Aerospace has received more than 15 separate external recognition awards in the past three years, and its Hoogeveen and Papendrecht sites in the Netherlands have received the Boeing Silver Performance Award for three years in a row. Other customer awards received by GKN Aerospace have been from Lockheed Martin, Bombardier and Spirit AeroStructures.

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 in 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 11% of products (by revenue) with 10% of products (by revenue) certified to ISO 14040 and/or ISO 14044.

GKN Aerospace technologies ensure that only 20% of procured metal billets are removed in the production process, whereas the norm is up to 80%, therefore significantly reducing the 'buy to fly' ratio.

Nortek Global HVAC is aiming to reduce waste materials through better fabrication and manufacturing processes, with a cost saving target of US\$20 million (£14.7 million).



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.

Designing products that require less materials whilst maintaining and improving performance is not only the right thing to do for the environment, but is commercially beneficial. **Brush’s** Fusion software for design optimisation has resulted in up to 10% less materials and improved performance on its transformers. Brush has achieved an average reduction of 6% in copper, steel, polycarbonate and thermoplastics waste due to optimised manufacturing processes, and more optimised raw material, machined/pre-formed sections and extrusions.

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 end products. Life cycle assessments are performed on 100% of new office products and were completed on 21% (by revenue) of total products sold in 2020.

Our other businesses focus on reusability of products. All products made by **GKN Powder Metallurgy’s** Hoeganaes division are 100% recyclable, and its powder is made from scrap. Furthermore, it 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.

The use of recyclable components is key to **AQH**, with its products being 90% recyclable based on their material composition.

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.

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.

Our businesses work with their suppliers to ensure that they conduct business in a manner that embraces sustainability and reduces environmental impact. 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, to seek to identify whether 3TG minerals are sourced responsibly and from conflict-free regions of the world, as set out in the Group conflict minerals policy, which is available on our website. 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.

In line with our decentralised model, while the Board retains oversight of supplier-related Group policies that have applicability across the Group, such as the conflict minerals policy, responsibility for the implementation and management of all supplier-related policies rests with divisional management. The Group supports its businesses in implementing and managing such policies across their respective supply chains, in line with the nature and geographical representation of their supplier base.

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. GKN Aerospace, GKN Automotive and GKN Powder Metallurgy have each prepared a supplier code of conduct that applies globally to all their suppliers and is based on the ethos of “doing the right thing”.

As well as providing high quality goods and services, our businesses are expected to operate in a manner that supports the Group’s commitment to acting ethically and responsibly and is consistent with the Melrose Code of Ethics. Please see the Ethics and Compliance section on page 86 and 87 for more details.

Environmental Leadership

UN SDG	Our Sustainability Principle	Our Key Sustainability actions
 	Respect and protect the environment	<p>Melrose as a Group will achieve net zero GHG emissions by 2050.</p> <p>Through 2021, we will develop a multi-year sustainability action plan to embed sustainable performance targets within our Group and the business structure. We will publish those targets.</p>

Environmental performance in 2020

During 2020, operational energy consumption across the Group decreased by 14%, and between 2019 and 2020 our total Scope 1 and Scope 2 GHG emissions decreased by 11%. These significant reductions were achieved during a year that saw unprecedented lockdowns and associated working restrictions, which included temporary closures of certain of our businesses' production. Our businesses were proactive in preserving production capabilities during these times, and ensuring that employees could safely attend their sites at the earliest opportunity to mitigate preventable supply chain disruption.

Although it remains difficult to quantify the precise impact of COVID-19 restrictions on production, we recognise that temporary site closures were reasonably limited in duration, and in their impact on our businesses' operations. Most indirect production activities were maintained to preserve site integrity and allow our businesses the ability to ramp up production in response to customer requirements following the lifting of restrictions. With the full, longer-term impact of COVID-19 still under review across the world, we are pleased to have seen a strong improvement in the Group's emissions reductions outpacing the expected impact of COVID-19 disruption. This demonstrates our commitment towards driving sustainable production methods and infrastructure, and to minimising the potential negative impact that our businesses may have on the environment over the longer term.

Managing environmental performance

We are committed to ensuring that good environmental governance directly impacts the highest level of our businesses' executive decision-making, where it can have the most impact. In line with our decentralised model, our businesses are charged with identifying, monitoring and managing the environmental risks that affect their operating and market environments. Each business has frameworks in place for identifying principal risks and opportunities appropriate to that business, including climate-related risks. Each business's executive management team regularly reviews the significant climate-related issues, risks and opportunities related to

their 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 2020, each of the businesses carried out a climate change risk assessment, covering 88%⁽¹⁾ of the Group's operations in total. Any identified material risks are discussed with the Melrose senior management team and escalated to the Board where necessary.

With Melrose 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 best practices. At the end of 2020, 131 (81%) sites across our businesses were certified to ISO 14001 standard, and 26 sites (16%) had achieved ISO 50001 certification, in recognition of the businesses' strong focus on ensuring an efficient and sustainable use and management of energy.

Melrose's position on climate change

Improving operational efficiency is a key factor that shapes the long-term profitability and sustainability of our businesses and contributes to their compliance with increasing environmental standards and regulation. Our ambition is to achieve net zero GHG emissions in our Group's operations by 2050 in line with the UK Government's target, in order to achieve the goals of the Paris Agreement. As part of our evolving sustainability strategy, we aim to identify and implement relevant Group level targets to ensure we meet this goal.

The Group recognises the serious threat posed by climate change and the urgent need for meaningful action. 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 are believers in industry, and in the potential of industry, to help solve society's most pressing needs. We buy high-quality but underperforming industrial businesses, with established positions in their markets.

Compliance to the standards is ensured by independent auditing. For example, in GKN Automotive, a full re-certification audit is carried out every three years for all sites by the external certification body SGS.

No material environmental fines or penalties were issued against any of the businesses in 2020 or in the previous four years.

We and our businesses strive to be open and transparent in our actions. In 2021, we will submit our environmental performance data to the CDP for the first time. This data will be publicly accessible through the CDP website at www.cdp.net.

⁽¹⁾ Data has been collected from 96% (by sites) of the Group.



Inherent in the nature of the manufacturing businesses that we acquire is that they often operate in the industries that are some of the hardest to decarbonise. By investing heavily in research and development, we enable our businesses to develop and provide the innovative and cost-effective solutions that their customers need to help tackle underlying causes of climate change.

