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**If you are in any doubt about the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or an independent financial adviser duly authorised under the FSMA if you are located in the United Kingdom or, if you are located outside the United Kingdom, an appropriately authorised independent financial adviser.**

This document has been prepared in accordance with paragraph 1.2.2(2) and 1.2.3(3) of the Prospectus Rules and contains information which is regarded by the UKLA as being equivalent to that of a prospectus. Accordingly, this document has been filed with the UKLA and has been made available, free of charge, to the public in accordance with Rule 3.2 of the Prospectus Rules.

The release, publication or distribution of this document, in whole or in part, in, into or from jurisdictions other than the UK may be restricted by the laws of those jurisdictions and, therefore, persons into whose possession this document comes should inform themselves about and observe any applicable requirements. Any failure to comply with these restrictions may constitute a violation of the securities laws of one or more of such jurisdictions. In particular, this document should not be released, published, distributed, forwarded or transmitted, in whole or in part, in, into or from any Restricted Jurisdiction, including the United States.

Unless an exemption under relevant securities laws is available, the New Melrose Shares are not being, and may not be, offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in, into or from any Restricted Jurisdiction, including the United States or to, or for the account or benefit of, any resident of any Restricted Jurisdiction. The New Melrose Shares are expected to be issued in reliance upon one or more exemptions from the registration requirements of the US Securities Act. None of the securities referred to in this document have been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

**Prospective investors should read the whole of this document and the Offer Document and the accompanying Form of Acceptance sent to Eligible GKN Shareholders on or around the date of this document and any documents incorporated herein by reference. In particular, your attention is drawn to the factors described in Part II (*Risk Factors*) of this document.**



## **Melrose Industries PLC**

*(incorporated under the Companies Act 2006 and registered in England and Wales with registered number 9800044)*

**Proposed issue of up to 2,598,898,592 New Melrose Shares of  $48\frac{48}{7}$  pence each to be issued by Melrose in connection with the acquisition of GKN plc**

**and**

**Application for admission of the New Melrose Shares to the Official List with a premium listing and to trading on the London Stock Exchange's main market for listed securities**

**Rothschild**

*Financial Adviser and Joint Sponsor*

**Investec Bank plc**

*Broker and Joint Sponsor*

**RBC Europe Limited**

*Financial Adviser*

The Existing Melrose Shares are listed on the Official List with a premium listing maintained by the FCA and traded on the London Stock Exchange's main market for listed securities. Application will be made for the admission of the New Melrose Shares to the Official List with a premium listing and to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission of the New Melrose Shares will become effective and that dealings (for normal settlement) in the New Melrose Shares will commence on the London Stock Exchange at 8.00 a.m. on the Effective Date (whereupon an announcement will be made by the Company to a Regulatory News Service of the London Stock Exchange).

This document has been prepared to comply with the requirements of English law, the Listing Rules, the Prospectus Rules, the City Code and the rules of the London Stock Exchange and information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of other jurisdictions outside England.

The New Melrose Shares have not been and will not be registered under the relevant federal laws or laws of any state, province or territory of the United States (including the US Securities Act) or any Restricted Jurisdiction or under any securities laws of any state or other jurisdiction of the United States or any Restricted Jurisdiction and may not be offered, sold, taken up, exercised, resold, pledged, renounced, transferred or delivered, directly or indirectly, within any Restricted Jurisdiction or the United States except pursuant to an applicable exemption from, or in a transaction not subject to the registration requirements of, the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States or any Restricted Jurisdiction. Accordingly, this document does not constitute an offer to sell, or solicitation of an offer to buy or to take up entitlements to New Melrose Shares in the United States (unless an exemption from registration under the US Securities Act is available) or in any Restricted Jurisdiction (subject to certain exceptions). The New Melrose Shares may at the sole discretion of the Company be made available by the Company in the United States to qualified institutional buyers (as defined in Rule 144A under the US Securities Act) or accredited investors (as defined in Rule 501(a) under the US Securities Act) (in both cases, "**Eligible US Holders**") in transactions that are exempt from the registration requirements of the US Securities Act. Any recipient of New Melrose Shares pursuant to such transactions will be required to make such acknowledgements and representations to and agreements with the Company, as the Company may require, to establish that they are Eligible US Holders.

In addition, until 40 days after the commencement of the Offer, an offer, sale or transfer of the New Melrose Shares within the United States by a dealer (whether or not participating in the Acquisition) may violate the registration requirements of the US Securities Act if such offer, sale or transfer is made otherwise than in accordance with Rule 144A or another exemption from registration under the US Securities Act.

Investors should only rely on the information contained in this document, the Offer Document, the Form of Acceptance and the documents (or parts thereof) incorporated herein by reference. No person has been authorised to give any information or make any representations other than those contained in this document, the Offer Document, the Form of Acceptance and the documents (or parts thereof) incorporated by reference herein and, if given or made, such information or representation must not be relied upon as having been so authorised by the Company, the Directors, Rothschild, Investec Bank plc or RBC Europe Limited. In particular, the contents of the Company's and GKN's websites do not form part of this document and investors should not rely on them. Neither the delivery of this document nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Melrose Group taken as a whole since the date of this document or that the information in it is correct as of any time after the date of this document.

Each of Investec Bank plc and RBC Europe Limited is authorised by the PRA and regulated by the PRA and the FCA in the United Kingdom, and Rothschild which is authorised and regulated by the FCA in the United Kingdom, is acting exclusively for the Company and no one else in connection with this document and/or the Acquisition and will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to this document or the Acquisition, save for any responsibility which may arise under FSMA or the regulatory regime established thereunder, and accordingly will not be responsible to anyone other than the Company for providing the protections afforded to respective clients of Rothschild, Investec Bank plc or RBC Europe Limited as applicable, or for providing advice in connection with the Acquisition, the contents of this document or any other transaction, arrangement or other matter referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on, Rothschild, Investec Bank plc or RBC Europe Limited under FSMA or the regulatory regime established thereunder: (i) none of Rothschild, Investec Bank plc or RBC Europe Limited accepts any responsibility whatsoever and makes no warranty or representation, express or implied, in relation to the contents of this document, including its accuracy,

completeness or verification or regarding the legality of any investment in the New Melrose Shares by any person under the laws applicable to such person or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Melrose Shares, the Acquisition; and (ii) each of Rothschild, Investec Bank plc and RBC Europe Limited accordingly disclaims, to the fullest extent permitted by law, all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise be found to have in respect of this document or any such statement.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Acquisition, including the merits and risks involved.

None of the Company nor any of Rothschild, RBC Europe Limited or Investec Bank plc, nor any of their respective representatives, is making any representation to any offeree, acquirer or purchaser of New Melrose Shares regarding the legality of an investment in the New Melrose Shares by such offeree, acquirer or purchaser under the laws applicable to such offeree, acquirer or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of an acquisition or purchase of the New Melrose Shares.

Investors also acknowledge that: (i) they have not relied on any of Rothschild, RBC Europe Limited or Investec Bank plc or any person affiliated with Rothschild, RBC Europe Limited or Investec Bank plc in connection with any investigation of the accuracy of any information contained in this document or their investment decision; (ii) they have relied only on the information contained in this document; and (iii) that no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the New Melrose Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or any of Rothschild, RBC Europe Limited or Investec Bank plc.

**Persons who come into possession of this document should inform themselves about and observe any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this document and the Acquisition. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction.**

**THE CONTENTS OF THIS DOCUMENT ARE NOT TO BE CONSTRUED AS LEGAL, FINANCIAL OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN SOLICITOR, INDEPENDENT FINANCIAL ADVISER OR TAX ADVISER FOR LEGAL, FINANCIAL OR TAX ADVICE.**

**THIS DOCUMENT DOES NOT CONSTITUTE OR FORM PART OF ANY OFFER OR INVITATION TO SELL OR ISSUE, OR ANY SOLICITATION OF ANY OFFER TO PURCHASE OR SUBSCRIBE FOR, ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR ANY OFFER OR INVITATION TO SELL OR ISSUE, OR ANY SOLICITATION OF ANY OFFER TO PURCHASE OR SUBSCRIBE FOR, SUCH SECURITIES BY ANY PERSON IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL.**

#### **Notice to Overseas Shareholders**

The release, publication or distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about, and observe any applicable requirements. In particular, the ability of persons who are not resident in the United Kingdom to accept the Acquisition or to execute and deliver the Form of Acceptance may be affected by the laws of the relevant jurisdictions in which they are located.

This document has been prepared for the purpose of complying with English law and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

Unless otherwise determined by Melrose or required by the City Code, and permitted by applicable law and regulation, the Acquisition will not be made available, directly or indirectly, in, into or from a Restricted Jurisdiction or any other jurisdiction where to do so would violate the laws in that jurisdiction and no person may accept the Acquisition by any use, means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction including the United States or any other jurisdiction where to do so would constitute a violation of the laws of that jurisdiction and the Acquisition may not be capable of acceptance by any such use, means, instrumentality or facilities. Accordingly, copies of this document and any formal documentation relating to the Acquisition are not being,

and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction or any other jurisdiction where to do so would constitute a violation of the laws of that jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction or any other jurisdiction where to do so would constitute a violation of the laws of that jurisdiction.

The availability of the Acquisition to GKN Shareholders who are not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions in which they are resident. Persons who are not resident in the United Kingdom should inform themselves of, and observe, any applicable legal or regulatory requirements.

The Melrose Shares have not been, and will not be, listed on any stock exchange other than London Stock Exchange and have not been, and will not be, registered under the US Securities Act or under any laws of any state, district or other jurisdiction, of the United States, nor have clearances been, nor will they be, obtained from the securities commission or similar authority of any province or territory of Canada and no prospectus has been, or will be, filed, or registration made, under any securities law of any province or territory of Canada, nor has a prospectus in relation to the Melrose Shares been, nor will one be, lodged with, or registered by, the Australian Securities and Investments Commission, nor have any steps been taken, nor will any steps be taken, to enable the Melrose Shares to be offered in compliance with applicable securities laws of Japan and no regulatory clearances in respect of the Melrose Shares have been, or will be, applied for in any other jurisdiction.

Further details in relation to GKN Shareholders in overseas jurisdictions are contained in the Offer Document.

### **Notice relating to the United States of America**

This document is not intended to, and does not, constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the offer or otherwise. The Acquisition will be made solely through the Offer Document or, if Melrose elects to switch to a Scheme, the scheme document, which will contain the full terms and conditions of the Acquisition, including details of how the Acquisition may be accepted. Any acceptance or other response to the Acquisition should be made only on the basis of the information in the Offer Document or scheme document (as appropriate).

The Acquisition relates to the shares of an English company and is subject to UK procedural and disclosure requirements that are different from certain of those of the US. Any financial statements or other financial information included in this document may have been prepared in accordance with non-US accounting standards that may not be comparable to the financial statements of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. It may be difficult for US holders of shares to enforce their rights and any claims they may have arising under the US federal securities laws in connection with the Acquisition, since Melrose and GKN are located in countries other than the US, and some or all of their officers and directors may be residents of countries other than the United States. US holders of shares in Melrose or GKN may not be able to sue Melrose, GKN or their respective officers or directors in a non-US court for violations of US securities laws. Further, it may be difficult to compel Melrose, GKN and their respective affiliates to subject themselves to the jurisdiction or judgment of a US court.

The New Melrose Shares have not been and will not be registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States and may not be offered, taken up, sold, resold, delivered, pledged, renounced, distributed or otherwise transferred, directly or indirectly, in or into the United States absent registration under the US Securities Act or an exemption therefrom.

None of the New Melrose Shares, this document, the Offer Document, the Form of Acceptance or any other offering document has been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or endorsed the merits of the Acquisition. Any representation to the contrary is a criminal offence in the United States.

It is intended that the Acquisition will be implemented by way of a takeover offer within the meaning of the Companies Act. However, Melrose reserves the right to elect, with the consent of the Panel (where necessary), to implement the Acquisition by way of a Court-sanctioned scheme of arrangement in accordance with Part 26 of the Companies Act.

A Scheme is not subject to the tender offer rules under the US Exchange Act and therefore would be subject to the disclosure requirements and practices applicable in the UK to schemes of arrangement which differ from the disclosure requirements of the US tender offer rules. If the Acquisition is implemented by way of a scheme

of arrangement, the New Melrose Shares would be expected to be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) of the US Securities Act. Section 3(a)(10) exempts securities issued in exchange for one or more outstanding securities from the general requirements of registration where the terms and conditions of the issuance and exchange of such securities have been approved by a court, after a hearing on the fairness of the terms and conditions of the issuance and exchange at which all persons to whom such securities will be issued have the right to appear and be heard. The Court would hold a hearing on the Scheme's fairness to GKN Shareholders, at which hearing all such shareholders would be entitled to attend in person or through counsel. If the Acquisition is implemented by way of the Scheme, a person who receives New Melrose Shares pursuant to the Scheme and who is an affiliate of Melrose may not resell such securities without registration under the US Securities Act or pursuant to the applicable resale provisions of Rule 144 under the US Securities Act or another applicable exemption from registration or in a transaction not subject to registration (including a transaction that satisfies the applicable requirements of Regulation S under the US Securities Act). Whether a person is an affiliate of a company for the purposes of the US Securities Act depends on the circumstances, but affiliates can include certain officers, directors and significant shareholders. Persons who believe that they may be affiliates of Melrose should consult their own legal advisers prior to any sale of securities received pursuant to the Scheme.

No document relating to the Offer or the Acquisition will be posted into the US, but a "Qualified Institutional Buyer" or an "Accredited Investor" (as such terms are defined by the SEC) may be permitted to participate in the Offer upon establishing its eligibility to receive New Melrose Shares by completing an eligibility questionnaire available on [www.melroseplc.net](http://www.melroseplc.net) and returning any required supporting documentation. The Offer will qualify for "Tier II" exemptions from the tender offer rules included in Regulation 14E under the US Exchange Act. Accordingly, the Offer will be subject to disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments that may be different from those applicable under US domestic tender offer procedures and law. A person who receives New Melrose Shares pursuant to the Offer may not resell such securities without registration under the US Securities Act or without an applicable exemption from registration or in a transaction not subject to registration (including a transaction that satisfies the applicable requirements of Regulation S under the US Securities Act).

This document does not constitute a public offer of securities for sale in the US or a public offer to acquire or exchange securities in the US. Securities may not be offered or sold in the US absent registration or an exemption from registration. No offer to acquire securities or to exchange securities for other securities has been made, or will be made, directly or indirectly, in or into, or by use of the mails, any means or instrumentality of interstate or foreign commerce or any facilities of a national securities exchange of, the US or any other country in which such offer may not be made other than (i) in accordance with the US Securities Act, as amended, or the securities laws of such other country, as the case may be, or (ii) pursuant to an available exemption from such requirements. In particular, New Melrose Shares will only be made available in the United States to qualified institutional buyers (as defined in Rule 144A under the US Securities Act) or accredited investors (as defined in Rule 501(a) under the US Securities Act) in transactions that are exempt from the registration requirements of the US Securities Act. Such shareholders will be required to make such acknowledgements and representations to, and agreements with, Melrose as Melrose may require to establish that they are entitled to receive New Melrose Shares.

Nothing in this document shall be deemed an acknowledgement that any SEC filing is required or that an offer requiring registration under the US Securities Act may ever occur in connection with the Acquisition.

The New Melrose Shares have not been, and will not be, registered under the securities laws of any state or jurisdiction in the United States and, accordingly, will only be issued to the extent that exemptions from the registration or qualification requirements of state "blue sky" securities laws are available or such registration or qualification requirements have been complied with.

This document is dated 1 February 2018.

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**PART I**  
**SUMMARY**

*Summaries are made up of disclosure requirements known as ‘Elements’. The elements are numbered in Sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some of the Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of ‘not applicable’.*

<b>Section A—Introduction and Warnings</b>		
A.1	<b>Warning</b>	<p><b>THE FOLLOWING SUMMARY SHOULD BE READ AS AN INTRODUCTION TO THIS DOCUMENT ONLY. ANY DECISION TO INVEST IN NEW MELROSE SHARES SHOULD BE BASED ON A CONSIDERATION OF THIS DOCUMENT AS A WHOLE INCLUDING THE INFORMATION INCORPORATED BY REFERENCE INTO THIS DOCUMENT.</b></p> <p><i>Where a claim relating to information contained in this document is brought before a court, a plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches only to those persons who have tabled this summary, including any translation of this summary but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in New Melrose Shares.</i></p>
A.2	<b>Subsequent resale of securities or final placement of securities through financial intermediaries</b>	<i>Not applicable. The Company is not engaging any financial intermediaries for any resale of securities or final placement of securities after publication of this document.</i>

<b>Section B—Issuer</b>		
B.1	<b>Legal and commercial name</b>	Melrose Industries PLC (the “ <b>Company</b> ” or “ <b>Melrose</b> ” and, including its subsidiaries and subsidiary undertakings, the “ <b>Melrose Group</b> ”)
B.2	<b>Domicile and legal form, applicable legislation and jurisdiction of incorporation</b>	The Company was incorporated in England and Wales on 29 September 2015 under the Companies Act as a public company limited by shares with registration number 9800044. The Company is domiciled in the United Kingdom and the principal legislation under which it operates is the Companies Act.
B.3	<b>Current operations and principal activities</b>	<p><b>The Melrose Group</b></p> <p>Melrose’s strategy is to acquire high-quality manufacturing businesses, with strong fundamentals and the potential for significant development and improvement under Melrose management.</p> <p>Through investing in businesses, changing management focus and operational improvements, Melrose seeks to increase and realise the value</p>

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in such businesses at the appropriate time and to return the proceeds to shareholders.

The Melrose Group consists of four divisions:

### Air Management

The Air Management division is the largest in the Melrose Group. It comprises two businesses: a global HVAC business which produces residential, commercial and custom HVAC equipment and is based in Missouri, USA; and Air Quality & Home Solutions (“AQH”), which manufactures ventilation products under new management headquartered in Wisconsin, USA.

### Security & Smart Technology

The Security & Smart Technology division comprises the Security & Control, Core Brands and GTO Access Systems businesses, which have been consolidated under one management team in California, USA. It is one of the world’s leading developers and manufacturers of security, home automation and access control technologies for the residential audio video and professional video markets.

### Ergonomics

The Ergonomics division comprises Ergotron, a world leading manufacturer and distributor of innovative products designed with ergonomic features including wall mounts, carts, workstations and stands. The business is headquartered in Minneapolis, USA and is organised into three segments: commercial; original design and manufacture; and consumer.

### Energy

The Energy division manufactures and services turbogenerators and transformers under the Brush brand as well as switchgear for rail and industrial use under the Hawker Siddeley Switchgear brand name and small mobile generators as Harrington Generators International.

