

Acquisition of GKN Plc – allocation for Capital Gains Tax purposes of prior basis in GKN Plc shares

The basic offer for each GKN Plc (“GKN”) share was 81p in cash and 1.69 new Melrose Industries Plc (“Melrose”) Ordinary shares. It is possible that GKN shareholders may have realised a capital gain (or loss) in respect of the cash element of the consideration received.

In accordance with the guidance set out in the part 3 (page 75) of the Original Offer document of 1st February 2018, the basis in GKN shareholders’ original holding is apportioned between the new Melrose shares received and the part disposal, for cash, of GKN shares in accordance with the relative market values of the Melrose shares and the cash on the date of disposal of GKN shares.

Because the offer remained open beyond the first close date (of 16th April 2018), there are multiple possible dates of disposal. The particular date of disposal (and thus Melrose market value) applicable to any given shareholder will depend upon the date on which their acceptance of the offer became unconditional. For example, for the initial acceptances, although Melrose shares were issued on 19th April, the tender went unconditional on 16th April, so that is the relevant date for pricing and apportionment. The table below sets out the dates on which Melrose shares were issued and the corresponding Melrose closing share price on the day of disposal.

Acceptance (disposal) date	Credit date	Closing Melrose share price on disposal date (p)	% of old GKN basis attributable to new Melrose shares
First close date for acceptances, 16 th April 2018	19 April 2018	236.2	83.13%
Block 2	03 May 2018	231.1	82.82%
Block 3	10 May 2018	232.6	82.91%
Block 4	17 May 2018	234.5	83.03%
Block 5	24 May 2018	242.0	83.47%
Block 6	31 May 2018	236.0	83.12%
Block 7	07 June 2018	239.5	83.32%
Block 8	14 June 2018	240.5	83.38%
Block 9	21 June 2018	223.0	82.31%
980 1 & 2	09 July 2018	213.9	81.69%

84.6% of GKN shareholders accepted the offer prior to 16th April. For those shareholders credited with new Melrose shares on 19th April, the allocation of 100% of your basis in GKN shares is apportioned

83.13% to the new Melrose shares, and
16.87% to the partial disposal for cash (of 81p per GKN share).

Shareholders accepting the offer at a later date may have different apportionments, as set out above.

Mix 'n' match election

A further complication arises as a result of the mix 'n' match election offered to GKN shareholders. Shareholders electing 'more shares' in respect of their entire GKN shareholding received no cash and therefore made no partial disposal and realised no capital gain. 100% of their original GKN basis is carried over into the new Melrose shares as though the two shareholdings are the same asset.

Shareholders electing 'more cash' or making partial elections were scaled back and will have to calculate their allocations in accordance with the formulae

Allocation of basis to cash / partial disposal:

$$\frac{\text{Cash received}}{\text{Cash received plus value of Melrose shares received on the date of disposal}}$$

Allocation of basis to new Melrose shares:

$$\frac{\text{Value of Melrose shares on the disposal date}}{\text{Cash received plus value of Melrose shares received on the date of disposal}}$$

Small shareholdings

If the cash amount received by individual investors is less than (a) £3,000 and (b) the original cost of investment in GKN shares, instead of calculating a capital gain, investors should reduce their basis in the Melrose shares by the cash amount received.

If the cash amount is less than £3,000 but more than the original cost of investment, individual shareholders may elect to reduce their basis to nil and to tax the receipt, less basis eliminated, as a capital gain.

Option holders

Former GKN office holders and employees holding options over GKN shares will generally be subject to income tax and National Insurance Contributions upon the exercise of the option. The income tax and National Insurance Contributions should be charged upon the full market value of the GKN shares acquired (less any payment required to exercise the option). The GKN share temporarily acquired should therefore have tax basis equal to the market value and so, although there is still a partial disposal of the underlying GKN share, the capital gain arising should be nil.

In all cases, the explanations above are intended as guidance only and should not be relied upon for the completion of tax returns. This is not tax advice. If you are in any doubt or have unusual circumstances, you should consult your tax adviser.