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⁽¹⁾. The Melrose corporate office in the US has also achieved the HinesGo (Green Office) designation in recognition of its sustainability practices and energy efficiency performance, among other environmental and wellbeing criteria.

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

Environmental reporting

This section of the report covers all entities over which the Group had financial control for a period of at least one year as at 31 December 2020. Emissions from entities acquired or disposed of during the reporting period (i.e. disposed of before 31 December 2020 or acquired on or after 1 January 2020) are not accounted for in this section.

Given that the Melrose business model is to buy, improve and sell businesses over a three to five-year time frame, 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 2020, the Group achieved reductions in total energy and water consumption, waste generation, and Scope 1 and Scope 2 GHG emissions. The Group's activities were partially affected by the pandemic, which resulted in some temporary site closures.

However, as our businesses maintained the required site operations to ensure recommencement of production once restrictions were lifted, the reductions are not expected to be solely attributed to the pandemic as our businesses also continued to implement climate-related initiatives throughout 2020. It is hoped that these and future activities will support a long-term trend in energy and emissions reductions.

The Group's chosen intensity ratio is emissions 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 emissions decreased in 2020, total Group revenues decreased at a greater rate than emissions reduced, which caused an increase in the intensity ratios. This is a reflection of the prolonged reduction in demand due to the pandemic, while sites continued to operate.

This section has been prepared for the reporting period of 1 January 2020 to 31 December 2020, 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 2020. 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 2020 (DEFRA factors) have been used to calculate the GHG emission figures together with IEA country-specific factors for the associated overseas electricity usage.

Greenhouse gas emissions

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

Table 1: Total Melrose Group GHG emissions for the period 1 January 2020 – 31 December 2020 (tonnes CO₂e⁽¹⁾ unless stated):

	2020 ⁽²⁾	2019 ⁽³⁾	2018 ⁽⁴⁾	Change (2020/2019) ⁽⁵⁾
Scope 1: Direct GHG emissions				
Combustion of fuel and operation of facilities ⁽⁶⁾	184,874	223,847	23,261	-17%
Scope 2: Indirect GHG emissions				
UK electricity	17,614	26,909	1,718	-35%
Overseas electricity	711,898	774,569	29,592	-8%
Total purchased electricity	729,512	801,478	31,310	-9%
Other purchased energy	2,045	3,165	1,801	-35%
Total Scope 2⁽⁷⁾	731,557	804,643	33,111	-9%
Total Scope 1 and Scope 2 emissions	916,431	1,028,490	56,372	-11%
Company's chosen intensity measurement:				
Emissions reported above normalised tonnes per £1,000 turnover ⁽⁸⁾	0.105	0.092	0.030	+14%

(1) CO₂e – carbon dioxide equivalent, this figure includes GHGs in addition to carbon dioxide, as set out in Table 2 below.

(2) The 2020 emissions data does not include GKN Wheels & Structures as it was sold part way through that year. The emissions from this business fall below our materiality threshold.

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

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

(5) The percentage change is relative to the base year of 2019, the first full reporting year that GKN Aerospace, GKN Automotive and GKN Powder Metallurgy were 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 2020 we have expanded our disclosure to describe the types of gases included within our Scope 1 and Scope 2 emissions disclosure provided in Table 1. 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 encompass methane (CH₄), nitrous oxide (N₂O), sulphur hexafluoride (SF₆) and tetrafluoroethane (R134a). The vast majority of our emissions are from carbon dioxide (CO₂), which is common among most industrial businesses. 2020 will be our base year for these calculations.

Table 2: Melrose Group GHG emissions by type (CO₂e) for the period 1 January 2020 – 31 December 2020 (tonnes CO₂e⁽¹⁾ unless stated)

	UK	Global (excl UK)	Total
Scope 1⁽¹⁾			
CO ₂	9,700	172,514	182,214
CH ₄	13	227	240
N ₂ O	6	137	143
SF ₆	2,075	741	2,816
R134a	0	59	59
Total Scope 1 CO₂e	11,794	173,678	185,472
Scope 2⁽²⁾			
CO ₂	17,455	708,809	726,264
CH ₄	54	466	520
N ₂ O	104	2,624	2,728
Total Scope 2 CO₂e	17,613	711,899	729,512

(1) 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.

(2) 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 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. The scope of this disclosure has also been expanded for 2020 by including a more detailed breakdown of the various energy types.

Table 3: Melrose Group energy consumption by type for the period 1 January 2020 – 31 December 2020 (MWh unless stated)

Energy type	2020			2019			Change (Total)
	UK	Global (excl UK)	Total	UK	Global (excl UK)	Total	
	Energy (MWh)						
Natural gas	52,132	809,336	861,468	121,350	962,039	1,083,389	-20%
LPG	317	37,716	38,033	320	50,221	50,541	-25%
Gas oil	0	5,669	5,669	0	8,533	8,533	-34%
Fuel oil	0	9,189	9,189	0	21,538	21,538	-57%
Diesel	261	6,809	7,070	904	12,024	12,928	-45%
Petrol (gasoline)	13	667	680	39	2,177	2,216	-69%
Steam	0	21,713	21,713	0	30,253	30,253	-28%
Wood pellets	0	18,819	18,819	0	19,383	19,383	-3%
Total non-renewable fuels consumption	52,723	909,918	962,641	122,613	1,106,168	1,228,781	-22%
Total renewable electricity consumption	0	8,052	8,052	274	6,021	6,295	28%
Total non-renewable electricity consumption	75,549	1,864,732	1,940,281	108,459	2,055,094	2,163,553	-10%
Total electricity consumption	75,549	1,872,784	1,948,333	108,733	2,061,115	2,169,848	-10%
Total operational energy consumption	128,272	2,782,702	2,910,974	231,346	3,167,283	3,398,629	-14%
Company's chosen intensity measurement:							
MWh per £1,000 turnover ⁽¹⁾	0.015	0.318	0.332	0.021	0.283	0.304	9%

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





Environmental stewardship

As part of their improvement plans, our businesses seek to reduce their 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. 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.