### **Offer for GKN**

On 17 January 2018, the Company announced the terms of a firm offer to acquire the entire issued and to be issued share capital of GKN in accordance with Rule 2.7 of the City Code. Under the terms of the Offer, for each GKN Share held, Eligible GKN Shareholders will be entitled to receive 1.49 New Melrose Shares and 81 pence in cash. On or around the date hereof, the Company will despatch its Offer Document to Eligible GKN Shareholders in respect of the Offer and its Circular to Melrose Shareholders.

### **The GKN Group**

The following description has been extracted without material adjustment from the GKN 2016 Annual Report which is incorporated by reference into this document:

GKN is a global engineering business, designing, manufacturing and servicing systems and components for OEMs around the world. With its headquarters in Redditch, United Kingdom, GKN operates across Europe, Asia Pacific and the Americas. Approximately £3,743 million of GKN’s sales were generated in Europe (excluding the UK), £3,326 million in the Americas, £1,296 million in Asia Pacific and £1,047 million in the United



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		<p>Kingdom, in each case in the financial year ended 31 December 2016. GKN employs approximately 22,650 people in Europe (excluding the UK), 14,000 in Asia Pacific, 15,900 in the Americas and 5,600 in the UK, in each case as at 31 December 2016, including subsidiaries and joint ventures.</p>
B.4a	<p><b>Significant recent trends affecting the Melrose Group and the industries in which it operates</b></p>	<p>Melrose invests in international manufacturing companies and is therefore directly and indirectly impacted by events occurring in the global economy.</p> <p>The outlook for the world economy remains uncertain and generally there has been continued nervousness amongst most economic commentators, many of whom are concerned that growth may be difficult to achieve over the near term. This caution applies to most major economies of the world.</p> <p><i>Air Management</i></p> <p>Whilst the HVAC market has always been subject to seasonality, other critical trends are beginning to converge, influencing the HVAC market for commercial and residential buildings.</p> <p>The continued acceleration of digitalisation, growth of the Internet of Things (“IoT”), convergence of technologies and connectivity is driving demand for critical space air conditioning and puts further emphasis on building energy reduction.</p> <p>The continuous regulation of energy and water conservation in buildings driven by global warming and an impending global water shortage has placed an emphasis on improving energy efficiency and reducing greenhouse gas emissions.</p> <p>This is matched by an increasing need for suppliers to be agile in responding quickly to customers’ needs to comply with the changing regulatory environment.</p> <p>Furthermore, urbanisation is an overriding trend that bodes well for the business as it will lead to investment in infrastructure.</p> <p>Specifically for AQH, consumers are seeking new solutions to improve the quality of their indoor air as the negative health impact of poor air quality becomes more widely recognised.</p> <p><i>Security &amp; Smart Technology</i></p> <p>The division operates in a dynamic market, with rapidly advancing technologies, new services entrants, consolidation among traditional service companies and growing global demand. The traditional security services market is evolving to embrace the possibilities of IoT, creating a wider range of offerings and greater focus on software and connectivity. Technology is shifting towards utilising video and audio technologies (including voice control) as a means to sense and control residential and commercial environments.</p> <p><i>Ergonomics</i></p> <p>Ergotron’s key product segments are underpinned by strong global technology and wellness trends, including the development of electronic medical records systems, digital learning in education and corporate wellness, which drive a need for sit/stand workstations. Staying on top of these markets requires continuous focus on product research and development.</p>

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### *Energy*

Slower global GDP growth continues to negatively impact the demand for electricity generation. Demand for gas fired electricity generation has been impacted by strong growth in the renewable energy sector, whilst orders for gas turbines remain 50 per cent below peak levels seen in between 2008 and 2011. The exceptionally low oil and gas prices experienced during the last two years have also led to the cancellation or the deferral of many investment projects.

On 1 February 2018, Melrose released a trading update, which is set out below. Please refer to Part XIV (*Melrose Profit Estimate*) for further details.

*“Melrose is today providing a trading update ahead of its audited 2017 preliminary results.*

- *“Melrose confirms trading in 2017 was in line with management expectations*
- *Nortek trading has been transformed more comprehensively and faster than envisaged at the time of the acquisition; underlying operating profits at constant currency are up approximately 50% compared to last year of \$241.0 million and approximately 65% up on the full year prior to acquisition of \$220.1 million<sup>(1)</sup>. <sup>(2)</sup>*
- *Nortek’s underlying operating margin<sup>(3)</sup> increased to approximately 15%, an increase of more than 5 percentage points*
- *The well-publicised structural change in the global gas turbine market has led to Brush commencing employee consultations today in relation to the intended closure of its Dutch turbogenerator facility and the downsizing of its turbogenerator production in the UK*

(1) This statement has been provided on an underlying operating profit basis consistent with the current accounting policies of Melrose, which are in accordance with IFRS, adjusted for constant currency at the 2016 average exchange rates for the comparison to 2016 and at the 2015 average exchange rates for the comparison to 2015. The principal exchange rate is GBP:USD and the average rates applied to calculate growth in underlying operating profit on a constant currency basis are 1.3554 for 2016 and 1.5284 for 2015. The average GBP:USD exchange rate for 2017 is 1.2888.

Underlying operating profit excludes items which are significant in size or volatility or by nature are non-trading or non-recurring, or any item released to the Income Statement that was previously a fair value item booked on acquisition. These items include acquisition and disposal costs, restructuring and transformation charges, which include the losses incurred within closed businesses in the year of closure, and amortisation of intangible assets acquired in business combinations

(2) For the purposes of Rule 28 of the Code, this statement constitutes a profit estimate (the “Profit Estimate”). The Profit Estimate, the assumptions on which it is based, and the reports from Deloitte LLP (acting as reporting accountants for Melrose) and Rothschild and RBC Europe Limited (acting as financial advisers for Melrose, together, the “Financial Advisers”) as required by Rule 28.1 of the Code are set out in the Appendix to this Announcement.

(3) Underlying operating profit as a percentage of revenue.

*Simon Peckham, Chief Executive of Melrose said:*

*“Changing the culture and direction of Nortek by freeing it from the restrictions of a centralised group structure, when combined with our investments at the rate of approximately 2x depreciation, has resulted in this exceptional improvement in performance in a very short space of time. Over the years, in businesses spanning many different industry sectors from automotive to consumer products and from aerospace to security, the Melrose team’s widespread experience and expertise has continued to*

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*deliver exceptional results. We have no doubt this approach would also be successful at GKN.”*

### **Nortek**

*The Nortek businesses have built on a promising start under Melrose ownership to have an outstanding 2017. Having just completed its first full year in the Melrose group, underlying operating profit is up approximately 50% compared with 2016, which itself benefited from four months of Melrose improvements. Nortek has also achieved operating margins of approximately 15%, being the original three to five year aim at the time of the acquisition and an improvement of more than 5 percentage points. The business has been extremely successful in converting this strong performance into cash, with a cash conversion rate under Melrose ownership of over 100%.<sup>(4)</sup>*

(4) Defined as operating cash generated before capital expenditure as a percentage of EBITDA. EBITDA is defined as underlying operating profit before interest, tax, depreciation and amortisation.

*This improvement has been driven by the hard work of the Nortek operational management teams, freed from the restrictions of the formerly centralised group structure, to implement the necessary improvement programmes funded by Melrose planned investments equal to approximately 2x depreciation. The full benefits of these investments are still unfolding alongside further improvements planned for 2018 as Melrose looks to maintain the pace of change in order to deliver further value for shareholders.*

*The following are examples of these ongoing improvement programmes:*

- *Global HVAC—A strengthened and refocused management team under the incumbent CEO is currently spending £9 million to upgrade the key US production facilities in Tualatin and Oklahoma City, which will improve productivity and enable the production of state-of-the-art custom air handling products for the healthcare and data centre markets, with the full benefits expected to flow from 2018 onwards. This has been matched by significant investment in the R&D centre in Saskatoon, Canada, focused on new product development and process improvements that are pivotal to the success of the production plants. A detailed product profitability review has led not only to the exiting of approximately 12% of low margin divisional sales, but has also provided the business with a better understanding of its cost base and enabled a more informed approach to tendering.*
- *Air Quality and Home Solutions (AQH)—A new CEO with significant large customer experience has been installed and the distraction of the loss making European business of Best Italia S.p.A has been removed by selling it to a suitable home within Electrolux in July 2017. Now streamlined and refocused, AQH is part way through optimising a previously fragmented production footprint. This involves a site consolidation in Canada and increased production at the Hartford, USA headquarters, made possible by an ongoing £16 million investment to upgrade Hartford’s plant and equipment, including automated lines and laser welders, and a consolidation of the entire warehousing operation into the main facility. An in-depth product portfolio review has supported the continued refreshing of the product range, with a number of new product launches due in 2018.*
- *Security and Smart Technology—The opening of the new Carlsbad, USA headquarters in April 2018 will complete the consolidation of the*

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Nortek Security and Control, Core Brands and GTO businesses under one management team. This includes a significant investment to upgrade their research and development capabilities. The consolidation strengthens the core team under the incumbent CEO and refocuses the business on profitable channels, improving the product mix to take advantage of customer changes in the market. This has been supported by significant investment in tooling for new products such as Nova and the further development of the leading Elan platform.

- Ergotron—Already a high margin business on acquisition, Melrose has made further investments focused on supporting expansion projects long sought-after by the existing management team. These include growth in e-commerce and the APAC and European markets, as well as a restructuring of the Tualatin, USA production facility and further development of Ergotron's market leading 'WorkFit' and medical cart products.

The Board believes that these and other ongoing investments will enable Nortek to continue to build on the success achieved to date to deliver further improvement for the benefit of shareholders.

### **Brush**

As flagged in Melrose's full year 2016 results announcement on 2 March 2017 and again in the interim 2017 results announcement on 31 August 2017, the Brush Turbogenerator business (which represented less than 5% of the Melrose Group revenues for 2016<sup>(5)</sup>) is facing significant structural market changes. These have been caused by worldwide environmental policy which has triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush's turbogenerator sales falling from 122 units in 2016 to a forecast for 2018 of approximately 50 units.

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(5) Based on annualised revenues to include Nortek for the period prior to ownership.

This has meant that every aspect of the Turbogenerator business has been under review. With no material change in these market conditions expected in the foreseeable future, Brush has commenced consultations with employees today in relation to restructuring its Turbogenerator business to reflect the reduced levels of activity.

This restructuring involves the intended closure of the turbogenerator production facility at Ridderkerk, Netherlands and the transfer of its 4-pole turbogenerator production to the facility in Plzen, Czech Republic, while the factory in Changshu, China has already been closed. In the UK, Brush has entered into consultation with its workforce about the future of 2-pole turbogenerator production at the Loughborough, UK facility, which accounts for approximately half the workforce at the site. The 520-strong workforce employed at Brush's other UK sites in the transformers, switchgear and mobile generator businesses remain unaffected.

The cash cost of these restructuring items is estimated to be £40 million and is expected to be materially complete by the end of 2018. This is expected to mitigate the current £12 million annual losses of the Turbogenerator business and align it to the new market conditions. The carrying value of the business has been reduced to £300 million. The Board continues to be fully committed to supporting Brush and its management team in emerging from these adverse market conditions so as to be positioned to have the best possible long-term future.

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		<p><i>Melrose’s Chairman Christopher Miller said:</i></p> <p><i>“We expect continuing strong performances at each Nortek division and are delighted with the progress we have made so far. There is more to go for. Nortek will also benefit from recent favourable tax changes announced in the US.</i></p> <p><i>Brush, albeit a very small part of the Melrose portfolio, is a different story. We are doing all we can to support the business and its management team in tackling extremely adverse market conditions to be positioned for the best possible long-term future.</i></p> <p><i>Meanwhile we are working hard on our proposal to merge the business and shareholder interests of GKN with Melrose to create a manufacturing powerhouse worth in excess of £10 billion today. The merger would create one of the largest companies in the UK and advance the fortunes of GKN’s divisions, employees, customers and pensioners across the piece. We believe it’s an exciting prospect for both sets of shareholders and that our long-term track record, with Nortek as just the most recent example, is clear proof of the transformation we can make at GKN.”</i></p> <p>There has been no change to the Melrose Board’s expectations since the publication of the trading statement on 1 February 2018.</p>
	<p><b>Significant recent trends affecting the GKN Group and the industries in which it operates</b></p>	<p>On 13 October 2017, GKN published a trading statement, an extract of which is set out below:</p> <p><i>“GKN plc, the global engineering business that serves the aerospace and automotive markets, today issues a trading update for the period since the half year results announcement on 26 July 2017, brought forward as a result of two significant external claims. As a result of these, together with continuing operational challenges in GKN Aerospace North America, the Group now expects management profit before tax<sup>(1)</sup> for 2017 to be slightly above 2016.</i></p> <p><i>GKN has been made aware of two probable claims which are expected to result in a charge of around £40 million in the fourth quarter of 2017. One relates to GKN Aerospace and the other GKN Driveline. Both claims are commercially sensitive with no additional information disclosable at this time.</i></p> <p><i>Overall in the third quarter, the Group achieved good organic sales growth, with GKN Driveline continuing to outperform the market and GKN Aerospace delivering sales slightly up on the prior year. Group trading margin in the third quarter was lower than the comparable period in the prior year, mainly due to programme transitions and on-going operational challenges in GKN Aerospace North America.</i></p> <p>...</p> <p><i>Following a detailed review, GKN Aerospace North America will incur a £15 million non-cash charge at its Alabama, USA facility relating to revised assumptions on programme inventory and receivables balances.</i></p> <p><i>Given the issues above, the review of the carrying value of goodwill and other assets at the year-end is expected to produce a significant non-cash impairment charge, relating to the North American business, which will be disclosed outside management profit before tax.</i></p> <p>(1) Financial information set out in this announcement, unless otherwise stated, is presented on a management basis which aggregates the sales and trading profit of subsidiaries with the Group’s share of the sales and trading profit of equity accounted investments. References to trading margins are to trading profit expressed as a percentage of sales.</p>

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Where appropriate, reference is made to organic results which exclude the impact of acquisitions/divestments as well as currency translation on the results of overseas operations.”

Melrose understands that the reference to “the North American business” above refers to the GKN Aerospace North American business (and not the GKN business as a whole).

On 16 November 2017, GKN published further guidance, an extract of which is set out below:

*“A review of working capital has been initiated across other Aerospace plants in North America. While this review is not yet complete it is likely to result in a further write-off estimated to be between £80 million and £130 million, much of which built up before 2017.*

*With the exception of the working capital write-off referred to above, all other guidance for the full year remains unchanged.”*

On 12 January 2018, GKN published a further announcement, an extract of which is set out below:

### **“Trading update**

*Q4 2017 trading was in line with expectations and the Group therefore continues to expect 2017 management profit before tax<sup>(1)</sup> to be slightly ahead of 2016 (which was £678 million) before the additional working capital write-off in North American Aerospace announced on 16 November 2017. The balance sheet review in North America has progressed significantly and the one-time write-off and associated costs are still estimated to be between £80 million and £130 million, albeit nearer the upper end of that range. These balance sheet write-offs will be included within management profit before tax.*

(1) Financial information set out in this announcement, unless otherwise stated, is presented on a management basis which aggregates the sales and trading profit of subsidiaries with the Group’s share of the sales and trading profit of equity accounted investments.

*As previously announced, the review of the carrying value of goodwill and other fixed assets at the year-end will produce a significant non-cash impairment charge relating to the North American Aerospace business, which, in line with our accounting policy, will be disclosed outside of management profit before tax.*

### **Transformation programme**

*GKN commenced a wide-ranging review in 2017. This was necessary because, while sales have been growing, both profit margins and cash generation have been below expectations. A new strategy has been developed to improve significantly performance in all of GKN’s businesses. This will continue to leverage GKN’s in-depth global knowledge of the automotive and aerospace industries to drive leadership in its chosen markets.*

*GKN is now creating differentiated product segments that will be classified as either core or non-core. There will be three different strategies for the core product segments—improve (e.g. Constant Velocity Joints), grow (e.g. Aero Engines) and develop (e.g. eDrive and Additive Manufacturing). Each strategy will have different capital expenditure targets and different expectations for growth, margin improvement, cash generation and return on investment. However, all will have stretching targets to be achieved through a transformation programme (“Project Boost”). Furthermore, to ensure that the strategy is delivered and that shareholder value is realised,*

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		<p><i>a much stronger performance and accountability culture will be instilled throughout the business, supported by changes to incentives to align with the new strategy.</i></p> <p><i>Project Boost is a two year programme to improve cash and profit that will incorporate all areas of the business operating system including culture. This includes optimising direct and indirect procurement, process and productivity, and capital allocation. Portfolio rationalisation of our non-core product segments will also be a priority. The development of this programme has been ongoing for a number of months. The Board is confident Project Boost will deliver a step change in profit margin and cash generation, and expects to deliver a significant increase in annual cash flow with the full run rate achieved during 2020 through a combination of cost and capital expenditure reduction and pricing discipline.</i></p> <p>On 22 January 2018, GKN released an announcement relating to eDrive, an extract of which is set out below:</p> <p><i>“GKN Driveline today announces that its order book for electric driveline (eDrive) technologies hit a record £2 billion<sup>(1)</sup> by the end of last year following a series of significant programme wins with major global automakers. The order book growth underpins and extends GKN’s market-leading position in eDrive systems.</i></p> <p><i>GKN’s success is accelerating its annual eDrive sales growth. Sales, which were previously forecast to rise from £33m in 2017 to £200m in 2020, are now expected to increase over eight-fold to £275m. In 2022, GKN forecasts that eDrive sales will reach £500m.</i></p> <p><i>GKN’s success has been achieved through a long term commitment to Research and Development. In 2017, the Research and Development expense charged to the income statement was £36m, with total investment of over £123m over the past six years. Whilst impacting near-term financial performance, this investment is now delivering strong sales and order book growth. Through the R&amp;D programme, GKN is rapidly bringing full systems capability to the market and is able to offer a range of solutions to meet customer demands. GKN is delivering components, sub-systems and full-systems in response to a variety of OEM needs. Building on systems integration leadership recognised by recent Automotive News PACE Awards, GKN will be adding GKN eMotors to their gear and torque management technology portfolio.</i></p> <p><i>As at 31 December 2017, GKN’s order book relating to eDrive was £2 billion following a number of major programme wins. Amongst these are:</i></p> <ul style="list-style-type: none"> <li><i>• GKN’s Multimode eTransmission system is due to launch on a Chinese OEM’s platform across a number of vehicle models from 2018</i></li> <li><i>• GKN is due to supply a semi-integrated electric driveline unit from 2019 for a new vehicle launched by a premium European automaker</i></li> <li><i>• GKN has developed an integrated electric driveline system for a European OEM’s global programme that is expected to be first launched in China from next year”</i></li> </ul> <p>(1) Order book corresponds to cumulative business awarded by customers (including share of joint ventures) less orders fulfilled and cancellations, based on GKN’s best reasonable estimates in terms of volumes, selling prices and project lifespans.</p>
B.5	<b>Description of the Melrose Group and</b>	Melrose is the holding company of the Melrose Group and, following the Effective Date, will be the holding company of the Enlarged Group.