Notable examples of climate-related initiatives and activities in 2020 include:

- **GKN Aerospace's** decision to move to full 'green' electricity use generated through renewable energy in the Netherlands, with an estimated saving of 12,200 metric tonnes of CO₂ annually from 2021. In addition, the Trollhättan site in Sweden, which consumes over 50 gigawatt hours (GWh) of electricity annually and is GKN Aerospace's largest site in Europe, began purchasing renewable energy from its local hydropower plant.
- Approximately 45,000 square metres of efficient LED lighting being installed at certain GKN Aerospace facilities in the US and Mexico, saving approximately 800,000 kWh per year in 2020.
- Continued promotion by GKN Aerospace (since 2017) of electric vehicle transportation for its employees. It has installed 26 dual point and 17 single point electric vehicle charging stations across eight of its facilities and shares five stations at a multi-tenant location for a total vehicle charging capacity of 74 vehicles per hour.
- **GKN Automotive's** European sites continue to drive energy efficiencies and cost savings with ongoing projects relating to LED lighting installation, improved building insulation, and investment in energy-efficient equipment including air conditioning and heating systems. Notable examples in 2020 include the installation of a roof top solar system at the Pune, India site with anticipated annual energy savings of 1,000,000 kWh, and at the Köping, Sweden site, where 100% of heating is now provided by district heating which is generated from industrial waste heat, waste incineration and biofuels.
- Investment in energy-efficient equipment by **GKN Powder Metallurgy**, with a strong focus given to replacing old and less efficient equipment with LED lighting, compressed air generators, motors and motor convertors.
- **Nortek Global HVAC** provides a bus system for employees to use to and from work at their sites in Mexico. This has eliminated more than 700 vehicle trips per day and their associated emissions.

In addition to the business-specific examples, the Group as a whole spent £304,579⁽¹⁾ on LED lighting retrofits in 2020.

⁽¹⁾ Data has been collected from 53% (by revenue) of the Group.

Water consumption

We encourage our businesses to reduce water consumption through implementing measures to lessen water use throughout the production process. Our businesses continue to make encouraging steps towards reducing their water use, including:

- **GKN Automotive** tracking water usage and waste generation as part of its product Life Cycle Assessment.
- **GKN Powder Metallurgy** is in the process of defining KPIs for water management performance along with annual improvement targets, as it recognises that water management performance is one of the business's key environmental challenges.

Water consumption data is presented in Table 4, showing a 7% decrease compared with 2019. We expect this was partially driven by temporary site shutdowns caused by the pandemic.

Waste management

Our businesses are actively encouraged to reduce the amount of waste they generate and to divert waste from landfill. An example of a business-specific initiative to reduce waste includes the continued expansion of **Nortek Global HVAC's** recycling programme, which has reduced the amount of waste sent to landfill by 25% from 4,530 tonnes in 2019 to 3,425 tonnes in 2020. Key recycling initiatives include its cardboard recycling programme with 1,200 tonnes recycled in 2020 (2019: 253 tonnes) and a new paper recycling programme with 11 tonnes recycled in 2020.

Table 5 shows the waste generation data for the Group in 2020, showing an overall decrease in the total waste generated, as well as the weight of both the non-hazardous and hazardous waste produced by the Group's businesses. Similar to the water consumption data reported below, we expect this was partially driven by temporary site shutdowns caused by the pandemic.

Table 4: Melrose Group water consumption data for the period 1 January 2020 – 31 December 2020⁽¹⁾

	2020	2019	Change
Freshwater water consumption in operation (m ³)	3,880,393	4,165,220	-7%
Company's chosen intensity ratio: m ³ per £1,000 turnover ⁽²⁾	0.443	0.380	17%

(1) Water consumption data was collected from 147 sites (93%) across the Group's businesses, up from 129 sites (80%) in 2019. Although a small number of sites did not record their water consumption, 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.

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

Table 5: Melrose Group waste generation data for the period 1 January 2020 – 31 December 2020⁽¹⁾

	2020	2019	Change
Weight of total non-hazardous waste (tonnes)	139,388	192,869	-28%
Weight of total hazardous waste (tonnes)	11,087	13,983	-21%
Total waste generated (tonnes)	150,475	206,852	-27%
Breakdown:			
- Total recycled (tonnes)	121,912	176,463	-31%
- Total incineration (tonnes)	9,103	– ⁽²⁾	-
- Total landfill (tonnes)	15,601	8,248	+89% ⁽³⁾
- Hazardous waste disposed through legally approved treatment routes (tonnes) ⁽⁴⁾	3,859	– ⁽²⁾	-

(1) Waste generation data was collected from 136 sites (86%) across the Group in 2020, up from 126 (78%) sites in 2019.


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.

(2) "Total incineration" and "Hazardous waste disposed through legally approved treatment routes" were reported for the first time in these categories in 2020 and therefore no prior year comparison is available. Hazardous waste was reported more generally in 2019, but for 2020 we have the data to provide a detailed breakdown as between the different categories of total waste generated, and feel this provides better disclosure.

(3) Total landfill for 2020 accounted for 10% of total waste generated, and the year-on-year increase was largely driven by a change in the sites included in the data coverage for 2020 compared to 2019. Some of the sites that reported for the first time in 2020 mainly send their waste to landfill, as well as some GKN Automotive sites showing an increase in landfill in 2020. We will look to achieve reductions in this area during 2021.

(4) 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.

Health and Safety

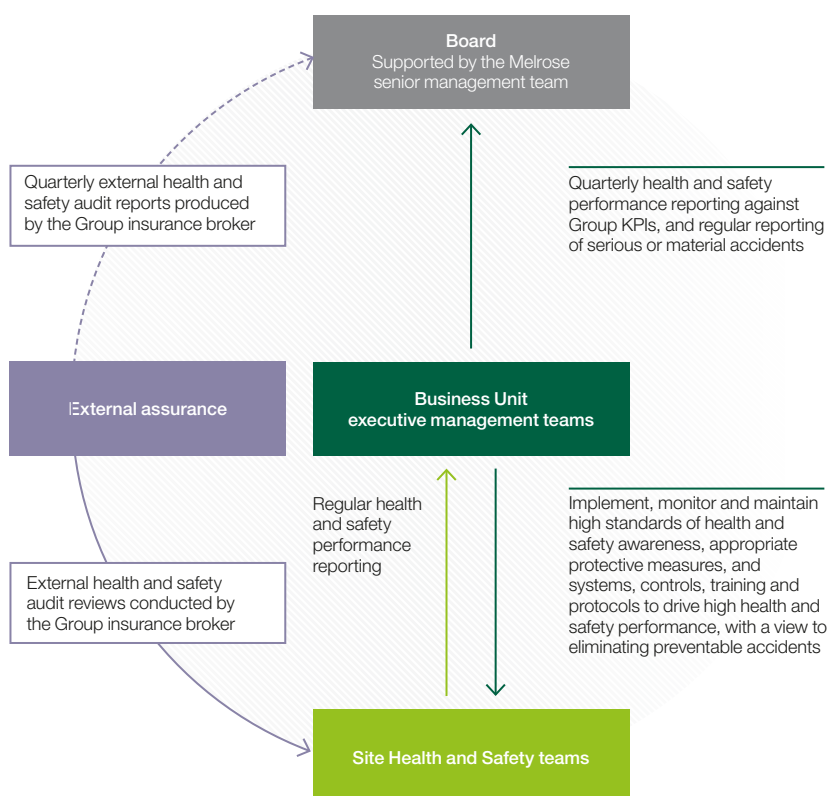
UN SDG	Our Sustainability Principle	Our Key Sustainability actions
 3 GOOD HEALTH AND WELL-BEING	Prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of	<p>Stop all preventable accidents for employees and contractors.</p> <p>Promote safe behaviours and monitor unsafe behaviours encouraging an enhanced focus on hazard identification and awareness.</p>

Group Health and Safety Management Framework

Safety first

We require our businesses to prioritise the health and safety 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 their 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 drive our businesses to safeguard employee health and wellbeing across the Group.

The Group has a decentralised business model, employing 51,785 people globally (as at 31 December 2020) across Melrose and its eight businesses. 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.





We recognise the importance of taking a holistic approach to employee wellness, to protect their physical and mental health and social wellbeing, and to foster a positive workplace culture that attracts and retains a highly skilled workforce.”

Health and safety management systems are implemented across all of 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.

As at 31 December 2020, 75%⁽¹⁾ of sites within the Group were certified to ISO 45001 or OHSAS 18001 (Occupational Health and Safety Assessment Series) international standards, with additional relevant sites progressing towards ISO accreditation. Across the GKN businesses, 100% of sites in GKN Automotive and GKN Powder Metallurgy, and 60% of sites in GKN Aerospace are certified to ISO 45001 or OHSAS 18001 standard. To maintain accreditation, third-party auditing is undertaken within a three-year certification cycle, with annual surveillance audits taking place in between to ensure standards are being maintained.

ISO 45001 was introduced in 2018 as the definitive global health and safety standard, replacing OHSAS 18001. A three-year migration period, due to end in March 2021, was extended to 11 September 2021 due to COVID-19. For those sites currently under the OHSAS 18001 standard, programmes are on track to migrate to ISO 45001 by September 2021.

⁽¹⁾ Data has been collected from 99% (by sites) of the Group.

Response to COVID-19

Melrose and its businesses took rapid and decisive action in response to the challenges posed by COVID-19. The many actions that were implemented across the businesses to keep our employees safe include the establishment of COVID-19 task forces and steering committees, which have been assigned responsibility for assessing and managing risks and ensuring clear communication to key stakeholders about the pandemic, and delivery of COVID-19 related safety training covering issues such as PPE, social distancing, and hand washing. Other measures included:

- global coordination of PPE, including supplies being shared across the businesses, and enhanced procurement of PPE to meet immediate and ongoing requirements;
- enhanced workplace cleaning and disinfecting protocols;
- working from home where duties could continue to be performed effectively;
- policies and procedures to assist in the identification of workers who had contracted the virus, to ensure they were instructed to stay at home;
- engineering and administrative protocols for social distancing;
- additional physical barriers introduced where necessary in factories and offices;
- increased provision of sanitising stations;
- regular PCR testing at high-risk sites; and
- return to work protocols, including management of processes to enable distancing and guidelines issued to employees on safe working.



Employees across the Group's businesses received health and safety training in 2020.

89%

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 2020, and the Group will continue to build on this and seek to increase this further. Training modules in 2020 included eight related to COVID-19 including coronavirus control measures, working from home fundamentals, and work-related stress.

Our businesses carry out technical health and safety training related to specific business activities. For example, **Nortek Global HVAC** provides training to staff on topics such as Control of Hazardous Substances, Chemical Exposure Control, Respiratory Protection, and Ergonomics.

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

Health and safety training

Health and safety training is a prerequisite to achieving our 'zero preventable accidents' goal, 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. 45,144⁽¹⁾ (89%) employees across the Group's businesses received health and safety training in 2020.

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.

No fatalities were recorded across employees and contractors in the Group during 2020. To support the Group's overarching goal of stopping all preventable accidents for employees and contractors, the businesses have set enhanced targets for reducing injuries and occupational illness in the workplace, which include:

Business	Target	Areas of focus
GKN Aerospace	<ul style="list-style-type: none"> Reduce lost time accident (LTA) rate by 10% per year. Reduce total injury rate by 10% per year. 	In 2021, four new health and safety awareness topics (one per quarter) will be added to the thinkSAFE! and thinkGREEN! online training portals, with a goal of achieving an attendance level 5 score, equivalent to over 91% completion by employees. The division's long-term goal is zero injuries.
GKN Automotive	<ul style="list-style-type: none"> Reduce LTA rate by 20% per year. 	GKN Automotive is focusing on reducing behavioural-related incidents and ensuring the right safety competencies are in place at all levels.
GKN Powder Metallurgy	<ul style="list-style-type: none"> Reduce accident frequency rate by 10% per year. Reduce accident severity rate by 10% per year. Reduce serious injury rate by 10% per year. 	GKN Powder Metallurgy has implemented a programme of internal audits, corrective action, and root cause elimination. There is a focus on prevention, rather than detection, which is delivered through a culture of performance monitoring.
AQH	<ul style="list-style-type: none"> Reduce total recordable accident rate by 26% by 2023. 	At site level, action-based goals are in place to drive hazard identification and employee engagement. In 2021, the business will implement a Safety Management System Evaluation that will provide a numerical score that correlates with a maturity rating. This data will enable AQH to set further quantitative targets in the future.
Ergotron	<ul style="list-style-type: none"> Medium-term (2-5 years) goal to achieve zero injuries and occupational illnesses. 	Ergotron has set ambitious goals across the short and medium term. The business is closely tracking near misses in order to proactively reduce safety incidents.