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	<b>Melrose’s position therein</b>																																																																						
B.6	<b>Notifiable interests in Melrose and voting rights</b>	<p>As at the Latest Practicable Date, the following voting interests in the ordinary share capital of the Company, disclosable under Chapter 5 of the Disclosure Guidance and Transparency Rules, had been notified to the Company:</p> <table border="1" data-bbox="563 488 1388 1003"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Interests as notified to the Company as at Latest Practicable Date</th> <th colspan="2">Interests immediately following Admission<sup>(1)</sup></th> </tr> <tr> <th>Number of Existing Melrose Shares</th> <th>Percentage of existing issued share capital</th> <th>Number of Melrose Shares</th> <th>Percentage of issued share capital</th> </tr> </thead> <tbody> <tr> <td><b>Shareholder</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>FMR LLC &amp; FIL Limited</td> <td>195,923,042</td> <td>10.1%</td> <td>195,923,042</td> <td>4.3%</td> </tr> <tr> <td>BlackRock, Inc.</td> <td>172,837,845</td> <td>8.9%</td> <td>172,837,845</td> <td>3.8%</td> </tr> <tr> <td>Old Mutual plc</td> <td>145,121,393</td> <td>7.5%</td> <td>145,121,393</td> <td>3.2%</td> </tr> <tr> <td>Threadneedle Asset Management Holdings Ltd</td> <td>119,876,000</td> <td>6.2%</td> <td>119,876,000</td> <td>2.6%</td> </tr> <tr> <td>Aviva plc</td> <td>106,240,317</td> <td>5.5%</td> <td>106,240,317</td> <td>2.3%</td> </tr> <tr> <td>Schroders plc</td> <td>93,929,069</td> <td>4.8%</td> <td>93,929,069</td> <td>2.1%</td> </tr> <tr> <td>Artemis Investment Management LLP</td> <td>78,834,699</td> <td>4.1%</td> <td>78,834,699</td> <td>1.7%</td> </tr> <tr> <td>CI Investments Inc.</td> <td>75,270,857</td> <td>3.9%</td> <td>75,270,857</td> <td>1.7%</td> </tr> <tr> <td>Legal And General Investment Management Ltd.</td> <td>73,661,475</td> <td>3.8%</td> <td>73,661,475</td> <td>1.6%</td> </tr> <tr> <td>The Vanguard Group, Inc.</td> <td>59,064,262</td> <td>3.0%</td> <td>59,064,262</td> <td>1.3%</td> </tr> <tr> <td>Dimensional Fund Advisors Ltd.</td> <td>58,669,467</td> <td>3.0%</td> <td>58,669,467</td> <td>1.3%</td> </tr> </tbody> </table> <p>Note:</p> <p>(1) Assuming Melrose acquires the entire issued and to be issued share capital of GKN and the maximum number of New Melrose Shares are issued.</p> <p>* Assuming none of the shareholders set out above is a GKN Shareholder.</p> <p>As at the Latest Practicable Date, the aggregate interests (all of which are beneficial) of the Directors or of persons closely associated with them in the share capital of the Company, and which have been notified by each Director to the Company pursuant to Article 19 of the Market Abuse Regulation and its predecessor legislation (in the case of persons closely associated, so far as is known to the relevant Director or could with reasonable diligence be ascertained by them), together with such interests as are expected to subsist immediately following Admission, are set out in the following table:</p>		Interests as notified to the Company as at Latest Practicable Date		Interests immediately following Admission <sup>(1)</sup>		Number of Existing Melrose Shares	Percentage of existing issued share capital	Number of Melrose Shares	Percentage of issued share capital	<b>Shareholder</b>					FMR LLC & FIL Limited	195,923,042	10.1%	195,923,042	4.3%	BlackRock, Inc.	172,837,845	8.9%	172,837,845	3.8%	Old Mutual plc	145,121,393	7.5%	145,121,393	3.2%	Threadneedle Asset Management Holdings Ltd	119,876,000	6.2%	119,876,000	2.6%	Aviva plc	106,240,317	5.5%	106,240,317	2.3%	Schroders plc	93,929,069	4.8%	93,929,069	2.1%	Artemis Investment Management LLP	78,834,699	4.1%	78,834,699	1.7%	CI Investments Inc.	75,270,857	3.9%	75,270,857	1.7%	Legal And General Investment Management Ltd.	73,661,475	3.8%	73,661,475	1.6%	The Vanguard Group, Inc.	59,064,262	3.0%	59,064,262	1.3%	Dimensional Fund Advisors Ltd.	58,669,467	3.0%	58,669,467	1.3%
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		Interests as at the Latest Practicable Date		Interests immediately following Admission <sup>(1)</sup>	
		Number of Existing Melrose Shares	Percentage of issued share capital	Number of Melrose Shares	Percentage of issued share capital
		<b>Chairman</b>			
	Christopher Miller . . . . .	30,182,696	1.6%	30,182,696	0.7%
<b>Vice-Chairman</b>					
	David Roper . . . . .	15,730,130	0.8%	15,730,130	0.3%
<b>Executive Directors</b>					
	Simon Peckham . . . . .	17,313,210	0.9%	17,313,210	0.4%
	Geoffrey Martin . . . . .	7,400,256	0.4%	7,400,256	0.2%
<b>Non-executive Directors</b>					
	Justin Dowley . . . . .	1,065,661	0.1%	1,065,661	0.0%
	Elizabeth Hewitt . . . . .	120,877	0.0%	120,877	0.0%
	David Lis . . . . .	433,947	0.0%	433,947	0.0%
	Archie G. Kane . . . . .	0	0.0%	0	0.0%
	Note:				
	(1) Assuming Melrose acquires the entire issued and to be issued share capital of GKN and the maximum number of New Melrose Shares are issued.				
	(2) None of the Directors are a GKN Shareholder.				
	* Does not include 2017 Incentive Shares held by Christopher Miller, David Roper, Simon Peckham and Geoffrey Martin details of which are set out below.				
				<b>Number of 2017 Incentive Shares held at Latest Practicable Date</b>	
	<b>Directors</b>				
	Christopher Miller . . . . .				2,583
	David Roper . . . . .				2,583
	Simon Peckham . . . . .				2,833
	Geoffrey Martin . . . . .				2,833
	None of the Melrose Shareholders referred to above has now, or will following Admission have, different voting rights from any other holder of Melrose Shares in respect of any Melrose Shares held by them.				
	As at the Latest Practicable Date, Melrose is not aware of any person or persons who directly or indirectly, acting jointly with others or acting alone, exercised or could exercise control over Melrose.				
B.7	<b>Selected historical financial information</b>	<b>The Melrose Group</b>			
		Selected historical financial information which summarises the financial results and financial condition of the Melrose Group for the three financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 and for the six months ended 30 June 2017 and 30 June 2016 prepared in accordance with IFRS as adopted by the EU, is set out in the following tables.			
		Information provided for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 is audited and information for the six months ended 30 June 2017 (and comparative information for the six months ended 30 June 2016) is unaudited.			
		Information provided for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 has been extracted without material adjustment from the Melrose 2016 Annual Report, the Melrose 2015 Annual Report and the Old Melrose 2014 Annual Report, respectively. Information provided for the six months ended 30 June 2017 and 30 June 2016 has been extracted without material adjustment from the Melrose 2017 Interim Results and the Melrose 2016 Interim Results respectively.			

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As disclosed in note 1 to the Melrose Group's audited consolidated financial statements for the year ended 31 December 2015, the comparative figures for the year ended 31 December 2014 have been restated to include the results of the Elster Group and Prelok within discontinued operations. The balance sheet for the year ended 31 December 2014 has been restated to reflect the completion of the acquisition accounting of Eclipse, Inc. and to reflect the new parent company of the Melrose Group. Accordingly, the restated financial information for the year ended 31 December 2014 has been extracted without adjustment from the unaudited, restated comparatives included in the audited consolidated financial statements for the year ended 31 December 2015.

On 31 August 2016, the Melrose Group completed the acquisition of Nortek. The results of the Nortek Group are included in the audited consolidated financial statements of Melrose for the year ended 31 December 2016 for the four month period from the date of acquisition to 31 December 2016.

### Condensed consolidated income statement

	Six months ended 30 June		Year ended 31 December			
	2017	2016	2016	2015	2014 <sup>(1)</sup>	2014
	£m	£m	£m	£m	£m	£m
	<b>Unaudited</b>				<b>Unaudited</b>	
<b>Revenue</b> . . . . .	1,085.6	104.7	889.3	261.1	324.3	1,377.5
Gross profit . . . . .	342.5	30.3	263.3	82.1	107.7	502.5
Operating profit/(loss) . . . . .	57.9	(9.5)	(61.6)	4.8	37.0	162.4
Profit/(loss) before tax . . . . .	47.8	(9.2)	(69.3)	(30.7)	12.5	128.9
Profit/(loss) for the year from continuing operations . . . . .	38.2	(8.8)	(39.0)	(16.3)	8.2	87.1
Profit for the year from discontinued operations . . . . .	—	—	—	1,424.3	186.5	107.6
Profit/(loss) for the year . . . . .	38.2	(8.8)	(39.0)	1,408.0	194.7	194.7
<b>Earnings per share</b>						
From continuing operations:						
Basic . . . . .	2.0p	(0.6)p	(2.6)p <sup>(2)</sup>	(0.3)p <sup>(2)</sup>	0.8p	7.9p
Diluted . . . . .	2.0p	(0.6)p	(2.6)p <sup>(2)</sup>	(0.3)p <sup>(2)</sup>	0.7p	7.8p
<b>Underlying results</b>						
Underlying operating profit . . . . .	141.2	5.9	104.1	24.8		
Underlying profit before tax . . . . .	131.1	6.2	96.4	2.4		
Underlying profit / (loss) after tax . . . . .	95.3	4.9	70.4	(1.4)		
Underlying diluted earnings per share—continuing . . . . .	4.9p	0.3p	4.4p	Nil p		

Notes:

- (1) Restated to include the results of the Elster Group and Prelok within discontinued operations.
- (2) Pursuant to the 2016 Rights Issue on 24 August 2016, 1,741.6 million new Ordinary Shares were issued by the Company to part fund the acquisition of the Nortek Group. In accordance with IAS 33, a bonus factor associated with the issue of the new share capital of 18.8491% has been applied to the number of Ordinary Shares for the financial years ended 31 December 2016 and 2015 for the purposes of earnings per share calculations.

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### Condensed consolidated balance sheet

	Six months ended 30 June		Year ended 31 December 2016 <sup>(1)</sup>	Year ended 31 December			
	2017	2016		2016	2015	2014 <sup>(2)</sup>	2014
	£m	£m	£m	£m	£m	£m	£m
	<b>Unaudited</b>				<b>Unaudited</b>		
Non-current assets . . .	2,743.9	431.9	2,941.2	2,998.6	412.7	2,685.7	2,689.9
Current assets . . . . .	741.9	186.1	707.8	709.0	2,576.1	498.4	498.4
<b>Total assets . . . . .</b>	<b>3,485.8</b>	<b>618.0</b>	<b>3,649.0</b>	<b>3,707.6</b>	<b>2,988.8</b>	<b>3,184.1</b>	<b>3,188.3</b>
Current Liabilities . . .	517.3	95.8	583.6	579.4	88.0	452.0	452.0
Non-current liabilities	983.7	47.5	902.6	965.4	55.4	1,158.4	1,162.6
<b>Total liabilities . . . . .</b>	<b>1,501.0</b>	<b>143.3</b>	<b>1,486.2</b>	<b>1,544.8</b>	<b>143.4</b>	<b>1,610.4</b>	<b>1,614.6</b>
<b>Net assets . . . . .</b>	<b>1,984.8</b>	<b>474.7</b>	<b>2,162.8</b>	<b>2,162.8</b>	<b>2,845.4</b>	<b>1,573.7</b>	<b>1,573.7</b>

Note:

(1) Restated to reflect completion of the acquisition accounting for Nortek.

(2) Restated to reflect completion of the acquisition accounting for Eclipse and the new parent company.

### Condensed consolidated statement of cash flows

	Six months ended 30 June		Year ended 31 December			
	2017	2016	2016	2015	2014	2014
	£m	£m	£m	£m	£m	£m
	<b>Unaudited</b>				<b>Unaudited</b>	
Net cash from operating activities . . . . .	(99.1)	(8.1)	50.6	31.4	116.5	116.5
Net cash from investing activities . . . . .	(20.5)	(0.7)	(1,135.1)	3,215.9	210.8	210.8
Net cash used in financing activities . . . . .	119.9	(2,392.3)	(1,328.2)	(876.1)	(456.4)	(456.4)
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>0.3</b>	<b>(2,401.1)</b>	<b>(2,412.7)</b>	<b>2,371.2</b>	<b>(129.1)</b>	<b>(129.1)</b>

Set out below are details of significant changes in the financial condition and operating results of the Melrose Group during the period covered by the audited annual reports and accounts for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 and the period covered by the unaudited interim account for the six months ended 30 June 2017.

In the year ended 31 December 2014, the Melrose Group achieved a notable increase in underlying operating profit of 11 per cent on flat revenue for its continuing businesses. The Elster Group performed very strongly with a underlying operating profit increase of 14 per cent achieved on the back of a 1 per cent increase in revenue. All three businesses within the Elster Group achieved large gains in underlying operating profit as the Melrose Group continued with its programme of efficiency improvements. Brush experienced a small decline in revenue and underlying operating profit of 3 per cent and 7 per cent, respectively, as it continued to face a challenging market, particularly in new-build generators. Overall, movements in exchange rates in 2014 caused a headwind to profits of around 8 per cent. During the year, the Melrose Group completed the disposal of Bridon for £365 million and the acquisition of Eclipse Inc. (which forms part of the Elster Group) for £98 million.

In the year ended 31 December 2015, results were impacted by the disposal of the Elster Group on 29 December 2015, for cash consideration of £3.3 billion. The revenue and underlying operating profit in continuing

## Section B—Issuer

operations consist only of the Brush business and Melrose central costs. However, in accordance with IFRS 5, the finance charges shown in continuing operations include the interest on the debt which was used to finance the Elster Group. As a consequence, below operating profit, the statutory results are not fully reflective of the underlying performance of the Melrose Group. Melrose's remaining business, Brush, faced a challenging year, again particularly for new-build generators, with the already soft market being made significantly worse by the dramatic fall in oil prices affecting the upstream oil and gas sector. Revenue from the Brush businesses for the year decreased by 17 per cent to £261.1 million and underlying operating profit decreased by 38 per cent to £38.5 million, both calculated at constant currency.

In the year ended 31 December 2016, results were impacted by the acquisition of Nortek. Nortek was acquired by the Melrose Group in August 2016 for a total enterprise value of £2.2 billion, financed through a rights issue (£1.6 billion) and new debt facilities (£0.6 billion). In the same year, Melrose also returned £2.4 billion to shareholders following the sale of Elster in December 2015. As a result of the Nortek acquisition, the Melrose Group reported revenue of £889 million and underlying profit before tax of £96.4 million. Nortek has responded well to Melrose ownership and has materially outperformed expectations in the short period since acquisition. During the four months of Melrose ownership from 31 August 2016 to 31 December 2016, Nortek achieved an increase in underlying profit of 35 per cent in comparison to the same four month period in the year ended 31 December 2015. Brush experienced adverse trading headwinds and management continued to take appropriate action.

On 30 June 2017, being the date to which the interim unaudited financial results of the Melrose Group were published for the six months ended 30 June 2017, Nortek achieved a record first half performance with an underlying operating profit of £145.5 million and underlying operating margin of 14.7%. Brush experienced its toughest market conditions since Melrose acquired it in 2008 and all parts of the business remained under review. Net Melrose Group debt was £669.1 million.

Since 30 June 2017, being the date to which the interim unaudited financial results of the Melrose Group were published for the six months ended 30 June 2017, Melrose's trading has been in line with expectations. Consistent with the commentary given in the trading update on 21 November 2017, Nortek continues to improve its performance and the power generation market remains difficult for Brush.

Other than as described above in the trading statement released on 1 February 2018, there have been no significant changes in the financial condition and operating results of the Melrose Group in the period covered by the audited annual reports and accounts for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 and the period covered by the unaudited interim account for the six months ended 30 June 2017 to the Latest Practicable Date.

### **The Nortek Group**

The selected financial information set out below has been extracted without material adjustment from the historical financial information of the Nortek Group for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014, prepared under IFRS using policies which are consistent with those used in preparing the Melrose Group's historical financial information and covered by the accountant's report thereon, which

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was prepared in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom.

### Condensed consolidated income statement

	For the year ended 31 December		
	2016	2015	2014
	\$m	\$m	\$m
Revenue . . . . .	2,480.7	2,526.1	2,546.1
Gross profit . . . . .	<b>676.9</b>	<b>756.2</b>	<b>757.2</b>
Operating (loss) / profit . . . . .	(168.7)	93.8	40.7
<b>Headline<sup>(1)</sup> operating profit</b> . . . . .	<b>241.0</b>	<b>220.1</b>	<b>220.4</b>
Underlying <sup>(2)</sup> operating profit			
Loss before tax . . . . .	(306.3)	(21.8)	(71.4)
<b>Loss for the year</b> . . . . .	<b>(195.1)</b>	<b>(22.9)</b>	<b>(51.8)</b>

Notes:

(1) Underlying operating profit excludes items which are significant in size or volatility or by nature are non-trading or non-recurring, or any item released to the Income Statement that was previously a fair value item booked on acquisition. These items include acquisition and disposal costs, restructuring and transformation charges, which include the losses incurred within closed businesses in the year of closure, and amortisation of intangible assets acquired in business combinations.

(2) Per share financial information not reported as Nortek was part of Melrose group at 31 December 2016

### Condensed consolidated balance sheet

	As at 31 December 2016
	\$m
Total current assets . . . . .	739.0
Total property and equipment, net . . . . .	166.7
Other assets . . . . .	1,104.7
<b>Total assets</b> . . . . .	<b>2,010.4</b>
Total current liabilities . . . . .	575.0
Other liabilities . . . . .	192.4
Notes, mortgage notes and obligations payable, less current maturities . . . . .	746.5
Total stockholders' investment . . . . .	496.5
<b>Total liabilities and stockholders' investment</b> . . . . .	<b>2,010.4</b>

	As at 31 December		
	2016	2015	2014
	\$m	\$m	\$m
Non-current assets . . . . .	1,271.4	1,359.1	1,368.9
Current assets . . . . .	739.0	767.9	793.9
<b>Total assets</b> . . . . .	<b>2,010.4</b>	<b>2,127.0</b>	<b>2,162.8</b>
Non-current liabilities . . . . .	938.9	1,594.2	1,577.2
Current liabilities . . . . .	575.0	515.6	542.0
<b>Total equity</b> . . . . .	<b>496.5</b>	<b>2,109.8</b>	<b>2,119.2</b>
<b>Net assets</b> . . . . .	<b>496.5</b>	<b>17.2</b>	<b>43.6</b>

### GKN Group

Selected historical financial information which summarises the financial results and financial condition of the GKN Group for the three financial

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years ended 31 December 2016, 31 December 2015 and 31 December 2014 and for the six months ended 30 June 2017 and 30 June 2016 prepared in accordance with IFRS as adopted by the EU, is set out in the following tables.

Information provided for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 is audited and information for the six months ended 30 June 2017 (and comparative information for the six months ended 30 June 2016) is unaudited.

Information provided for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 has been extracted without material adjustment from the GKN 2016 Annual Report, the GKN 2015 Annual Report and the GKN 2014 Annual Report, respectively. Information provided for the six months ended 30 June 2017 and 30 June 2016 has been extracted without material adjustment from the GKN 2017 Interim Results and the GKN 2016 Interim Results respectively.

### GKN results for the twelve months to 31 December 2014

“This was another good performance, particularly in our automotive businesses, with GKN Driveline delivering 8% organic sales growth and an 8.1% trading margin while GKN Powder Metallurgy achieved an 11.0% margin. GKN Aerospace delivered another good result. We have continued to outperform our key markets and report good underlying financial results in spite of sterling’s strength and some end market weakness, particularly in Land Systems. Looking forward we expect 2015 to be another year of growth.”

### GKN results for the twelve months to 31 December 2015

“GKN continued to make progress in 2015 and delivered on our expectations. We performed well against our key markets, overcoming some demand weakness and demonstrating once again the strength of our businesses, strong market positions and leading technology. Highlights of the year were GKN Aerospace’s acquisition of Fokker Technologies, strong market beating growth by GKN Driveline and good margin advances by GKN Powder Metallurgy. Looking forward, we expect 2016 to be a year of good growth, helped by the contribution from Fokker.”

### GKN results for the twelve months to 31 December 2016

“This is a good set of results with GKN continuing to make underlying progress in line with our expectations. We performed well against our key markets, overcoming some demand weakness and demonstrating once again the strength of our businesses, strong market positions and leading technology. Strategically we made good progress, including smoothly integrating Fokker and completing the disposal of Stromag—evidence of our sharper focus on capital allocation towards Aerospace and Automotive markets. We expect 2017 to be another year of further growth, helped by the benefits of the actions taken in 2016 and GKN’s constant focus on continuous improvement.”

Since the financial year ended 31 December 2016, the GKN Group have made the following disclosures:

### 1<sup>st</sup> quarter trading update to 26 April 2017

*“Overall in the first quarter, the Group achieved good organic sales growth as well as continuing to benefit from currency translation, with the*

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*automotive market performing better than expected and growth in aerospace being slightly slower than planned.*

*Group trading margin has moved ahead of last year primarily due to an increase in GKN Driveline, although it and GKN Powder Metallurgy are seeing an impact from higher raw material costs. GKN Aerospace is tracking in-line with plan. Operating cash flow was similar to the equivalent period last year.”*

### GKN results for the six months to 30 June 2017

*“We made progress in the first half and are on track for the full year. We are performing well against our key markets, demonstrating once again the strength of our businesses, strong market positions and leading technology. We continue to invest for growth and have made significant progress to address our UK pension deficit.*

*Our focus on innovation in key areas such as electrified drivetrains, additive manufacturing and Industry 4.0 is paying dividends and underpins our confidence in the longer term.*

*2017 is expected to be another year of growth. Our reputation for technological leadership in our key markets, our focus on driving flexibility and productivity through our manufacturing plants and our market leading position in all three divisions mean we are well placed for the future.”*

### GKN trading update 13 October 2017—brought forward by two probable significant external claims

#### “Significant External Claims

*GKN has been made aware of two probable claims which are expected to result in a charge of around £40 million in the fourth quarter of 2017. One relates to GKN Aerospace and the other GKN Driveline. Both claims are commercially sensitive with no additional information disclosable at this time.*

#### Group Results

*Overall in the third quarter, the Group achieved good organic sales growth, with GKN Driveline continuing to outperform the market and GKN Aerospace delivering sales slightly up on the prior year.*

*Group trading margin in the third quarter was lower than the comparable period in the prior year, mainly due to programme transitions and on-going operational challenges in GKN Aerospace North America.”*

On 12 January 2018, GKN published a further announcement, an extract of which is set out below:

*“Q4 2017 trading was in line with expectations and the Group therefore continues to expect 2017 management profit before tax<sup>(1)</sup> to be slightly ahead of 2016 (which was £678 million) before the additional working capital write-off in North American Aerospace announced on 16 November 2017. The balance sheet review in North America has progressed significantly and the one time write-off and associated costs are still estimated to be between £80 million and £130 million, albeit nearer the upper end of that range. These balance sheet write-offs will be included within management profit before tax.*

(1) Financial information set out in this announcement, unless otherwise stated, is presented on a management basis which aggregates the sales and trading profit of subsidiaries with the Group’s share of the sales and trading profit of equity accounted investments.

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*As previously announced, the review of the carrying value of goodwill and other fixed assets at the year-end will produce a significant non-cash impairment charge relating to the North American Aerospace business, which, in line with our accounting policy, will be disclosed outside of management profit before tax.*

On 22 January 2018, GKN released an announcement relating to eDrive, an extract of which is set out below:

*“GKN Driveline today announces that its order book for electric driveline (eDrive) technologies hit a record £2 billion<sup>(1)</sup> by the end of last year following a series of significant programme wins with major global automakers. The order book growth underpins and extends GKN’s market-leading position in eDrive systems.*

*GKN’s success is accelerating its annual eDrive sales growth. Sales, which were previously forecast to rise from £33m in 2017 to £200m in 2020, are now expected to increase over eight-fold to £275m. In 2022, GKN forecasts that eDrive sales will reach £500m.*

*GKN’s success has been achieved through a long term commitment to Research and Development. In 2017, the Research and Development expense charged to the income statement was £36m, with total investment of over £123m over the past six years. Whilst impacting near-term financial performance, this investment is now delivering strong sales and order book growth. Through the R&D programme, GKN is rapidly bringing full systems capability to the market and is able to offer a range of solutions to meet customer demands. GKN is delivering components, sub-systems and full-systems in response to a variety of OEM needs. Building on systems integration leadership recognised by recent Automotive News PACE Awards, GKN will be adding GKN eMotors to their gear and torque management technology portfolio.*

*As at 31 December 2017, GKN’s order book relating to eDrive was £2 billion following a number of major programme wins. Amongst these are:*

- GKN’s Multimode eTransmission system is due to launch on a Chinese OEM’s platform across a number of vehicle models from 2018*
- GKN is due to supply a semi-integrated electric driveline unit from 2019 for a new vehicle launched by a premium European automaker*
- GKN has developed an integrated electric driveline system for a European OEM’s global programme that is expected to be first launched in China from next year”*

(1) Order book corresponds to cumulative business awarded by customers (including share of joint ventures) less orders fulfilled and cancellations, based on GKN’s best reasonable estimates in terms of volumes, selling prices and project lifespans.

As far as Melrose is aware, there have been no further significant disclosures by GKN since 22 January 2018, which may indicate a significant change in financial condition and operating results of GKN. The Company and its advisers have not had access to GKN’s non-public information or documentation and accordingly have been unable to perform any due diligence on such information or documentation. All information relating to GKN and the GKN Group has been sourced from publicly available information and has not been subject to comment or verification by GKN or Melrose or their respective directors.



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**Condensed consolidated income statements**

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	£m	£m	£m	£m	£m
	<b>Unaudited</b>				
<b>Revenue</b> . . . . .	4,879	4,237	8,822	7,231	6,982
Operating profit . . . . .	591	209	335	323	289
Profit before tax . . . . .	559	182	292	245	221
<b>Management results<sup>(1)</sup></b>					
Management operating profit . . . . .	436	390	773	679	687
Management profit before tax . . . . .	393	344	678	603	601
Management profit after tax . . . . .	307	268	534	470	480

Note:

(1) Presented on a GKN management basis.

**Condensed consolidated balance sheet**

	Six months ended 20 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	£m	£m	£m	£m	£m
	<b>Unaudited</b>				
Non-current assets . . .	5,373	5,268	5,442	4,702	4,143
Current assets . . . . .	3,957	3,274	3,521	2,807	2,537
<b>Total assets</b> . . . . .	<b>9,330</b>	<b>8,542</b>	<b>8,963</b>	<b>7,509</b>	<b>6,680</b>
Current liabilities . . . .	(2,625)	(2,559)	(2,669)	(2,244)	(1,906)
Non-current liabilities .	(4,159)	(4,067)	(4,132)	(3,379)	(3,273)
<b>Total liabilities</b> . . . . .	<b>( 6,784)</b>	<b>( 6,626)</b>	<b>( 6,801)</b>	<b>( 5,623)</b>	<b>( 5,179)</b>
<b>Net assets</b> . . . . .	<b>2,546</b>	<b>1,916</b>	<b>2,162</b>	<b>1,886</b>	<b>1,501</b>

**Condensed consolidated statement of cash flows**

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	£m	£m	£m	£m	£m
	<b>Unaudited</b>				
Net cash from operating activities . . . . .	368	242	666	775	658
Net cash used in investing activities . . .	(280)	(207)	(331)	(894)	(391)
Net cash from / (used in) financing activities . . . . .	171	(131)	(294)	108	(135)
<b>Net increase/(decrease) in cash and cash equivalents</b> . . . . .	<b>259</b>	<b>(96)</b>	<b>41</b>	<b>(11)</b>	<b>132</b>

B.8	<b>Selected unaudited pro forma financial information</b>	<i>Not applicable. No pro-forma information is included within this document.</i>
B.9	<b>Profit forecast or estimate</b>	<i>Not applicable. No profit forecasts or estimates remain outstanding which the Melrose Directors consider to remain valid.</i>
B.10	<b>Nature of any qualifications in</b>	<i>Not applicable. No qualifications are included in any audit report on the historical financial information included in this document.</i>

<b>Section B—Issuer</b>		
	<b>audit report on the historical financial information</b>	
B.11	<b>Working capital—qualifications</b>	<p><i>Not applicable.</i></p> <p><i>Melrose is of the opinion that the Melrose Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this document.</i></p> <p><i>Melrose is unable to undertake appropriate procedures to support a statement on the sufficiency of its working capital when taking into account the Offer because the Company does not have access to non-public information on GKN that would allow those procedures to be undertaken. If the Company is granted access by GKN before the Effective Date and access is sufficient for the purpose of making an Enlarged Group working capital statement on the basis of the Enlarged Group, Melrose will produce an updated Enlarged Group working capital statement.</i></p>

<b>Section C—Securities</b>																	
C.1	<b>Type and class of securities being admitted to trading</b>	<p>Melrose is proposing to offer up to 2,598,898,592 New Melrose Shares pursuant to the terms of the Offer.</p> <p>Following Admission, the New Melrose Shares will be registered with ISIN number GB00BZ1G4322. There will be no application for any other class of shares of Melrose to be admitted to listing or trading on any exchange.</p>															
C.2	<b>Currency of the securities in issue</b>	The New Melrose Shares are denominated in pounds sterling and are quoted and traded in pounds sterling.															
C.3	<b>Number of shares in issue and par value</b>	<p>As at the Latest Practicable Date, there are 1,941,200,503 Existing Melrose Shares of <math>\frac{48}{7}</math> pence each in the capital of Melrose in issue, each of which is fully paid.</p> <p>None of the Existing Melrose Shares are held by the Company as treasury shares.</p>															
C.4	<b>Rights of securities</b>	The New Melrose Shares will be issued credited as fully paid and will rank <i>pari passu</i> in all respects with each other and with each Existing Melrose Share and will rank in full for all dividends and other distributions declared with a record date falling after the Effective Date.															
C.5	<b>Restrictions on transfer</b>	<p><i>Not applicable. There are no restrictions on the free transferability of the New Melrose Shares set out in the constitutional documents of the Company.</i></p> <p><i>However, the distribution of this document and/or any accompanying document and/or the transfer of the Melrose Shares, through CREST or otherwise, into jurisdictions outside the United Kingdom may be restricted by law.</i></p>															
C.6	<b>Admission to trading on regulated market</b>	Applications will be made to the UKLA for the New Melrose Shares to be admitted to the Official List with a premium listing and to the London Stock Exchange for admission to trading of the New Melrose Shares on its main market for listed securities. It is currently expected that Admission of the New Melrose Shares will become effective and that dealings in the New Melrose Shares will commence on the London Stock Exchange, at 8.00 a.m. on the Effective Date (whereupon an announcement will be made by the Company to a Regulatory Information Service).															
C.7	<b>Dividend policy</b>	<p>It is the intention of the Melrose Board to maintain a dividend policy going forward which will be appropriate taking into account the size of the Enlarged Group. The Melrose Group's policy is to return surplus cash and business disposal proceeds to Melrose Shareholders.</p> <p>The table below shows the dividend per ordinary share in Melrose paid for the financial years ended 31 December 2016 and 31 December 2015, and per ordinary share in Old Melrose paid for the financial year ended 31 December 2014:</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="3" style="text-align: center; border-bottom: 1px solid black;">Year ended 31 December</th> </tr> <tr> <th style="text-align: center; border-bottom: 1px solid black;">2016</th> <th style="text-align: center; border-bottom: 1px solid black;">2015</th> <th style="text-align: center; border-bottom: 1px solid black;">2014</th> </tr> <tr> <th></th> <th style="text-align: center;">£m</th> <th style="text-align: center;">£m</th> <th style="text-align: center;">£m</th> </tr> </thead> <tbody> <tr> <td style="border-top: 1px solid black;">Dividend per share . . . . .</td> <td style="text-align: center; border-top: 1px solid black;">2.2 pence<sup>(1)</sup></td> <td style="text-align: center; border-top: 1px solid black;">1.0 pence<sup>(2)</sup></td> <td style="text-align: center; border-top: 1px solid black;">1.5 pence<sup>(2)</sup></td> </tr> </tbody> </table> <p>Note:</p> <p>(1) Includes a partial restatement for the bonus factor of 18.8 per cent related to the 2016 Rights Issue.</p> <p>(2) Adjusted by a bonus factor of 18.8 per cent related to the 2016 Rights Issue.</p>		Year ended 31 December			2016	2015	2014		£m	£m	£m	Dividend per share . . . . .	2.2 pence <sup>(1)</sup>	1.0 pence <sup>(2)</sup>	1.5 pence <sup>(2)</sup>
	Year ended 31 December																
	2016	2015	2014														
	£m	£m	£m														
Dividend per share . . . . .	2.2 pence <sup>(1)</sup>	1.0 pence <sup>(2)</sup>	1.5 pence <sup>(2)</sup>														

**Section D—Risks**

D.1	<p><b>Key risks that are specific and individual to the Melrose Group and/or GKN and/or the Enlarged Group and the industries in which they operates</b></p>	<p>The Melrose Group’s strategy carries risks including, but not limited to, the suitability of acquisition targets, costs of integration and restructuring, diversion of management from other business operations, timing of disposals, exposure to litigation or other potential liabilities, and unanticipated and unknown liabilities.</p> <p>The Melrose Group is dependent on its Directors, on certain of its businesses’ management and on a responsive workforce.</p> <p>A significant slowdown in certain industries could have a material adverse effect on the Melrose Group’s and the GKN Group’s business or financial condition.</p> <p>Owing to the geographical diversity of their operations, the Melrose Group and the GKN Group are subject to the risk of exchange rate fluctuations.</p> <p>The Melrose Group and the GKN Group are exposed to risks in relation to compliance with anti-corruption laws and regulations.</p> <p>The Melrose Group and the GKN Group are exposed to risks in relation to compliance with economic sanctions programmes.</p> <p>The Melrose Group and the GKN Group are subject to pricing pressures from customers.</p> <p>The industries in which the Melrose Group’s and the GKN Group’s businesses operate are highly competitive.</p> <p>The Melrose Group and the GKN Group may be unable to develop or commercialise technological, manufacturing or engineering advances and introduce new products in a manner and to an extent sufficient for them to remain competitive.</p> <p>The Melrose Group and the GKN Group are dependent on their respective workforce and any labour disruption and/or inability to respond effectively to customer requests could adversely affect the Melrose Group’s and the GKN Group’s business or financial condition.</p> <p>Any products sold with faults or defects may damage the strength of the Melrose Group’s and the GKN Group’s brand and/or reputation.</p> <p>Fluctuations in the cost or availability of raw materials and components could have an adverse effect on the Melrose Group and the GKN Group.</p> <p>A failure of GKN’s suppliers to adhere to high standards of technical competence may negatively impact GKN.</p> <p>GKN’s customer base is highly concentrated and a loss of major customers may negatively impact GKN.</p> <p>Ineffective programme management and performance could have material adverse effect on GKN’s business or financial condition.</p> <p>GKN’s various defined benefit pension plans are exposed to the risk of market changes.</p>
D.3	<p><b>Key risks related to the New Melrose Shares</b></p>	<p>The New Melrose Shares may not be a suitable investment for all Eligible GKN Shareholders and the value of the New Melrose Shares may fluctuate.</p> <p>Any future issue of Melrose Shares could dilute the holdings of Melrose Shareholders and could adversely affect the market price of the Melrose Shares.</p> <p>Melrose’s ability to continue to pay dividends on the Melrose Shares will depend on the availability of distributable reserves.</p>