Case study

Nortek Global HVAC's "Accept Only Zero" initiative

The health and safety of our employees is a core strategic priority for the Group. Nortek Global HVAC has implemented an "Accept Only Zero" strategy with respect to health and safety incidents. In 2020, Nortek Global HVAC's proactive approach to safety resulted in 14,474 Behaviour Based Safety Observations (with feedback), 939 Site Leader Safety Gemba Walks, 6,897 Supervisor weekly inspections, 631 Near Misses reported, 1,108 Job Safety Analysis and Personal Protective Equipment assessments, and 1,454 LOTO/Machine Guarding assessments.

By focusing on leading indicators rather than the traditional lag indicators, the business has seen the number of injuries incurred at its sites decrease by 62% since 2018, and employees have become more engaged across all levels of the business in ensuring that health and safety best practices are adhered to.

Employee wellbeing

The Group recognises 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. For example:

GKN Aerospace's Mental Health & Wellbeing Committee shares best practice in supporting employees with mental health and wellbeing initiatives in each region. GKN Aerospace has also produced a Think Health e-brochure, highlighting areas such as self-care and providing information on support resources available to employees.

GKN Automotive has introduced localised Employee Assistance Programmes which provide employees with access to counselling and support. There are a range of other health and wellbeing initiatives, including those focused on diet and lifestyle. For example, the GKN Automotive US healthcare scheme provides a discount to non-smokers to encourage smokers to quit, and support is also provided to enable them to do so.

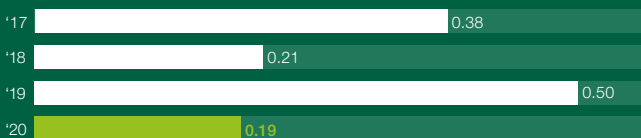
Nortek Global HVAC offers a range of health and wellness benefits and support to its employees including access to an Employee Assistance Programme that provides counselling, mental health, financial and wellness support and a monthly wellness newsletter. Employees also benefit from discounted gym memberships.

Brush holds annual health and wellbeing days with the objective of raising awareness and promoting a healthy working environment with a view to enhancing productivity, individual performance and attendance.

At a Group level, three key health and safety KPIs are measured. Weightings are applied to their respective reported health and safety performance according to the size of each business's workforce relative to the other businesses in the Group.

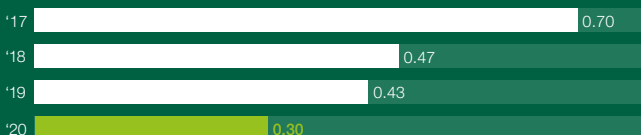
Major accident frequency rate

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



Accident frequency rate

Records the average number of lost time accidents, 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.







Our People

The Melrose Code of Ethics reinforces our sustainability principles, and provides employees 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.

A great place to work

For our businesses to perform well and exceed 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.

UN SDG	Our Sustainability Principle	Our Key Sustainability actions
 5 GENDER EQUALITY	Promote diversity and prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of	<p>We seek to create better-funded pension schemes with more prudent targets under our stewardship.</p> <p>Melrose has achieved the 2021 Parker Review target of having one director from an ethnic minority on its Board.</p> <p>Melrose is committed to achieving the Hampton-Alexander Review target in 2021 of having 33% female representation on its Board and has already achieved the Hampton-Alexander Review target of having at least 33% female representation within its Executive Committee and direct reports.</p> <p>Melrose is committed to investing £10 million over five years through the Melrose Skills Fund in order to help build the UK's industrial base.</p> <p>Our "Buy, Improve, Sell" business model improves financial performance, which in turn contributes to the economic development of the communities in which our businesses operate.</p>
 8 DECENT WORK AND ECONOMIC GROWTH		



Employee engagement

We recognise the importance of engaging with our employees in a meaningful way in order to support their development and for us to deliver better business performance. We and our businesses regularly consult with employees across the Group, and this was particularly important in 2020 in light of the unprecedented disruption and uncertainty caused by the COVID-19 pandemic. Each of our businesses were highly responsive in addressing employee concerns, with increased direct communication between the businesses' executive teams and their wider workforces. For example, the CEO of GKN Automotive held live broadcast events for all employees across Europe, APAC and the Americas to discuss business performance and employee-related matters directly with the workforce. These events were recorded and uploaded to a newly created employee portal which also provided a source for executive team and local site-based messages.

Communication was increased with representative bodies, with GKN Aerospace increasing its contact with its works councils and other consultative bodies throughout the year. Other tailored methods of engagement were adopted by our smaller businesses. For example, Ergotron conducted a COVID-19 employee engagement survey to better understand productivity in the home workspace, engagement preferences, messaging around COVID-19 and overall wellbeing. Feedback from the survey was taken on board with the aim of improving employee wellbeing.



The workforce advisory panel played a key role in 2020 in allowing the businesses to share best policies and resources on how to engage with employees on COVID-19.”

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 and also to ensure that the WAP and its underlying engagement processes are operating effectively for each business.

The WAP is chaired by a member of the Melrose Executive Committee 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, collating the voice of their workforce through workforce engagement and demonstrating how that voice is fed into executive management decisions. The WAP played a key role in 2020 in allowing the businesses to share best practices and resources on how to engage with employees on COVID-19 and to prepare them for returning to work where national lockdowns had been enforced and then lifted. The feedback received from the WAP is discussed at Board meetings along with the whistleblowing report (see page 86 for further details on the Group whistleblowing policy).

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. In 2020, 20,539⁽¹⁾ (40%) of our employees belonged to a recognised trade union (2019: 34%; 2018: 31%; 2017: 29%; 2016: 31%).

Group employees as at 31 December 2020

Permanent full-time employees	49,668
Temporary employees	1,389
Apprentices	728 ⁽²⁾
Total	51,785

(1) Data was collected from 99% (by headcount) of the Group in 2016, 99% (by headcount) in 2017, 71% (by headcount) in 2018, 69% (by headcount) in 2019 and 99% (by headcount) in 2020.