<b>Section E—Offer</b>		
E.1	<b>Total net proceeds and estimate of total expenses</b>	<p>The Company will not receive any cash proceeds as a result of completion of the Acquisition and Admission.</p> <p>The total costs, charges and expenses payable by the Company in connection with the Acquisition are estimated to be approximately £139.5 million (exclusive of VAT and assuming that the Acquisition completes).</p> <p>No expenses will be charged by the Company to any Melrose Shareholder.</p>
E.2a	<b>Reasons for the offer, use of proceeds and estimated net amount of proceeds</b>	<p>The proposed issue of New Melrose Shares is being made in connection with the offer by Melrose for the entire issued and to be issued ordinary share capital of GKN.</p> <p>There are no proceeds (and therefore, no estimated net amount of proceeds) receivable by Melrose as a result of the issue of the New Melrose Shares.</p>
E.3	<b>Terms and conditions of the offer</b>	<p>On 17 January 2018, the Melrose Board announced the terms of a firm offer to acquire the entire issued and to be issued share capital of GKN. Under the terms of the Offer, for each GKN Share held, GKN Shareholders will be entitled to receive 1.49 New Melrose Shares and 81 pence in cash.</p> <p>It is intended that the Acquisition will be implemented by way of a takeover offer within the meaning of the Companies Act. However, Melrose reserves the right to elect, with the consent of the Panel (where necessary), to implement the Acquisition by way of a Court-sanctioned scheme of arrangement in accordance with Part 26 of the Companies Act.</p> <p>As a result of its size, the Acquisition is classified as a Class 1 transaction for Melrose for the purposes of the Listing Rules. Accordingly, Melrose will be required to seek the approval of Melrose Shareholders for the Acquisition at the General Meeting. The Acquisition will also be conditional on Melrose Shareholders granting authority at the General Meeting to the Melrose Directors to allot and issue the New Melrose Shares to GKN Shareholders. The Offer is subject to other Conditions, including in respect of various anti-trust and regulatory clearances, details of which are set out in full in the Offer Document.</p> <p>The New Melrose Shares will, when issued and fully paid, rank <i>pari passu</i> in all respects with each other and with each Existing Melrose Share, including the right to receive all dividends or other distributions declared with a record date falling after the Effective Date. Applications will be made to the UKLA and to the London Stock Exchange for the New Melrose Shares to be admitted to the Official List with a premium listing and to trading on the London Stock Exchange's main market for listed securities, respectively.</p> <p>Fractions of New Melrose Shares will not be allotted to GKN Shareholders but will be aggregated and sold in the market. The net proceeds of such sale will then be paid in cash to the relevant GKN Shareholder in accordance with their fractional entitlements. Individual entitlements, however, of less than £5.00 will not be paid but will be donated to charity.</p> <p>The offer of New Melrose Shares to persons resident in, or who are citizens of, or who have a registered address in countries other than, the United Kingdom may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to accept the Offer.</p>

<b>Section E—Offer</b>		
E.4	<b>Material Interests</b>	<i>Not applicable. There are no interests, including conflicting interests, known to Melrose, which are material to the issue of the New Melrose Shares or which are conflicting interests.</i>
E.5	<b>Selling Shareholders and Lock-up agreements</b>	<i>Not applicable. The Offer comprises an offer of New Melrose Shares to be issued by the Company.</i>
E.6	<b>Dilution</b>	Assuming the issue of 2,598,898,592 New Melrose Shares pursuant to the terms of the Offer, no other issues of Melrose Shares between the Latest Practicable Date and Admission and no buybacks of Melrose Shares between the Latest Practicable Date and Admission, the Existing Melrose Shares will represent 43% (on a fully diluted basis) of the total issued Melrose Shares immediately following Admission.
E.7	<b>Estimated expenses charged to the investor</b>	<i>Not applicable. No expenses will be charged to investors of the Company.</i>

## PART II

### RISK FACTORS

*A number of factors affect the operating results, financial condition and prospects of the Melrose Group and, if the Acquisition is completed, will affect the Enlarged Group. This section describes the risk factors which are considered by Melrose to be material in relation to the Melrose Group and, if the Acquisition is completed, which will be material in relation to the Enlarged Group. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to Melrose, or which Melrose currently deems immaterial may also have an adverse effect on the Enlarged Group's operating results, financial condition and prospects. The risks and uncertainties described below are not set out in any order of priority.*

*Prospective investors should further note that the risks relating to the Melrose Group, the industries in which it operates and the New Melrose Shares summarised in Part I (Summary) of this document are the risks that Melrose believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the New Melrose Shares. However, as the risks which the Melrose Group and, if the Acquisition is completed, the Enlarged Group face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in Part I (Summary) of this document, but also, the risks and uncertainties described below, together with all other information contained in this document and the information incorporated by reference herein, before making any investment decision.*

*The Melrose Group and its advisers have not had access to GKN's information or documentation and have been unable to perform any due diligence on such information or documentation. The information in relation to the GKN Group has been sourced from publicly available information and has not been subject to comment or verification by GKN or the relevant member of the GKN Group or the Melrose Group or their respective directors. Nothing in this risk factor limits or qualifies the issuer or the directors' responsibility under Prospectus Rule 5.5 or Part 6 FSMA.*

#### **PART A: Risks relating to the Melrose Group**

##### **1. The Melrose Group's strategy carries risks**

The acquisitions and divestments engaged in, and to be engaged in, by Melrose as part of its business model can involve significant risks, including:

- limited availability of suitable acquisition targets;
- integration and restructuring costs;
- diversion of the Melrose Board's attention from ongoing business operations;
- failing to achieve the anticipated benefits of, or expected trading results from, acquired businesses;
- the timing of disposals and the ability to achieve attractive valuations;
- exposure to litigation or other potential liabilities including, but not limited to, environmental liabilities related to entities that the Melrose Group acquires or divests; and
- unanticipated and unknown liabilities.

Before an acquisition is made, the Melrose Group conducts due diligence it deems reasonable and appropriate based on the facts and circumstances applicable to each acquisition. When conducting due diligence and making an assessment regarding an acquisition, the Melrose Group will be required to rely on resources available to it, including information provided by the target of the acquisition and, in some circumstances, due diligence conducted by third parties. There can be no assurance that due diligence investigations with respect to any investment opportunity will reveal or highlight all relevant facts and circumstances that may be necessary or helpful in evaluating such opportunity. In making acquisitions, there is a risk of unforeseen liabilities being discovered which are not known at the time of the due diligence process but which arose in the business before it was acquired. Any failure by the Melrose Group to identify relevant facts and circumstances through the due diligence process could have a material adverse effect on the Melrose Group's results of operations, business and financial condition.

The success of the Melrose Group's acquisition strategy depends on identifying available and suitable targets, obtaining any consents or authorisations required to carry out an acquisition and procuring the necessary financing, be this from equity, debt or a combination of the two. In making acquisitions, there is a risk of

unforeseen liabilities being discovered later which were not uncovered or known at the time of the due diligence process. Further, as per the Melrose Group's strategy to buy and improve good but under-performing manufacturing businesses, once an acquisition is completed, there are risks that the Melrose Group will not succeed in driving strategic operational improvements to achieve the expected post-acquisition trading results or value which were originally anticipated, that the acquired products and technologies may not be successful or that the business may require significantly greater resources and investment than anticipated. If anticipated benefits are not realised or trading by acquired businesses falls below expectations, it may be necessary to impair the carrying value of these assets. The Melrose Group's return on shareholder investment may fall if acquisition hurdle rates are not met. The Melrose Group's financial performance may suffer from goodwill or other acquisition-related impairment charges, or from the identification of additional liabilities not known at the time of the acquisition.

In line with Melrose's strategy and depending where the Melrose Group is within the "buy, improve, sell" cycle, choosing the appropriate timing of any disposal of businesses is considered as a principal risk which could have a material impact on the returns of the Melrose Group.

## **2. The Melrose Group's future financial performance and success largely depend on its ability to implement its business strategies successfully**

The Melrose Group's ability to implement its business strategies depends on, among other things, its ability to divest businesses or discontinue product lines on favourable terms and with minimal disruptions, finance its operations and product development activities, maintain high quality and efficient manufacturing operations, relocate and close certain manufacturing facilities with minimal disruption to its operations, respond to competitive and regulatory changes, access quality raw materials in a cost effective and timely manner, and retain and attract highly skilled technical, managerial, marketing and finance personnel. Any failure to develop, revise or implement its business strategies in a timely and effective manner could have a material adverse effect on the Melrose Group's results of operations, business and financial condition.

The Melrose Board has significant experience. However, it may not be able to successfully implement its business strategies or those to be developed by management, and implementing these strategies may not sustain or improve, and could even harm, its results of operations in targeted sectors. The Melrose Group may be unable to realise the anticipated benefits and cost reductions of its business strategies. The Melrose Group's business strategies are based on assumptions about future demand for its businesses' current products and the new products and applications it is developing, as well as on its continuing ability to produce its businesses' products profitably.

## **3. An impairment of goodwill or other intangible assets could adversely affect the Melrose Group's financial condition and results of operation**

Under IFRS, goodwill and intangible assets with indefinite lives are not amortised but are tested for impairment annually or more often if an event or circumstance indicates that an impairment loss may have been incurred. Other intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives and reviewed for impairment whenever there is an indication of impairment. In particular if the combination of businesses meets with unexpected difficulties, or if the business of the Melrose Group does not develop as expected, impairment charges may be incurred in the future which could be significant and which could have an adverse effect on the Melrose Group's financial condition.

The Melrose Group has significant intangible assets, long-lived assets, goodwill and deferred tax assets that are susceptible to valuation adjustments as a result of changes in various factors or conditions. The Melrose Group assesses impairment of amortisable intangible and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, many asset classes are subject to impairment consideration on a periodic basis under applicable accounting rules. Factors that could trigger an impairment of such assets include the following:

- a significant underperformance relative to historical or projected future operating results;
- significant changes in the nature of or use of the acquired assets or the strategy for its overall business;
- significant negative industry or general economic trends;
- changes in the Melrose Group's organisation or management reporting structure could result in additional reporting units, which may require alternative methods of estimating fair values or greater aggregation or disaggregation in the Melrose Group's analysis by reporting unit;



- a sustained decline in its market capitalisation below net book value; and
- the harmonisation of company trademarks throughout the Melrose Group.

The Melrose Group assesses the potential impairment of goodwill and other intangible assets as of 31 December of each year. It also assesses the potential impairment of goodwill and other intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Adverse changes in operations or other unforeseeable factors could result in an impairment charge to the Melrose Group's investment assets in future periods that would impact the amount of reserves available to the Melrose Group.

The realisation of the Melrose Group's deferred tax assets related to net operating loss carry-forwards is supported by projections of future profitability. The Melrose Group provides a valuation allowance based on estimates of future taxable income in the respective taxing jurisdiction and the amount of deferred taxes that are expected to be realisable. If future taxable income is different from what is expected, the Melrose Group may not be able to realise some or all of the tax benefit, which may, in turn, have a material and adverse effect on the Melrose Group's results of operations, business and financial condition.

**4. Through its Air Management business, the Melrose Group's business is dependent upon the levels of remodelling and replacement activity and new construction activity, which may be cyclical or seasonal, and have been negatively impacted by the economic downturn and the instability of the credit markets**

Critical factors affecting the Melrose Group's future performance, including its level of sales, profitability and cash flows, are the levels of residential and non-residential remodelling, replacement and construction activity. The level of new residential and non-residential construction activity and, to a lesser extent, the level of residential remodelling and replacement activity are affected by seasonality and cyclical factors such as interest rates, inflation, consumer spending, employment levels and other macroeconomic factors, over which the Melrose Group has no control. Any decline in economic activity as a result of these or other factors typically results in a decline in new construction and, to a lesser extent, residential remodelling and replacement purchases, which would result in a decrease in the Melrose Group's sales, profitability and cash flows. Instability in the credit and financial markets, troubles in the mortgage market, the level of unemployment and the decline in home values could have a negative impact on residential new construction activity, consumer disposable income and spending on home remodelling and repair expenditures. These factors could have an adverse effect on the Melrose Group's operating results.

The demand for the Melrose Group's Air Management products is seasonal, particularly in the Northeast and Midwest regions of the United States where inclement weather during the winter months usually reduces the level of building and remodelling activity in both the home improvement and new construction markets. The Air Management division's lower sales levels usually occur during the first and fourth quarters. Furthermore, any operational challenges during the traditional buying periods may impact annual sales disproportionately.

Further, the demand for the Melrose Group's Air Management products may be adversely affected by unseasonably warm weather in the months of November to February and unseasonably cool weather in the months of May to August, which has the effect of diminishing customer demand for heating and air conditioning products. Accordingly, the Melrose Group's results of operations and cash flows will be negatively impacted in quarters with lower sales due to weather fluctuations.

Since a high percentage of such division's manufacturing overhead and operating expenses are relatively fixed throughout the year, operating income and net earnings tend to be lower in quarters with lower sales levels.

**5. The competitors of the Melrose Group's businesses have substantially greater resources and the Melrose Group, through its Nortek business, faces competitive risks that may negatively impact its business**

The Melrose Group's Air Management division competes with many domestic and international suppliers in various markets. They compete with suppliers of competitive products primarily on the basis of quality, distribution, delivery and price and, in relation to custom solutions, primarily on the basis of engineering support, quality, design and construction flexibility, and total installed system cost. Some of the Melrose Group's competitors in these markets have greater financial and marketing resources, and the products of certain of the Melrose Group's competitors may enjoy greater brand awareness than the products of the Melrose Group's Air Management division.

The Melrose Group's Security and Smart Technology and Ergonomics divisions compete with many domestic and international suppliers in various markets. They compete with suppliers of competitive products primarily on the basis of product innovation, quality, delivery and price. Some of the Melrose Group's competitors in these markets have greater financial and marketing resources than those of the Melrose Group.

Competitive factors could require the Melrose Group to reduce prices or increase spending on product development, marketing and sales, either of which could adversely affect its operating results.

#### **6. The Melrose Group must continue to innovate and improve its products to maintain its competitive advantage**

The Melrose Group's ability to maintain and grow its market share depends in part on its ability to continue to develop high quality, innovative products. In addition, certain of the Melrose Group's products must be designed and manufactured to meet various regulatory standards. The Melrose Group must continue to modify regulated products to meet applicable standards as such standards develop and become more stringent over time. The Melrose Group cannot make assurances that its investments in product innovation and technological development will be sufficient or that it will be able to create and market new products to enable it to successfully compete with new products or technologies developed by its competitors or to meet heightened regulatory requirements in the future.

#### **7. The Melrose Group is subject to pricing pressures from customers**

The Melrose Group faces pricing pressures in certain business segments from its larger customers. Because of their purchasing size, the Melrose Group's larger customers can influence market participants to compete on price terms. If the Melrose Group is not able to offset price reductions resulting from these pressures by improved operating efficiencies and reduced expenditures, those price reductions may have an adverse impact on its results of operations, business and financial condition.

In an attempt to increase efficiency, some of the Melrose Group's customers may seek to reduce the number of vendors from whom they purchase products and services, particularly as vendors increase the breadth of the products and solutions they offer. If the Melrose Group is not selected as a preferred provider to such vendors, it may lose access to certain sections of the markets in which it competes or wishes to compete. Failure to maintain access to important sections of the market could have a material adverse effect on the Melrose Group's results of operations, business and financial condition. Even if the Melrose Group is selected as a preferred provider, increased competition may still have an impact on the agreements customers are willing to enter into. As a result, the terms and conditions of agreements with customers may be substantially more restrictive or carry a greater risk of liability than the terms and conditions associated with the Melrose Group's standard products and services.

#### **8. Any shortfall in the Melrose Group's pension schemes may require additional funding, notwithstanding the Melrose Group's strong track record with respect to the Melrose Group's pension schemes**

The Melrose Group sponsors defined benefit plans for qualifying employees of certain subsidiaries. The most significantly funded defined benefit pension plans in the Melrose Group are: the Brush Group (2013) Pension Scheme (the "**Brush UK Plan**"), the Brush Aftermarket North America, Inc. Group Pension Plan (formerly the FKI US Plan) (the "**FKI US Plan**") and the Nortek, Inc. (Nortek US) Retirement plan (together with the Eaton-Williams Group Pension and Assurance Scheme in the UK and a number of small funded defined arrangements across Europe, the "**Nortek Plans**").

All of the defined benefit plans are closed both to new members' and to current members' future service. As at 30 June 2017, the Brush UK Plan had a net surplus of £16.9 million on an accounting basis, the FKI US Plan had a deficit of £6.8 million and the Nortek Plans had a deficit of £32.3 million. Changes in discount rates, inflation, asset values or mortality assumptions could lead to a materially higher deficit. For example, the cost of a buyout on a discontinued basis uses more conservative assumptions and is likely to be significantly higher than the accounting deficit. Alternatively, if the plans are managed on an ongoing basis, there is a risk that the plans' assets, such as investments in equity and debt securities, will not be sufficient to cover the value of the retirement benefits to be provided under the plans. The implications of a higher pension deficit include a direct impact on valuation, credit rating and potential additional funding requirements at subsequent triennial reviews. In the event of a major disposal that generates significant cash proceeds which are returned to the shareholders, the Melrose Group may be required to make additional cash payments to the plans or provide additional security.

The Melrose Group monitors its pension strategy on an ongoing basis. A decline in pension asset values, different actuarial assumptions, the application of purchase accounting and/or changes in discount rates, inflation or mortality assumptions may result in an increase in pension liability. Annual contributions to the Melrose Group's defined benefit pension plans are expected to be approximately £5 million in the year ending 31 December 2017. A lowering of interest rates or the market value of the securities held by the plans, or certain other changes, could adversely affect the status of the Melrose Group's plans and affect the level and timing of required contributions. Any permanent shortfall in the Melrose Group retirement pension benefit scheme funding obligations would require additional cash funding. However, it is expected that any additional cash contributions required would be structured over a sensible period of time, such that there is no material impact on cash contributions in the next twelve months.

**9. Uncertainty in worldwide financial markets may lead customers to demand guarantees or bonds covering a larger portion of contracts with the Melrose Group or require the Melrose Group to maintain larger amounts of inventory**

Some of the Melrose Group's customers and potential customers ask for credit and/or performance guarantees, including payment and advance payment guarantees and performance guarantees, or credit and/or performance bonds, from the Melrose Group in each case to cover portions of their potential contract volumes. They may also or alternatively ask the Melrose Group to maintain a certain level of inventory. The experience of uncertainty in worldwide financial markets may lead customers to demand guarantees or bonds covering a larger portion of these contracts or for the Melrose Group to maintain larger amounts of inventory, while at the same time making it more difficult for the Melrose Group to obtain favourable terms on the credit necessary to fulfil these demands. If it is unable to obtain the necessary guarantees or bonds, or maintain or finance the necessary level of inventory, the Melrose Group may fail to win these contracts, which could have a material adverse effect on the Melrose Group's business and financial condition.

**10. The terms on which the United Kingdom will leave the European Union may have a negative effect on economic conditions, financial markets and the Melrose business**

On 23 June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The government of the United Kingdom formally initiated a withdrawal process on 29 March 2017. The terms of the withdrawal are subject to a negotiation period that could last two or more years.

The anticipated withdrawal from the European Union has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union-derived laws to replace or replicate. It has also led to uncertainty regarding the future trading arrangements between the United Kingdom and the rest of the world and regarding the economic effects of the withdrawal on the United Kingdom.

Additionally, as a result of the uncertainty of the terms on which the United Kingdom will leave the European Union, the British pound sterling experienced a depreciation against a range of currencies, including the Euro and the US Dollar. Currency fluctuations have materially increased since the national referendum to withdraw from the European Union. For the period following the acquisition of the Nortek Group to 31 December 2016, approximately 81 per cent of the Melrose Group's revenues were denominated in US Dollars and so the translation of these revenues into pounds sterling for reporting purposes has had a beneficial effect. However, the majority of the Melrose Group's cost of sales, and a large proportion of its operation expenses, are also denominated in US Dollars. Whilst a stronger US Dollar has, to a limited degree, helped overall gross margin in absolute terms when reported in pounds sterling, it has also had the effect of reducing gross margin percentage in instances where US Dollar costs have risen disproportionately to revenues denominated in weaker currencies.

Any of the above factors could depress economic activity and restrict or increase the cost of Melrose's access to capital, which could have a material adverse effect on Melrose's business, financial condition, prospects, and/or results of operations.

## **PART B: Risks relating to GKN and the Enlarged Group**

*On the Effective Date, GKN will become part of the Enlarged Group. Therefore those risk factors below that are currently specific to GKN will become applicable to the Enlarged Group from the Effective Date. Please note that each risk factor set out in this Part B has been extracted without material adjustment from the GKN 2016 Annual Report and/or GKN's £2,000,000,000 Euro Medium Term Note Programme base prospectus dated 24 April 2017 and accordingly has not been subject to comment or verification by Melrose or its Directors.*

### **1. Failure of GKN's suppliers to adhere to high standards of technical competence may negatively impact GKN**

*GKN's suppliers are key to its business. GKN relies on its suppliers and subcontractors to deliver high standards of technical competence, innovation, product quality, reliability, delivery performance, cost, financial stability, safety, ethics and social responsibility. GKN's supply chain network is exposed to potentially adverse events such as physical disruptions, environmental and industrial accidents, scarcity of supply and the insolvency of a key supplier, any of which could impact its ability to deliver orders to its customers. The cost of GKN's products can be significantly affected by the cost of the underlying commodities and materials from which they are made. Fluctuations in these costs cannot always be passed on to GKN's customers. A sustained supply chain disruption, or the delivery of a defective product to GKN, could impact its ability to meet customer requirements, result in additional contractual liabilities and have a consequential impact on financial performance.*

### **2. GKN operates in highly competitive markets with customer decisions typically based on price, quality, technology and service**

*GKN operates in highly competitive markets with customer decisions typically based on price, quality, technology and service. GKN's contracts for major programmes are subject to highly competitive bidding processes and the strength of its competitors and general market conditions continue to drive pricing pressure and challenging contractual terms. GKN's margins may come under pressure if competition increases or as a result of customer actions. An inability or delay in developing or maintaining sufficient or appropriate engineering and manufacturing capabilities in GKN's markets could further increase the risk. Customer vertical integration (including OEMs taking production in-house), the entry of new competitors, and the consolidation of existing competitors also contribute to increased competition. Competition risk, if not addressed, could result in reduced sales and profit margins and potentially lost growth opportunities. An inability to secure new business awards on major programmes could significantly impact GKN's future growth, cash flow and profitability.*

### **3. GKN's customer base is highly concentrated and a loss of major customers may negatively impact GKN**

*There is significant customer concentration in the automotive and aerospace industries and a large portion of GKN's revenues comes from a relatively small number of customers. Around 50% of GKN's sales are derived from its top ten customers. The insolvency of, damage to relations with, or significant worsening of commercial terms with, a major customer could seriously affect GKN's future results, and could result in loss of market share and future business opportunities, asset write-offs and restructuring actions.*

### **4. Product quality is key to GKN's business and GKN may be exposed to warranty, product recall and liability claims in the event that our products fail to perform as expected**

*Maintaining a high level of product quality and safety is essential to GKN's business. GKN is exposed to warranty, product recall and liability claims in the event that its products fail to perform as expected. The automotive industry has, in recent times, experienced higher levels of recalls in recent years and the OEMs often seek contributions from throughout the supply chain. This risk increases where:*

- vehicle manufacturers offer longer warranty periods;*
- more vehicles are being built on standard platforms, so a single quality issue can affect a large number of vehicles; and*
- regulators and our customers are taking a more stringent approach to recalling vehicles, particularly if there is a possible safety issue.*

*In the aerospace industry, customers and regulators impose strict product safety and quality obligations on all aircraft suppliers. A product failure could result in serious losses, damaging GKN's financial performance and*

*potentially its reputation. In particular, the costs associated with vehicle or aircraft recalls can be significantly higher than the cost of simply replacing defective products.”*

#### **5. Entering into new long-term contracts may create a risk for the GKN Group**

*Both GKN's aerospace and automotive businesses enter into design and build contracts which include commitments relating to pricing, quality and safety, and technical and customer requirements.*

*These are complex contracts that are often long-term in nature, so it is important that the contracted risk is carefully managed. Specifically within GKN Aerospace, the GKN Group has risk and revenue sharing partnerships with key engine manufacturers. These contain formalised risk-sharing arrangements relating to risks which are not always within GKN management's control.*

*A failure to fully understand contract risks or to anticipate technical challenges and estimate costs accurately at the outset of a contract can lead to unexpected liabilities, increased outturn costs and reduced profitability which may in turn have a material adverse effect on GKN's business, results of operations and/or financial condition.*

#### **6. Ineffective programme management could have a material adverse effect on GKN's business, results of operations and/or financial condition**

*Many of the programmes entered into by the GKN Group are both complex and long-term and are subject to various performance conditions which must be adhered to throughout the programme. The management of such programmes involves risks related to delays in product development or launch schedules; failure to meet customer specifications or predict technical problems; inability to manufacture on time for the start of production or to required production volumes; dependence on key or customer-nominated suppliers; failure to manage effectively internal or customer-driven change; and inability to forecast accurately and to manage associated costs.*

*Ineffective programme management could result in a deterioration of customer relationships and/or cancellation of a contract which may result in claims for loss and/or reputational damage. Poor performance against a contract could also undermine the GKN Group's ability to win future contracts and could result in cost overruns and significantly lower returns than expected. This could have a material adverse effect on GKN's business, results of operations and/or financial condition.*

#### **7. The supply chains in the markets in which the GKN Group operates are vulnerable to disruption and as such could interrupt the GKN Group's operations**

*GKN is dependent on the support of its supply chain to meet customer requirements. It is therefore essential that GKN's suppliers and subcontractors meet high standards of technical competence, innovation, product quality, reliability, delivery performance, cost, financial stability, safety, ethics and social responsibility.*

*GKN's supply chain network is exposed to potentially adverse events such as physical disruptions, environmental and industrial accidents, scarcity of supply and the insolvency of a key supplier. The occurrence of any such events could impact the GKN Group's ability to deliver orders to its customers.*

*The cost of GKN's products can be significantly affected by the cost of the underlying commodities and materials (including steel, scrap steel and titanium) from which they are made. Fluctuations in these costs cannot always be passed on to customers and therefore any volatility could have an adverse effect on the GKN Group.*

*A sustained supply chain disruption, or the delivery of defective product to GKN, could impact the GKN Group's ability to meet customer requirements, result in contractual liabilities and/or have an adverse impact on its financial performance.*

#### **8. GKN's defined benefit pension plans are exposed to the risk of market changes**

*GKN has a number of defined benefit pension plans with total net liabilities of £2,033 million at 31 December 2016. These plans are exposed to the risk of changes in asset values, discount rates, inflation and mortality assumptions. Increases to the pension deficit could lead to a requirement for additional cash contributions to these plans, thereby reducing the amount of cash available to meet GKN's other operating, investment and financing requirements.*

## **9. GKN may lose customers to competitors offering new technologies**

*Developing innovative technologies for GKN's customers is critical to maintaining the GKN Group's differentiation and competitive advantage. The GKN Group may lose market share or be subject to additional market pressure if it fails to develop innovative technologies that customers require.*

*The failure to launch new products, new product applications or derivatives of existing products to meet customer requirements could have a significant impact on the future profitable growth of GKN which could in turn have a material adverse effect on the GKN Group's business, results of operations and/or financial condition.*

## **10. GKN is subject to litigation and compliance risks**

*GKN is subject to applicable laws and regulations in the global jurisdictions and industries in which it operates. This includes certain territories where strong ethical standards may not be well established or where markets in which GKN operates are highly regulated. Regulations include those related to export controls, environmental and safety requirements, product safety, tax laws, intellectual property rights, competition laws and other ethical business practices. Failure to comply with applicable laws and regulations could expose GKN to fines, penalties, damage to reputation, suspension or debarment from government contracting and/or suspension of export privileges. Legal proceedings can be protracted and costly. In addition, regulatory authorities could adopt new or more stringent regulations, or heighten industry oversight and, as a result, GKN could incur significant unforeseen expenses to comply with these requirements all of which may have a material adverse effect on its business, results of operations and/or financial condition.*

## **11. GKN is dependent on key management, employees and other qualified personnel and may not be able to attract and retain sufficiently qualified, experienced and motivated people**

*GKN's ability to deliver its strategic objectives is dependent upon the recruitment and retention of sufficiently qualified, experienced and motivated people. It is critical for GKN to secure and maintain the relevant capabilities in specific geographical regions and disciplines in both existing markets and to support growth markets. The failure to recruit, or the loss of, key personnel, and the failure to plan adequately for succession or develop the potential of employees may impact GKN's ability to deliver its strategic and financial objectives which may have a material adverse effect on its business, results of operations and/or financial condition.*

## **12. GKN is subject to health and safety risks**

*The nature of GKN's operating activities exposes GKN to a range of health and safety risks if such operations are not properly managed and conducted. A lack of robust safety processes and procedures could result in accidents involving employees and others on GKN's sites. Serious accidents in the workplace can have a major impact on the lives of those employees involved as well as their families, friends, colleagues and communities. In the event that an incident or accident is caused, perceived to be caused, or contributed to, by failings on the part of GKN or their employees or contractors (for example as a result of negligence, or poor health and safety systems and controls), this could result in significant adverse publicity, interruption of services to customers, payment of substantial damages (not all of which may be insured), fines and/or the potential loss or suspension of required licences or authorisations. Failure to maintain a strong record of safety and reliability that is satisfactory to customers may adversely affect GKN's reputation, relationship with customers, financial conditions and/or operating and financial results.*

## **13. GKN could be significantly impacted by the theft of critical data or any major disruption to the Group's information systems**

*GKN could be impacted negatively by information technology security threats including unauthorised access to intellectual property or other controlled information. The inherent security threat is considered highest in GKN Aerospace where data is held in relation to civil aerospace technology and controlled military contracts. Interruptions to GKN's information systems could also adversely affect its day-to-day operations. Causes could include flood, fire, storms and other natural disasters, power loss, computer system and network failures, operator negligence, vandalism and other extraordinary events. A major disruption to information systems could have a significant adverse impact on GKN's operations or its ability to trade and therefore GKN's financial position. The loss of confidential information, intellectual property or controlled data could result in fines and damage to GKN's reputation, and could adversely affect its ability to win future contracts.*

## **PART C: Risks relating to the Melrose Group, GKN and the Enlarged Group**

*In the discussion below, references to the “Enlarged Group” are to the Melrose Group following the Effective Date and therefore incorporating GKN. However, prior to the Effective Date, and in the event that the Effective Date does not occur, the risk factors below that are expressed to be applicable to the Enlarged Group will remain applicable to the Melrose Group (excluding GKN) and in this context references to the “Enlarged Group” shall instead be deemed to be references to the Melrose Group.*

### **1. The Enlarged Group is dependent on its Directors and on certain of its businesses’ management**

The success of the Melrose Group is built upon strong management teams. When acquiring a business such as GKN, Melrose looks to utilise the skills and experience of its operational management, in addition to externally-hired parties, in order to drive the operational improvements it seeks from the acquisition. As a result, the loss of key personnel could have a significant impact on performance, at least for a time. The loss of key personnel or the failure to plan adequately for succession or develop new talent may impact the reputation of the Enlarged Group or lead to a disruption in the leadership of the business. Competition for personnel is intense and the Enlarged Group may not be successful in attracting or retaining qualified personnel, particularly engineering professionals. The loss of key employees, the Enlarged Group’s inability to attract new and adequately-trained employees or a delay in hiring key personnel could seriously harm the Enlarged Group’s business. Over time, the Enlarged Group’s competitive advantage is defined by the quality of its people; should the Enlarged Group fail to attract, develop, motivate and retain key talent, the competitive advantage will erode, leading to weaker growth potential or returns.

### **2. The Enlarged Group will have increased debt financing**

Following the Effective Date, the Enlarged Group will have further indebtedness.

The increased financial indebtedness of the Enlarged Group, as well as additional covenants in the Enlarged Group’s financing, may result in operational constraints for the Enlarged Group going forward, which may adversely affect the business, financial condition, results of operations and prospects for the Enlarged Group. Albeit, the Melrose Board believes that the Melrose Group employs prudent levels of debt.

### **3. The Enlarged Group’s ability to raise debt or to refinance existing borrowings is dependent on market conditions**

The ability to raise future debt or to refinance future borrowings in the bank or capital markets is dependent on market conditions and the proper functioning of financial markets. Furthermore, in line with the Melrose Group’s strategy, investment is made in the businesses (capital expenditure in excess of depreciation) and there is a requirement to assess liquidity and headroom when new businesses are acquired. In addition, the Enlarged Group may be unable to refinance its debt when it falls due, which pursuant to the New Facilities Agreement, in the absence of any circumstances whereby a mandatory prepayment is required, will not be until three years and six months, in respect of the term debt, and five years, in respect of the revolving credit facility, after the date of the New Facilities Agreement.

### **4. The Enlarged Group is dependent on a responsive workforce and labour disruptions or cost increases could adversely affect the Enlarged Group’s business**

Both the Melrose Group and GKN are dependent on their workforce to respond effectively to customer requests. Industrial action could negatively impact the Enlarged Group’s ability to respond effectively, especially for larger, more complex rollouts that encompass a broad range of its products and services. A work stoppage at one of the Enlarged Group’s facilities could cause it to lose sales, incur increased costs and adversely affect its ability to meet customers’ needs. A plant shutdown or a substantial modification to employment terms (including the collective bargaining agreements affecting its unionised employees) could result in material gains or losses or the recognition of an asset impairment. As collective bargaining agreements expire and until negotiations are completed, it is not known whether the Enlarged Group will be able to negotiate collective bargaining agreements on the same or more favourable terms as the current agreements, or at all, without production interruptions, including labour stoppages. Any such industrial action could have a material adverse effect on the Enlarged Group’s results of operations, business and financial condition.

## **5. Fluctuations in the cost or availability of raw materials and components and other related costs could have an adverse effect on the Enlarged Group**

The Melrose Group and GKN are dependent upon raw materials and purchased components, including, among others, steel, scrap, titanium, copper, aluminium, electronics, plastics, compressors, various chemicals and packaging that the Melrose Group and GKN purchases from third parties. As a result, the Enlarged Group's results of operations, cash flows and financial condition may be adversely affected by increases in costs of raw materials or components, or by limited availability of these items.

The Melrose Group has worked closely with its suppliers to develop contingency plans to assure continuity of supply while maintaining high quality and reliability and, in some cases, they have established long-term supply contracts with its suppliers. However, the Melrose Group does not generally hedge against its supply requirements. Accordingly, in spite of such contingency plans, it may not be able to obtain raw materials and components from its current or alternative suppliers at reasonable prices in the future, or may not be able to obtain these items on the scale and within the time frames it requires. Further, if the Enlarged Group's suppliers are unable to meet its supply requirements, it could experience supply interruptions and/or cost increases. If the Enlarged Group is unable to find alternative suppliers or pass along these additional costs to its customers, these interruptions and/or cost increases could adversely affect the Enlarged Group's results of operations, cash flows and financial condition.

Sources of raw materials or component parts for certain of the Melrose Group's or GKN's operations may be dependent upon limited or sole sources of supply which may impact their ability to manufacture finished products. Whilst Melrose continually reviews alternative sources of supply, there can be no assurance that it will not face disruptions in sources of supply which could adversely affect its results of operations, cash flows and financial position.

Continued strategic sourcing initiatives and other improvements in manufacturing efficiency, as well as sales price increases, help to mitigate fluctuations in these costs. However, there can be no assurance that the Enlarged Group will be able to offset any or all material or other cost increases in any future periods.

## **6. Because the Melrose Group and the GKN Group has substantial operations and sells its products outside the United Kingdom, it is subject to the economic and political conditions of foreign nations**

During the financial year ended 31 December 2016, approximately 90 per cent of Melrose's continuing revenue came from outside the United Kingdom (approximately 68 per cent for the year ended 31 December 2015), with approximately 72 per cent of total continuing revenue from North America (approximately 22 per cent for the year ended 31 December 2015). As at 31 December 2016, 94 per cent of Melrose's non-current assets were situated outside the United Kingdom (approximately 51 per cent as at 31 December 2015), with approximately 86 per cent of Melrose's total non-current assets situated in North America (approximately 6 per cent as at 31 December 2015).

As set out in the GKN 2016 Annual Report, during the financial year ended 31 December 2016 GKN had approximately £9,414 million in sales. Approximately £3,743 million of GKN's sales were generated in Europe (excluding the UK), £3,326 million in the Americas, £1,296 million in Asia Pacific, £1,047 million in the United Kingdom and £2 million in Africa.

The Melrose Group's and the Enlarged Group's foreign operations are subject to a number of risks and uncertainties, including the following:

- foreign governments may impose limitations on the Enlarged Group's ability to repatriate funds;
- foreign governments may impose withholding or other taxes on remittances and other payments to the Enlarged Group, or the amount of any such taxes may increase;
- an outbreak or escalation of any insurrection, armed conflict or act of terrorism, or other forms of political, social or economic instability, may occur;
- natural disasters may occur, and local governments may have difficulties in responding to these events;
- the United States and foreign governments currently regulate import and export of the Enlarged Group's products and those of its suppliers and may impose additional limitations on imports or exports of the Enlarged Group's products or the products of its suppliers;
- foreign governments may nationalise foreign assets or engage in other forms of governmental protectionism;



- foreign governments may impose or increase investment barriers, customs or tariffs, or other restrictions affecting the Enlarged Group's business;
- development, implementation and monitoring of systems of internal controls of the Enlarged Group's international operations, including disclosure controls and procedures and internal controls over financial reporting, may be difficult and expensive; and
- labour cost inflation and changes in labour and other practices.