(2) Data was collected from 93% (by headcount) of the Group.



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 the businesses for employees to discuss career development with their direct managers, and each business encourages internal applications for open positions. In 2020, 25% of open positions were filled by internal candidates⁽¹⁾.

	2020	2019	2018	2017
Open positions filled by internal candidates	25%	31%	15%	20%
Overall voluntary attrition	10%	10%	25%	21%

Performance evaluations are undertaken across our businesses, with 49%⁽²⁾ of employees having received a performance appraisal in 2019 (2018: 51%). At the time of this report, performance evaluations for 2020 were ongoing. Annual salary reviews are aligned with performance evaluations to ensure employees are paid fairly and correctly for the position they hold. In compliance with all applicable local laws relating to the provision of pensions, 44,878 (87%) of the Group's employees benefit from being a member of a company-based pension scheme. Other forms of workplace recognition are also in place. For example, GKN Aerospace hosts annual excellence awards, with awards given to employees who have contributed to decision-making and the direction of the business at a divisional and/or site level.

In Focus

Pensions

With every acquisition, Melrose seeks to strengthen pension scheme arrangements for the benefit of employees and retirees. Since its establishment in 2003, Melrose has contributed £704 million to the pension schemes of its businesses. We take pride in having substantially improved all the UK pension schemes under our ownership, with many of them becoming fully funded on departure from the Group. 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% 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 \$140bn. For further details, please refer to page 6.

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, 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 and cut the accounting deficit on the GKN UK defined benefit pension schemes by over 80% since just before acquisition.

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.

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

(2) Data was collected from 96% (by headcount) of the Group in 2018 and 97% (by headcount) in 2019.

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, be that along geographical, cultural or personal lines, encompassing gender, race, ethnicity, country of origin, nationality, colour, social and cultural background, religion, family responsibilities (including pregnancy), sexual orientation, age and disability. 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, to society and to economic growth.

The Melrose Code of Ethics highlights the importance of diversity and inclusion and is supported by our diversity policy, which is reviewed and approved each year by our Nomination Committee. Copies of these policies can be found on our website at www.melroseplc.net. Further details on diversity can also be found in our Nomination Committee report on pages 108 to 109. The Nomination Committee has ultimate oversight and responsibility for ensuring the diversity policy is adhered to and the individual business executive management teams are responsible for ensuring day-to-day compliance with the diversity policy.

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 Director appointments in the past three years have been women⁽¹⁾.

As at 31 December 2020, Melrose had 30% female representation on its Board. Melrose had been on track to achieve the Hampton-Alexander Review target of having 33% female representation on its Board by the end of 2020 with the intended retirement of Mr David Roper in May 2020.

However, as a result of the global pandemic, the Board and Nomination Committee agreed that it was not the appropriate time to lose the expertise and experience of one of its co-founders. The Board's decision to delay Mr Roper's retirement was the reason that Melrose did not achieve its goal of 33% female Board members by the end of last year as intended. Melrose is committed to achieving the Hampton-Alexander Review target in 2021, and in anticipation of Mr Roper's retirement, it has started the process of recruiting for a new female Non-executive Director.

Gender diversity within the Melrose Group Board

	At 31 December 2020		At 31 December 2019	
	Male	Female	Male	Female
Board ⁽¹⁾	7 (70%)	3 (30%)	7 (70%)	3 (30%)

(1) Mr Peter Dilnot joined the Board on 1 January 2021, bringing total number of Board members to 11. Mr Roper will retire from the Board in May 2021 having delayed his retirement by 12 months due to COVID-19.

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 following the appointment of Ms Funmi Adegoke to the Board in October 2019.

Diversity is valued below Board level. The Melrose Executive Committee, having been established in 2020, consists of 35% female representation, 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. GKN Aerospace 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).

GKN Aerospace has continued implementing the 'Inspired Women's Leadership Development Programme' with the professional training and coaching organisation 'Forward Ladies', designed to help women in the organisation succeed and to encourage women to mentor other female colleagues in the business. Furthermore, the Black Lives Matter movement, and in particular the George Floyd protests, accelerated Ergotron's planned implementation of its updated Equality, Diversity and Inclusion (EDI) Programme and EDI all-employee survey. This was accelerated following feedback from employees to have further education in this area.

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. The project is in the early stages of development and will involve creating an engineering task-orientated computer game contextualised for the aerospace sector with a focus on sustainable projects. This will be piloted in targeted schools in order to attract young people to the engineering industry who may not normally apply. The game will provide further resources on working in the engineering sector, including the skills and qualifications that are needed to apply, and further information on potential work experience opportunities. Melrose is also looking to work with Enginuity on a project to help upskill older Group employees. This project will be developed further in 2021.

Gender pay gap reporting

The gender pay gap indicates the percentage difference in the mean and median base and bonus pay between all men and women 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 four companies within the Group, including GKN Aerospace Services Limited, which chose to voluntarily report in 2020 on its 2019 data despite the reporting requirements having been suspended due to COVID-19.

GKN Aerospace Services Limited saw its trend in median gender pay gap markedly improve in 2019, having reported a median gender pay gap of 14.7% (2018: 16.4%). Its gender pay gap was materially smaller than the UK's national average median gender pay gap (17.4%) and the company also achieved a significantly smaller median gender pay gap than the industry average for manufacturing companies (18.1%)⁽¹⁾.

All of our Group companies that are required to report on their 2020 data will do so by the October 2021 deadline.

Senior managers

Melrose is required to report on gender diversity at a senior manager level. In accordance with section 414C of the Companies Act 2006, the definition of senior managers is required to include Group employees who are directors of Group undertakings but excludes the Board of Melrose Industries PLC. Melrose does not consider that including the employee directors of its undertakings provides an accurate reflection of the senior management at Melrose, nor its executive pipeline. As reflected in note 3 to the financial statements, Melrose has many undertakings, including dormant, non-trading and immaterial subsidiaries that we have inherited and do not remain in the Group for long. We have 35% female representation on our Executive Committee which represents a more accurate reflection of the senior management team and executive pipeline at Melrose. Melrose has increased female representation among its senior managers under section 414C by 4 percentage points since 2019.