The occurrence of any of these conditions could disrupt the Melrose Group's, GKN's and the Enlarged Group's business in particular countries or regions of the world, or prevent it from conducting business in particular countries or regions, which could reduce sales and adversely affect profitability.

## **7. The Enlarged Group is exposed to risks in relation to compliance with anti-corruption laws and regulations**

Conducting business on a worldwide basis will require the Enlarged Group to comply with the laws and regulations of various jurisdictions. In particular, the Enlarged Group's international operations will be subject to anti-corruption laws and regulations, such as the US Foreign Corrupt Practices Act of 1977 (the "FCPA") and the UK Bribery Act of 2010 (the "**Bribery Act**"). The FCPA prohibits providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage. The Enlarged Group may, as part of its business, deal with state-owned business enterprises, the employees of which are considered foreign officials for the purposes of the FCPA. The provisions of the Bribery Act extend beyond bribery of foreign public officials and are more onerous than the FCPA in a number of other respects, including jurisdiction, non-exemption of facilitation payments and penalties.

As a result of conducting business in foreign countries, the Enlarged Group will be exposed to a risk of violating anti-corruption laws and sanctions regulations applicable in those countries where it, its partners or agents operate. Some of the international locations in which the Enlarged Group operates lack a developed legal system and have high levels of corruption. Continued expansion and worldwide operations by the Enlarged Group, including in developing countries, development of joint venture relationships worldwide and the employment by it of local agents in the countries in which it operates increase the risk of violations of anti-corruption or similar laws. Violations of anti-corruption laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts (and termination of existing contracts) and revocations or restrictions of licences, as well as criminal fines and imprisonment. In addition, any such violations could have a significant impact on the Enlarged Group's reputation and consequently on its ability to win future business and could have a material adverse effect on its reputation, results of operations, business and financial condition.

While the Melrose Group has policies and procedures designed to assist its compliance with applicable laws and regulations, it seeks to continuously improve its systems of internal controls, to remedy any weaknesses that are identified through appropriate corrective action depending on the circumstances, including additional training, improvement of internal controls and oversight and deployment of additional resources and to take appropriate action in case of any breach of the Melrose Group's rules and procedures which might include disciplinary measures, suspensions of employees and ultimately termination of such employees. There can be no assurance, however, that policies and procedures of the Melrose Group will be followed at all times or will effectively detect and prevent violations of the applicable laws by one or more of its employees, consultants, agents or partners.

Further detecting, investigating, and resolving these matters is expensive and could consume significant time and attention of Melrose's and/or GKN's senior management. The Enlarged Group could also face fines, sanctions and other penalties from authorities in the relevant foreign jurisdictions, including prohibition of the Enlarged Group from participating in or curtailment of business operations in those jurisdictions. Any proceedings that may result from these matters could harm relationships with existing customers, distributors and agents and the Enlarged Group's ability to obtain new customers and partners.

There can be no assurance that policies and procedures of the Melrose Group or GKN will be followed at all times or will effectively detect and prevent violations of the applicable laws by one or more of its employees, consultants, agents or partners and, as a result, the Enlarged Group could be subject to criminal and civil penalties and other remedial measures, which could have material adverse consequences for the Enlarged Group's results of operations, business and financial condition if any member of the Enlarged Group failed to prevent any such violations.

**8. Changes in legislation or governmental regulations or policies, including environmental and health and safety laws and regulations, may result in substantial compliance costs or otherwise adversely affect the Melrose Group, GKN and the Enlarged Group**

The Melrose Group's and GKN's operations are subject to numerous federal, state, local and foreign laws and regulations, including those relating to protection of the environment which impose limitations on the discharge of pollutants into the air and water, impose limitations on energy usage, establish standards for the use, treatment, storage and disposal of solid and hazardous materials and wastes, and govern the clean-up of contaminated sites.

Both GKN and the Melrose Group have used, and continues to use, various substances in its products and manufacturing operations and has generated, and continues to generate, waste which has been, or may be, deemed to be hazardous or dangerous. As such, the Melrose Group and GKN are subject to, and may be materially and adversely affected by, compliance obligations and other liabilities under environmental, health and safety laws and regulations.

These laws and regulations affect ongoing operations and require capital costs and operating expenditures in order to achieve and maintain compliance. For example, the United States and other countries have established programmes for limiting the production, importation and use of certain ozone-depleting chemicals, including hydrochlorofluorocarbons, a refrigerant used in the Melrose Group's air conditioning and heat pump products. Some of these chemicals have been banned completely and others have been phased out in the United States. Modifications to the design of the Melrose Group's products have been made, and further modifications may be necessary, in order to utilise alternative refrigerants. The Melrose Group's Air Management division could be directly impacted by changes in legislation or government regulations relating to changes in environmental and energy efficiency standards which may have a significant impact on the types of products that the Melrose Group or its competitors are permitted to develop and sell.

Any inability, or delay, by the Melrose Group or the Enlarged Group in developing or marketing products that both match customer demand and meet applicable environmental and efficiency standards could negatively impact its business. This may create an unsettled market that could impact demand and margins.

Future legislation or regulations, including relating to environmental or efficiency matters, product certification, product liability, taxes, tax incentives and other matters, may impact the results of the Melrose Group's or the Enlarged Group's operating segments and its consolidated results.

**9. The Enlarged Group will be exposed to risks in relation to compliance with economic sanctions programmes**

The Melrose Group's businesses are, and the Enlarged Group's businesses will be, subject to economic sanctions programmes, including those administered by the United Nations, EU and the US Department of the Treasury's Office of Foreign Assets Control ("OFAC") and regulations set forth under the Comprehensive Iran Accountability Divestment Act of 2010. These sanctions regulations, which vary depending on the jurisdiction in question, apply to EU nationals worldwide, including all EU companies. While these sanctions regulations do not apply to subsidiaries of EU companies that are organised under the laws of countries outside the EU, EU parent companies are nonetheless expected to encourage their subsidiaries to follow these regulations. Sanctions programmes restrict the Enlarged Group's business dealings with certain sanctioned countries. The Melrose Group (in China, Democratic Republic of Congo, Egypt, Iran, Iraq, Libya and Russia) and GKN have conducted, and continue to conduct, business with entities located in jurisdictions subject to EU sanctions regulations. For the Melrose Group, business conducted in these jurisdictions amounted to 1.3% of the Melrose Group's revenue in the financial year ended 31 December 2016. If either the Melrose Group or GKN is found to have violated any of these restrictions, it could be subject to fines, which could have material adverse consequences for the Enlarged Group's business and reputation.

OFAC and the Office of Export Enforcement of the US Department of Commerce ("OEE") administer certain laws and regulations that impose restrictions upon US companies and persons, or US persons, and, in some contexts, foreign entities and persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of US economic sanctions laws, or sanctions targets. US persons are also generally prohibited from facilitating such activities or transactions.

The Melrose Group has policies and procedures designed to assist its compliance with applicable economic sanctions programmes including training of its employees to comply with such programmes. Despite the compliance procedures in place, the enhancements and the Melrose Group's efforts designed to ensure compliance with applicable sanctions laws and embargoes, it remains possible that its products could be sold or

transferred to countries, governments, entities or persons targeted by EU or US sanctions in a manner that violates such sanctions. For example, despite the procedures in place, one of the Enlarged Group's businesses may miscalculate the level of US-origin content in a product or transfer a US-origin product to a customer that it should have known was subject to US or EU sanctions. Should such sales or transfers occur, the Enlarged Group would bear the costs of any investigative and remedial measures that may be necessary, and could be subject to fines or criminal penalties in respect of such sales or transfers. If any such violations were to occur, this may have material adverse consequences for the reputation, results of operations, business and financial condition of the Enlarged Group.

In addition to the sanctions administered by OFAC and OEE described above, the US government may impose (and has in the past imposed from time to time) restrictions and sanctions against other countries, including ones in which the Enlarged Group does business. In addition, the US government may impose new or expanded restrictions and sanctions against existing sanctions targets. Any such measures targeting countries in which the Enlarged Group undertakes business could have a material adverse effect on its business and reputation.

**10. The Enlarged Group's businesses' success and sales are dependent on the strength of their brands and reputation and are subject to customers' perceptions of those businesses and their products**

Products sold by the Enlarged Group may have faults or defects or may not meet a customer's quality specification. Such faults, defects or failures to meet specification may negatively affect the market acceptance of the Enlarged Group's products and their reputation and could subsequently lead to a loss of customers.

The Enlarged Group's customers increasingly demand access to a broad range of products and technologies and evaluate their suppliers on the basis of a number of factors, including product quality, reliability and timeliness of delivery, accuracy, new product innovation, price competitiveness, technical expertise and development capability, product design capability, manufacturing expertise, operational flexibility, customer service and overall management, and so the Enlarged Group must continue to develop its expertise to design, manufacture and market its products successfully. The Enlarged Group's success therefore depends, to a significant extent, on its development of new products and technologies and its ability to continue to meet its customers' changing requirements.

If the Enlarged Group's businesses are unable to respond to changing consumer demand, those businesses' names and reputations may be impaired and customer demand for a particular category of product offering may decrease. In addition, the public image of the Enlarged Group's existing and future product offering may become tarnished and create negative publicity for that business group and damage that business's brands.

Each of these factors could have a material adverse effect on the results of operations, business and financial conditions of the Enlarged Group.

**11. Any inability to obtain adequate supplies at favourable prices could decrease the Enlarged Group's profit margins and negatively impact timely deliveries to its customers**

The loss of, or a substantial decrease in the availability at favourable prices of, products, component parts, raw materials and energy from some of the Enlarged Group's suppliers, or the loss of key supplier relationships for products and the need to find alternative sources on potentially disadvantageous terms, could lead to a reduction in its production and sales volumes and in its profit margins. Any of these events could have a material adverse effect on the Enlarged Group's business and financial condition.

**12. Potential liability for defective products may affect the financial condition and business of the Enlarged Group**

Due to the nature of its operations, claims against the Enlarged Group could arise from defects in materials or products manufactured and/or supplied by the Enlarged Group. Purchasers and third parties could make claims against Enlarged Group companies, based on their delivery of defective materials or products, or for damage or loss arising from the use of such defective materials or products.

If any of the Enlarged Group's products proves to be defective, it may be required to effect or participate in a recall involving such products. The Enlarged Group may also be the subject of lawsuits seeking damages for products alleged to be defective, including, in particular, product liability claims in the event that the use of its products is alleged to have resulted in injury, a risk of injury or other adverse effects.

Litigation, including litigation resulting from product liability claims, can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome of the litigation with respect to such claims. While the Melrose Group currently maintains (and the Enlarged

Group will continue to maintain) product liability insurance coverage, such insurance may not provide adequate coverage against potential claims. A successful claim brought against the Enlarged Group with respect to a defective product or batches of products in excess of available insurance coverage, if the Enlarged Group's coverage is applicable, or a requirement to participate in a major product recall, could have a material adverse effect on the Enlarged Group's reputation, results of operations, business and financial condition.

### **13. The Enlarged Group will be subject to risks from legal and regulatory proceedings and arbitrations**

Companies in the Enlarged Group have been involved, and may be involved from time to time, in legal and arbitration proceedings including regulatory action and employee litigation. Such proceedings could involve substantial claims for damages relating to, for example, product liability, which may involve lawsuits seeking class action status, breach of warranty obligations, contractual penalties for late delivery or disputes over termination of contracts or claims for modification, adjustment or replacement of component parts of units sold, or could involve the payment of fines or other payments. Product liability and other legal proceedings include those related to businesses the Enlarged Group has acquired or properties it has previously owned or operated. Certain Enlarged Group companies are subject to anti-trust and competition laws in some of the markets in which they operate and may be subject to regulatory scrutiny and/or legal proceedings in these jurisdictions. The outcomes of legal proceedings, including regulatory actions, intellectual property disputes and employee lawsuits, are inherently unpredictable, and Melrose cannot guarantee that Enlarged Group companies will succeed in defending any current or future claims, that judgments will not be rendered against them with respect to any or all current or future proceedings or that reserves set aside or to be set aside and coverage taken out or to be taken out under insurance policies will be adequate to cover any such judgments. The Enlarged Group could be required to pay substantial damages, fines and related costs, or could incur a charge to its earnings if its reserves prove to be inadequate in respect of any adverse judgment. The realisation of any of these risks could have a material adverse effect on the results of operations, business and financial condition of the Enlarged Group.

The Enlarged Group is exposed to the risk that its employees or agents could engage in anti-competitive behaviour or seek to influence the awarding of contracts in other impermissible ways. The Melrose Group maintains a compliance infrastructure including 'whistle-blower' hotlines, employee education and training programmes, and due diligence on agents. Under this compliance infrastructure, the Melrose Group investigates cases of potentially non-compliant behaviour and, if necessary, takes specific steps to prevent such non-compliant conduct in the future. However, the Melrose Group's compliance infrastructure may be insufficient to deter all misconduct. Moreover, if it becomes aware of allegations of non-compliant conduct, the Melrose Group may have difficulty investigating such conduct and gathering evidence. If such cases were to arise, and misconduct was determined to have occurred, the Melrose Group could be subject to fines, blacklisting and litigation, which could have a material adverse effect on the Enlarged Group's results of operations, business and financial condition.

### **14. The Enlarged Group's operations are subject to environmental, health and safety laws and regulations, and non-compliance with such laws and regulations could result in substantial costs, fines, sanctions and claims**

The Enlarged Group operates global manufacturing, product handling and distribution facilities that are subject to a broad array of environmental laws and regulations relating to pollution, the health and safety of employees, protection of the public, protection of the environment and the storage and handling of hazardous substances and waste materials. These laws and regulations are becoming increasingly stringent. It is the policy of Melrose to comply with all relevant laws and regulations. Melrose actively manages these risks through regular compliance and performance improvement assessments and key performance indicators and the engagement of competent health, safety and environmental coordinators at each of its sites. However, violations of applicable laws and regulations, in particular provisions of environmental and health and safety laws, or changes in such laws and regulations (such as the imposition of more stringent standards for discharges into the environment), could result in temporary or permanent restrictions on the operations of the facilities of the Enlarged Group, damages, fines, clean-up costs, personal injury claims or other civil or criminal sanctions and/or increased costs of compliance (including capital expenditures), as well as damage to its reputation.

Furthermore, the Enlarged Group's operations and properties will be subject to US, EU and other foreign, state and local environmental laws and regulations governing, among other things, the generation, storage, emission, discharge, transportation, treatment and disposal of hazardous materials and the clean-up of contaminated properties. Certain environmental laws and regulations impose strict joint and several liability, without regard to knowledge or fault, relating to the existence of contamination at or associated with properties used in the

Enlarged Group's current and former operations or those of its predecessors or at locations to which current or former operations or those of its predecessors have shipped waste for disposal and require generators of waste to take remedial actions at off-site disposal locations when necessary. In the ordinary course of its business, the Melrose Group has used and may continue to use hazardous metals such as mercury and cadmium, solvents and other materials on-site that create waste, which may expose it to liability under these regulations. Any failure to comply could result in the imposition of significant fines, suspension of production, alteration of product processes, cessation of operations or other actions detrimental to the Melrose Group's business.

These laws and regulations have complicated requirements, which are often changed or modified and could become stricter in the future. As such, the Enlarged Group may incur increased costs associated with future environmental or climate change compliance, with remediation obligations or with litigation if claims are made with respect to damages resulting from its operations. These and any future costs associated with environmental or climate change issues currently unknown to the Enlarged Group could have a material adverse effect on its results of operations, business and financial condition. The realisation of any of these risks could have a material adverse effect on the results of operations, business and financial condition of the Enlarged Group.

**15. The Enlarged Group's business is affected by global economic conditions and uncertainties, and/or a significant slowdown in certain industries could have a material adverse effect on the Enlarged Group's business or financial condition**

The Enlarged Group will operate through manufacturing and/or sales facilities, and consider future acquisitions, across a number of industries in numerous countries. Over recent years, the global financial markets have experienced turbulence. Macroeconomic development is dependent upon the evolution of a number of global and local factors, such as the consequences (both within the UK and globally) of the UK leaving the European Union, the crisis in the credit markets and uncertainty with regard to interest rates, economic crises arising from sovereign debt overruns, government budget consolidation measures related thereto, reduced levels of capital expenditures, declining consumer and business confidence, increasing unemployment in certain countries, fluctuating commodity prices (in particular, oil and gas) and exchange rates, bankruptcies, natural disasters, presidential elections and other governmental changes, political crises and other challenges affecting the speed of sustainable macroeconomic growth. Businesses are also affected by government spending priorities and the willingness of governments to commit substantial resources.

Current global economic and financial market conditions and the potential for a significant and prolonged global recession and any uncertainty in the political environment may materially and adversely affect the Enlarged Group's operational performance and financial condition and could have a significant impact on timing of acquisitions and disposals.

A significant slowdown in the energy, oil and gas, US retail and housing, industrial and/or consumer markets, among others, could lead to a decline in the volume or demand for the Enlarged Group's products and services and could have a material adverse effect on the Enlarged Group's results of operations, business or financial condition. In addition, the cyclical nature of those industries could affect the financial performance of the Enlarged Group from time to time.

Businesses, including those operated by the Enlarged Group and many of their customers, may face weakened demand for products and services, difficulty obtaining access to financing, increased funding costs and barriers to expanding operations. As a result, the economic environment may, among other things:

- create downward pressure on the pricing of the Enlarged Group's products;
- affect the collection of accounts receivable;
- increase the sales cycle for certain of the Enlarged Group's products;
- slow the adoption of new technology;
- adversely affect the Enlarged Group's customers, causing them to terminate existing orders, reduce spending and/or decrease utilisation of the Enlarged Group's products;
- adversely affect the Enlarged Group's suppliers, which could cause suppliers to be unable to meet their commitments to the Enlarged Group or to change the credit terms they extend to members of the Enlarged Group, which could disrupt the Enlarged Group's ability to produce its products; and
- limit the Enlarged Group's access to capital on terms acceptable to it.

Any of these conditions and the uncertainty of economic and political conditions could have a material adverse effect on the Enlarged Group's business, results of operations, financial condition and/or liquidity.