Total Group employee gender diversity at 31 December 2020

	Male	Female	Total	Male (%)	Female (%)
Total Group employees	41,405	10,380	51,785	80%	20%

Senior Managers diversity at 31 December 2020

Senior managers (section 414C of the Companies Act 2006)	Male	Female	Total	Male (%)	Female (%)
Employees in senior management positions	19	8	27	70%	30%
Directors of group undertakings, excluding the above	149	19	168	89%	11%
Total Senior Managers	168	27	195	86%	14%

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



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 business. 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.

Training and development

	2020	2019	2018	2017	2016
Average training time per employee (hours) ⁽¹⁾	13	15	3	9	-
Average training spend per employee (£) ⁽²⁾	166	222	128	142	152
Total number of training hours⁽³⁾	338,406	410,638	39,823	37,951	-
Total annual spend on workforce training (£)⁽⁴⁾	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 and 39% (by headcount) in 2020. Data was not available in 2016.

(2) Data has been collected from 99% (estimate of spend as only AQH Zephyr Pacific location and Melrose head office not included) 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 and 39% (by headcount) in 2020. Data was not available in 2016.

(4) Data has been collected from 99% (estimate of spend as only AQH Zephyr Pacific location and Melrose head office not included) of the Group.

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. The businesses have developed their own leadership programmes that are most relevant to their employees and organisations. However, there are elements that are consistent across all businesses.

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 programmes are becoming increasingly popular and have received positive feedback. GKN Aerospace has identified 174 people as potential future participants in their leadership programme. Since 2019, 45 people have participated in the Future Leaders programme and since June 2018, 77 people have taken part in the Leaders of Leaders programme. Furthermore, 64 employees at GKN Automotive have completed leadership programmes over the last year.

GKN Aerospace launched its Lean Learning Academy in 2020, with the curriculum designed to provide frameworks to improve performance and reduce inefficiencies using the Lean Six Sigma principles. In 2020, 853 people were trained, and 698 achieved certification on Lean capabilities. In 2021, the plan is to certify over 3,000 people at Lean Foundation level, over 750 people at the Lean Advanced level, over 500 at the Six Sigma Green Belt level and 50 at the Six Sigma Black Belt level.

In-person training programmes were largely put on hold in 2020 due to COVID-19, which caused a decline in both overall training hours and spend on training. Online training was adapted to focus on supporting the remote workforce, with modules such as 'leading remote teams' and 'driving collaboration remotely' introduced in a number of businesses. We expect our businesses to build on their flexible delivery programmes to improve their training engagement levels in 2021.

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 2020, 728⁽¹⁾ apprenticeships were in place across the Group's businesses, of which 96% were within the GKN Aerospace, GKN Automotive and GKN Powder Metallurgy divisions.

GKN Aerospace sits on the Aerospace Trailblazer Apprenticeship Employer Group to help shape future apprenticeships and is also an employer partner for the West of England Institute of Technology, which focuses on advanced engineering and high value manufacturing. GKN Aerospace's Filton and Western Approach schools' engagement team have been working on activities to recruit more female apprentices over the last four years. As a result, within the GKN Aerospace Bristol apprenticeship programme, 17% of the overall apprentice population is now female. In recognition of their strong commitment and continuous improvement of their apprenticeship programmes, GKN Aerospace's Filton and Western Approach UK sites were named 'Large Employer of the Year' for the sixth consecutive year, and one of its apprentices was awarded 'Outstanding Apprentice of the Year' in each case in the 2020 Bristol & Bath Apprenticeship Awards.

We also place a strong focus on training and developing graduates, with some of the Group's largest businesses including GKN Aerospace, GKN Automotive and GKN Powder Metallurgy each running global graduate programmes. In September 2019, GKN Aerospace launched its graduate programme with the first cohort meeting in January 2020 for their first development week. The programme will continue to support global graduates in 2021 through its structured development framework, preparing some graduates to move into leadership or technical roles. GKN Aerospace plans for its third global cohort to start in September 2021.

Apprenticeship and graduate programmes across the GKN Aerospace, GKN Automotive and Brush businesses are supported by the Melrose Skills fund, which was launched in 2019.

⁽¹⁾ Data has been collected from 92% (by headcount) of the Group.



In Focus

Melrose Skills Fund

The Melrose Skills Fund was launched in 2019 to provide the financing to develop the capabilities required to build the UK's industrial base, and is utilised by our GKN Aerospace, GKN Automotive and Brush businesses. With a commitment to invest £10 million over five years through the creation of STEM programmes, apprenticeships and degrees to invest in manufacturing hubs, digital skills, and employee development, Melrose is helping to equip the UK with the future skills it needs to grow its industrial skillset.

In 2020, GKN Aerospace developed and delivered new training and digital learning modules to upskill its teams. Foundation topics for digital learning modules such as Introduction to Jet Engines, Aircraft Familiarisation, Geometric Dimensioning and Tolerancing received excellent feedback from the user community. Almost £200,000 was invested on a range of training programmes which have so far been completed by more than 300 people. The Global Technology Centre in Filton has established a Learning and Education Hub where future training programmes will be hosted and active engagement with early careers (schools and colleges) will be pursued. A number of exciting projects are lined up for 2021 to continue to build new skills and capabilities in line with new technologies such as electrification and alternative fuels, and effective use of digital technologies to improve efficiency and add value to our customers.

GKN Automotive has also continued to utilise the Melrose Skills Fund to support its UK Innovation Centre in Abingdon, Oxfordshire, which focuses on developing skills and R&D capability. In 2020, the Skills Development Programme at Abingdon saw two apprentices complete their L3 apprenticeship, one apprentice graduate to an L6 Levy-Funded degree, and four degree students complete their "ABI Year-in-Industry" assignment. A number of internal staff are also undertaking qualifications at the Innovation Centre. In addition to qualifications, the Innovation Centre has supported several other skills development initiatives, including working with local secondary schools on STEM events, and delivering training to nearly 100 external individuals to deliver the VentilatorChallengeUK (detailed further on page 85).

In 2020, Brush utilised the Melrose Skills Fund to enhance internal capabilities and support skills development across a range of topics including leadership skills, project management essentials, and environmental impact assessment training. The business also supported a range of student internships from 12-month placements to summer programmes.

Melrose is also working on a diversity project which is supported by the Melrose Skills Fund with the aim of increasing socio-economic and ethnic diversity within the engineering sector. This project is being led by Enginuity and involves Unite the Union. Further details can be found on page 82.

Community partnerships



Our businesses promote the social wellbeing of 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⁽¹⁾ in 2020 of £634,221 (2019: £799,196; 2018: £312,485). The Group made cash expenditure to community projects⁽²⁾ in 2020 of £532,613 (2019: £229,038, 2018: £113,441).

- **GKN Aerospace** and **GKN Automotive** were at the heart of the VentilatorChallengeUK consortium of manufacturing companies making desperately needed medical ventilators for NHS hospitals, enabling staff to care for patients worst affected by COVID-19. Employees worked around the clock at no profit to the business and the relevant teams delivered more than 13,000 ventilators, an incredible 12 years' worth of normal production in 14 weeks.
- **Melrose** is a proud sponsor of the work being conducted at Newcastle University on the Human Cell Atlas project. The aim of this project is to create a comprehensive reference map of all human cells for a better understanding of human health and diagnosing, monitoring and treating disease.

(1) Data was collected for 84% (by administration expenses) of the Group in 2018, 64% (by administration expenses) in 2019 and 62% (by administration expenses) in 2020.

(2) Data was collected for 73% (by administration expenses) of the Group in 2018, 65% (by administration expenses) in 2019 and 100% (by administration expenses) in 2020.

- **GKN Powder Metallurgy** supports an extensive list of local charitable causes and community projects, with employees encouraged to volunteer their time and expertise. In 2020, the company contributed around £180,000 through cash donations and community spend.
- In August 2020, **Nortek Global HVAC** launched the 'Nortek Gives' community service initiative, which encourages each employee to live out its mission statement of Creating a Better Tomorrow Every Day by providing one community service day each year for each employee to give back to the communities in which they live, work and play. As an example, project engineers from the Montreal, Canada site led a virtual engineering workshop to encourage high school students to pursue a career in the field. Students were tasked with building beehives to help increase the presence of wild bees near the crops they pollinate. As would be the case in a commercial engineering project, students were guided on how to overcome financial and technical constraints.

In Focus Filter for Life




Our businesses are focused on giving back to their local communities and providing volunteer opportunities for employees. A great example of this is Nortek Global HVAC's partnership through its Nortek Air Solutions division with the charitable organisation Center of Family Love (CFL).

Nortek Air Solutions provides career opportunities to more than 130 adults with physical and intellectual disabilities through the Filter for Life (FFL) centre in Kingfisher, Oklahoma. Residents who work at the FFL facility hand make air filters in a variety of custom sizes. The programme gives

residents an opportunity to develop and grow their skillset while making a positive impact on their community. Nortek Air Solutions has donated equipment, and employees have assisted in projects to improve workflow and efficiency at the FFL facility.

Employees have also volunteered in other areas of CFL's campus. This has included providing mentoring to residents, cleaning up debris after a storm, and designing a visiting booth to allow residents to safely visit family during the COVID-19 pandemic.

Ethics and compliance

UN SDG	Our Sustainability Principle	Our Key Sustainability actions
	Exercise robust governance, risk management, and compliance	All employees, suppliers and contractors must comply with our Code of Ethics, conducting business with integrity and in a responsible, ethical and sustainable manner.

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.

Melrose prohibits lobbying involvement and political involvement of any kind across the Group.

Whistleblowing

Melrose runs a Group-wide whistleblowing platform, which is overseen by the Audit Committee reporting to the Board and supported by the Melrose senior management team. 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 to raise concerns, confidentially and anonymously, about possible wrong-doing in any aspect of their business, including financial and non-financial matters. The businesses undertake a number of measures to bring awareness to employees 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 2020, 128 whistleblowing cases were recorded. 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/2568/modern-slavery-statement-june-2020.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 eradicate slavery from their supply chains.

Exercise robust governance, risk management, and compliance

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

The high standards of financial and non-financial controls, and strong governance backed by internal and external auditing 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, which was updated in 2020 to reflect current best practice and strong corporate citizenship. Each business is required to communicate and embed the Code of Ethics 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, which can be found on our website (<https://www.melroseplc.net/about-us/governance/code-of-ethics/>), has 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, and joint ventures.

Implementation 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.

The Audit Committee reports directly to the Board. It oversees the Group's internal control processes and, together with the Board, monitors breaches of the Melrose Code of Ethics. Please refer to pages 44 to 45 for full details on the Group's approach to risk management.

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 and integrity and works to ensure adherence to the Melrose Code of Ethics, which encompasses key human rights considerations. 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 or supply chain. These include training, modern slavery policies, employee handbooks and business-specific policies. All business-specific employee policies are reviewed locally within each business in order to ensure compliance with local laws and standards as a minimum. As at 31 December 2020, 99%⁽¹⁾ of direct (tier 1) suppliers had been assessed against labour and human rights standards.

There have been no violations reported on human rights by our Group businesses in 2020 and for 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, 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 or grey listed by the EU, for the purposes of tax avoidance and/or harmful tax practices, per the latest lists released as at 31 December 2020.

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 divisional executive teams and external security consultants to track the Group's exposure to cyber security risk and, to ensure appropriate compliance with the GDPR, mitigation measures are in place for the Group.

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 cybersecurity matters across our diverse and decentralised Group. The progress of each business is measured against the information security strategy and is monitored on a quarterly basis.

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 security 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 deployed by all businesses in 2020.

Looking forward to 2021

We made strong progress during 2020 in embedding our key sustainability principles throughout the Group, mapping the material sustainability issues that matter most to the Group's business activities and our key stakeholders, and aligning the Group's activities with Melrose's overarching sustainability ambitions and relevant UN SDGs. We look forward to accelerating that progress during 2021 by augmenting our sustainability improvement initiatives and ongoing reporting, continuing to actively promote and invest in the decarbonisation of the industries that our businesses operate in, protecting our workforce, upholding strong ethical and governance principles and

practices, and building innovative products that enable us, our customers, and our key stakeholders to achieve the transition to a net zero carbon economy.

The Strategic Report, as set out on pages 1 to 87 has been approved by the Board.

On behalf of the Board



Simon Peckham
Chief Executive
4 March 2021

⁽¹⁾ Data coverage of the Group is 93% (by Cost of Sales).