## **16. The Enlarged Group will be subject to a number of tax regimes**

The Enlarged Group will operate in many countries and therefore will be subject to different tax regulations. Changes in tax law could result in higher tax expense and payments. Furthermore, legislative changes could materially impact tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities. In addition, the uncertain tax environment in some regions could limit the Enlarged Group's ability to enforce its rights. As an organisation with global operations, the Enlarged Group will conduct business in countries subject to complex tax rules, which may be interpreted in different ways. The Melrose Group is routinely audited by income tax authorities in many jurisdictions. Although each believes that the recorded tax estimates are reasonable and appropriate, there are significant uncertainties in these estimates. As a result, the ultimate outcome from any audit could be materially different from amounts reflected in the income tax provisions and accruals. Future settlements of income tax audits may have a material adverse effect on earnings between the period of initial recognition of tax estimates in the Enlarged Group's financial statements and the point of ultimate tax audit settlement. Future interpretations or developments of tax regimes may affect its tax liability, return on investments and business operations.

## **17. The Enlarged Group could be negatively impacted if it fails to adequately protect its intellectual property rights or if third parties claim it is in violation of their intellectual property rights**

The success of the Enlarged Group will depend, in part, on its ability to protect current and future branded products and processes through securing, enforcing and defending its intellectual property rights. The Enlarged Group will rely on a combination of trademarks, copyrights, patents, utility models, designs, know-how, trade secrets and contractual restrictions to establish and protect proprietary rights in its products, processes and technical data. The Enlarged Group's intellectual property is a valuable asset that helps to protect its investment in technology and software, and to support its licensing efforts with third parties. However, it is considered that no one piece of intellectual property in the Melrose Group is material. There can be no assurance that these proprietary rights, rights in know-how and contractual provisions will be adequate to prevent the misappropriation, infringement or other unauthorised use of the intellectual property rights of the Enlarged Group by third parties which could harm it. There can be no guarantees that patents will be granted with respect to patent applications for new products or processes. The Enlarged Group depends in part on its ability to obtain and maintain ownership of and rights of use in the intellectual property related to its product and solution portfolio. Further, there is no guarantee that any patents, issued or pending, will provide the Enlarged Group with any competitive advantage or will not be challenged by third parties.

Competitors or others may infringe the Enlarged Group's intellectual property rights or successfully avoid them through alternative innovation. Moreover, patents covering technology substantially identical to that covered by intellectual property rights the Enlarged Group owns have in the past been, and may in the future be, granted in various jurisdictions around the world, and the Enlarged Group may not become immediately aware of them which, in turn, could inhibit its ability to challenge them.

To combat infringement or unauthorised use, as well as to protect existing patents from the effects of intervening ones, the Enlarged Group may need to litigate, which can be expensive and time-consuming. The mere existence of patent disputes can cause reputational harm among customers and market observers and participants, in particular due to a perception that the Enlarged Group's ownership of its intellectual property may not be sufficiently secure. In addition, a court may decide in an infringement proceeding that an intellectual property right of the Enlarged Group is not valid or is unenforceable, or may refuse to enjoin the other party from using the technology or other intellectual property right at issue on the grounds that it is non-infringing or the legal requirements for an injunction have not been met.

Some of the countries in which the Enlarged Group operates, such as China, offer less effective intellectual property protection than is available in Europe or the United States. In jurisdictions where effective intellectual property protection is unavailable or limited, the Enlarged Group's intellectual property may be vulnerable to disclosure or misappropriation by employees, strategic partners, suppliers, customers and other persons. Patents may not be granted on the Enlarged Group's currently pending or future applications or may not be of sufficient scope or strength to provide it with meaningful protection or commercial advantage. Policing unauthorised use of its intellectual property is difficult and expensive, and the Enlarged Group may not be able, or may lack the resources, to prevent infringement of the Enlarged Group's intellectual property, particularly in countries where the laws may not protect such rights as fully as do the laws of Europe and the United States.

There is no certainty that the Enlarged Group does not and will not infringe third parties' intellectual property rights. The Enlarged Group may be required to defend claims of patent infringement, infringement of third party proprietary rights or breach of confidence or to take action to protect its own proprietary rights. Such

proceedings could be burdensome and costly and the Enlarged Group may not prevail. Any claim against the Enlarged Group, even if it is without merit, may be expensive and time consuming to defend, subject the Enlarged Group to damages, cause it to cease making, using or selling certain products that incorporate the disputed intellectual property, require it to redesign its products, divert management time and attention and/or require it to enter into costly licensing royalty or licensing agreements, in each case which may have an adverse effect on its business, financial condition and results of operations. Any adverse or uncertain outcome of any dispute with respect to material patents or other material proprietary rights may adversely affect the competitive position of the Enlarged Group or interrupt or adversely affect the ability of the Enlarged Group to carry on its business.

The loss or unavailability, or threat of loss, of its intellectual property or the economic exploitation of it could have a material adverse effect on results of operations, business and financial condition. The cost of defending against or settling intellectual property claims can be material, and the existence or threat of such claims can damage the Enlarged Group's reputation and business.

#### **18. The Enlarged Group will rely on its own IT systems and on IT systems provided by third parties**

The Enlarged Group will rely on its own information technology, or IT, systems to manage its business data, communications, computing needs, production and supply chain effectively and efficiently. The Melrose Group's IT systems are (and the Enlarged Group's will be) used to conduct, among other things, order entry, order fulfilment, inventory replenishment, e-commerce and other business processes. Melrose also relies on the IT systems provided by third parties and other IT infrastructure.

Melrose currently outsources, and in the future plans to continue to outsource, certain aspects of its technical and communication infrastructure to third parties. Should these systems not operate as intended or any third parties to whom Melrose outsources some of its IT services fail to deliver as expected, its ability to transact business across its international businesses would be significantly impaired. In addition, Melrose's IT systems and those it outsources are vulnerable to damage or interruption from circumstances beyond Melrose's control, including fire, natural disasters, power loss or disruptions, hacker attacks, computer systems failures, viruses, delays or disruptions due to system updates, malicious attacks, accidents, telecommunication failures, acts of terrorism or war, physical or electronic break-ins or similar events or disruptions. These information systems have been, and will likely continue to be, subject to attack. The failure of Melrose's IT systems to perform as anticipated could disrupt the Enlarged Group's business and could result in decreased sales, increased overhead costs, excess inventory and product shortages, causing the Enlarged Group's business and results of operations to suffer. In addition, unforeseen vulnerabilities in Melrose's security systems and policies could result in potential data misuse, resulting in damage to the Enlarged Group's reputation and an adverse effect on its results of operations, business or financial condition.

Information security and cyber threats are currently a priority across all industries and remain a key UK government agenda item. Cybersecurity breaches of the Enlarged Group's information technology systems could result in the misappropriation or unauthorised disclosure of confidential information belonging to it or to its customers, partners, suppliers, or employees. Any breach of data security could result in a disruption of the Enlarged Group's services or improper disclosure of personal data or confidential information, which could harm the Enlarged Group's reputation, require it to expend resources to remedy such a security breach or defend against further attacks or subject it to liability under laws that protect personal data, resulting in increased operating costs or loss of revenue. Like many businesses, Melrose recognises that the Enlarged Group may have a potential exposure in this area.

#### **19. The Enlarged Group will be subject to the risk of major operational problems**

The Enlarged Group's sales will be dependent on the continued operation of its various manufacturing facilities and those of third-parties that supply it, its warehousing and logistics infrastructure and its information technology systems.

Operational risks include equipment failure, failure to comply with applicable regulations and standards, raw material supply disruptions, labour force shortages or work stoppages, inadequacies in staffing or processes, events impeding or increasing the cost of transporting the Enlarged Group's products, fires and natural disasters. There is no guarantee that the Enlarged Group's insurance policies and disaster recovery plans will be adequate to protect the Enlarged Group against loss if any of the aforementioned occurs, and the occurrence of major operational problems resulting from these or other events may have an adverse effect on the results of operations, business and financial condition of the Enlarged Group. Operational risks will be present in the Enlarged Group's business. These risks include the risk of failed internal and external processes and systems

(including information technology systems), human error and external events such as changes in credit terms offered by suppliers. Such events could have an impact on the results of operations, business and financial condition of the Enlarged Group during the affected period. The Enlarged Group will actively assess these risks through ongoing processes embedded in its business which identify, evaluate and manage the risks faced by it.

**20. Factors outside the Enlarged Group's control, such as fires, floods and other natural disasters, any epidemics or pandemics, acts of terrorism or man-made problems such as computer viruses or terrorism, protests or other harassment could have a material adverse effect on its results of operations, business and financial condition**

The Enlarged Group's sources for components or other supplies, as well as shipments of manufactured goods, are vulnerable to damage or interruption from fires, floods, pandemics, power losses, telecommunications failures, terrorist attacks, human errors, break-ins and similar events. A significant natural disaster, such as a fire or flood, whether at a facility owned by the Enlarged Group or at a third-party facility which holds stock belonging to the Enlarged Group, could have a material adverse effect on the Enlarged Group's business, results of operations and financial condition, and the Enlarged Group's insurance coverage may be insufficient to compensate it for losses that may occur. Any contractual penalties the Enlarged Group negotiates for, in the event that a supplier of the Enlarged Group does not meet its obligations with respect to timeliness and quality, may fail to mitigate the harm to the Enlarged Group's business caused by any such contractual breaches. In particular, shortages or interruptions in the supply of components or delays in the shipment of manufactured goods as a result of such an event could delay shipments of the Enlarged Group's products or increase its production costs. This in turn could have a material adverse effect on the Enlarged Group's results of operations, business and financial condition.



## **PART D: Risks relating to the Acquisition**

### **1. The Acquisition is subject to a number of conditions which may not be satisfied or waived, or may result in new or more stringent conditions being imposed on the Enlarged Group following completion of the Acquisition**

The Acquisition is subject to the satisfaction (or waiver, where applicable) of a number of conditions, including *inter alia*:

- (i) the approval of the Transaction Resolutions by Melrose Shareholders;
- (ii) the Acceptance Condition being satisfied;
- (iii) clearance from the EU, US and other antitrust authorities;
- (iv) defence clearances and/or approvals being obtained from CFIUS and other US defence and federal agencies, the German BMWi and the French Ministry of Economy;
- (v) there being no material adverse change which occurs and is continuing in respect of GKN; and
- (vi) Admission having occurred.

Although the Directors believe that the above conditions are capable of being satisfied, it is possible that Melrose may not be able to obtain the clearances or approvals required, or that they may not be obtainable within a timescale acceptable to Melrose, or that they may only be obtained subject to certain conditions or undertakings which may not be acceptable to Melrose.

Melrose's ability to invoke a Condition to the Acquisition is subject to the Panel's consent. The Panel will need to be satisfied that the underlying circumstances are of "material significance" to the Melrose Group in the context of the Acquisition and this is a high threshold to fulfil. Consequently, there is a significant risk that Melrose may be required to complete the Acquisition even where certain Conditions have not been satisfied (for example, not all the regulatory consents or consents from commercial counterparties have been obtained) or where a material adverse change has occurred to the Melrose Group or the GKN Group. It may also be the case that certain Conditions may only be satisfied subject to onerous conditions or undertakings, such as a requirement for disposals of certain business lines or operations or similar. In relation to the anti-trust clearances required, the relevant authorities may, as a condition to granting their approval or confirmation, impose requirements or limitations, require divestitures or place restrictions on the conduct of the Enlarged Group. If events such as those described in this paragraph were to occur, they might result in additional costs and/or the delay or the failure to realise the financial benefits and synergies identified by the parties. Proceeding to complete the Acquisition without particular clearances and consents from third parties, which may include governments, regulators and commercial counterparties, may impact the Enlarged Group's future strategy and operations, result in the imposition of penalties, fines and other criminal and civil sanctions and the termination or variation of contracts and may cause damage to the Enlarged Group's reputation and business relationships with governments, regulators and counterparties. If events such as those described in the preceding sentence were to occur, there may be a material adverse effect on the business, financial results and financial condition of the Enlarged Group and the market price of the Melrose Shares.

### **2. Melrose is exposed to any deterioration in trading in GKN between the Announcement and the Effective Date**

On 17 January 2018 the Melrose Board announced the terms of its offer to acquire the entire issued and to be issued share capital of GKN. Due to the required governmental or anti-trust law approvals and the authorisations which must be obtained, or applicable waiting periods in the applicable law which must have elapsed, prior to the Effective Date, there will be a period during which Melrose will be exposed to any adverse change in the financial position and future prospects of GKN, including, but not limited to, any adverse developments in sales volumes or the price of raw materials. Any such changes could have a material adverse effect on GKN's financial condition, prospects and/or results of operations.

### **3. The Melrose Group may not realise the operational improvements from the Acquisition**

The Melrose Group is targeting operational improvements from the Acquisition. Achieving the advantages of the Acquisition will depend partly on the rapid and efficient management and co-ordination of the activities of Melrose and GKN, both businesses are of considerable size that functioned independently and are currently located in different countries, with geographically dispersed operations and with different business cultures and compensation structures. There is a risk that operational improvements from the Acquisition may fail to

materialise, or they may be materially lower than have been estimated. In addition, the cost of funding these operational improvements may exceed expectations. Such eventualities may have a material adverse effect on the financial condition of the Enlarged Group.

#### **4. GKN may not perform in line with expectations**

If the results and cash flows generated by the combination of the operations of GKN with those of the Melrose Group are not in line with the Melrose Directors' expectations, a write-down may be required against the carrying value of the Melrose Group's investment in GKN. Such a write-down may reduce the Melrose Group's ability to generate distributable reserves and consequently affect its ability to pay dividends or return capital to shareholders.

#### **5. Risks relating to lack of information and due diligence undertaken by Melrose in connection with the Acquisition**

The Company and its advisers have not had access to GKN's non-public information or documentation and accordingly have been unable to perform any due diligence on such information or documentation. All information relating to GKN and the GKN Group has been sourced from publicly available information and has not been subject to comment or verification by GKN or Melrose or their respective directors.

The due diligence process has therefore been limited and Melrose's assessments are subject to a number of assumptions relating to profitability and growth. Accordingly, there can be no assurance that the assessments or due diligence conducted regarding GKN and its businesses will prove to be correct or reveal or highlight all relevant facts that may be necessary or helpful in evaluating the potential acquisition, and actual developments may differ significantly from the Melrose Group's expectations. As a result, Melrose may pay too high a price to acquire GKN, assume unexpected liabilities, acquire obsolete stock and/or assets which may require write-down or lose short-term and long-term customers or employees following the Acquisition. In particular, Melrose may assume responsibility for environmental liabilities in relation to sites of acquired businesses and any tax liabilities and related exposure and penalties relating to any historical non-compliance of acquired businesses. If any or all of these risks were to materialise, the result could have a material adverse impact on Melrose's business, financial condition, prospects and/or results of operations.

Nothing in this risk factor limits or qualifies the responsibility statement in paragraph 1 of Part XV (*Additional Information*) of this document or under Prospectus Rule 5.5 or Part 6 of FSMA.

#### **6. The Acquisition may expose the Company to significant unanticipated liabilities that could adversely affect its business, financial condition and results of operations**

The Company has not benefitted from the co-operation of the GKN Board in the context of the Acquisition as the GKN Board rejected the approaches made by the Company. This lack of co-operation has made it extremely difficult to facilitate due diligence on the GKN Group in the context of the Acquisition. Given this lack of co-operation and Melrose's inability to conduct detailed due diligence on the GKN Group, the acquisition of GKN may expose the Company to significant unanticipated liabilities relating to the operations of the GKN Group. These liabilities could include employment, retirement or severance-related obligations under applicable law or other benefits arrangements and legal claims. Separately, Melrose may also incur liabilities or claims associated with GKN's defined benefit schemes. The Company's decision to proceed with the Acquisition could also expose it to unforeseen tax liabilities and other amounts owed by GKN. Such unforeseen or unanticipated liabilities, should they be incurred and should they be significant, could have a material adverse effect on the Company's business, financial condition and results of operations.

#### **7. Following the Acquisition, an impairment of goodwill or other intangible assets would adversely affect the Melrose Group's results of operations, business and financial condition**

Following the Effective Date, a significant portion of the difference between the purchase price, GKN's net assets at that date and the allocation of costs of the combination to the assets acquired and the liabilities assumed, will be recorded as goodwill. In addition, other intangible assets will be recorded as a result of the purchase price allocation. Under IFRS, goodwill and intangible assets with indefinite lives are not amortised but are tested for impairment annually or more often if an event or circumstance indicates that an impairment loss may have been incurred. Other intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives and reviewed for impairment whenever there is an indication of impairment. In particular if the combination of the businesses meets with unexpected difficulties, or if the business of the

Melrose Group does not develop as expected, impairment charges may be incurred in the future which could be significant and which could have an adverse effect on the Melrose Group's financial condition.

**8. Management attention may be diverted from the Melrose's existing businesses by the Acquisition**

The Acquisition will require substantial amounts of both time and focus from Melrose's and GKN's senior management teams, which could divert the attention of those teams from maintaining standards of operation in their respective businesses. There is a risk that the challenges associated with managing the Acquisition will result in the management teams of each of Melrose and GKN being distracted and that consequently the underlying businesses of each party will not perform in line with expectations, which could have a material adverse effect on the business, results of operations, financial condition and prospects of the Enlarged Group.

## **PART E: Risks relating to the Acquisition and the New Melrose Shares**

### **1. Investments in listed securities may not be a suitable investment for all recipients and the market price of the New Melrose Shares may be volatile**

The New Melrose Shares may not be a suitable investment for all the recipients of this document. Before making a final decision, investors are advised to consult an appropriate independent investment adviser authorised under FSMA (or from another appropriately authorised financial adviser) who specialises in advising on the acquisition of shares and other securities.

Prospective investors should be aware that the value of an investment in Melrose may go down as well as up.

The market price of the New Melrose Shares could be volatile and subject to significant fluctuations due to a variety of factors outside the control of the Melrose Group. Such factors include: changes in sentiment in the market regarding the New Melrose Shares (or securities similar to them), any regulatory changes affecting the Melrose Group's operations, variations in the Melrose Group's operating results, business developments of the Melrose Group or its competitors, the operating and share price performance of other companies in the industries and markets in which the Melrose Group operates, speculation about the Melrose Group's business in the press, media or the investment community, changes to the Melrose Group's profit estimates or the publication of reports by analysts and general market conditions. Stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for securities and which may be unrelated to the Melrose Group's operating performance, underlying asset value or prospects. The market price of the New Melrose Shares may be adversely affected by any of the preceding or other factors regardless of the Melrose Group's actual results of operations and financial condition. Furthermore, the Melrose Group's operating results and prospects from time to time may be below the expectations of market analysts and investors.

### **2. Melrose Shareholders will experience dilution on their ownership as a result of the Acquisition**

Existing Melrose Shareholders will suffer an immediate dilution in their proportionate ownership and voting interests in the Melrose Group which will be reduced following Admission. Assuming Melrose acquires the entire issued and to be issued share capital of GKN, Existing Melrose Shareholders will suffer dilution of approximately 57% to their shareholdings in the Company as a result of the Acquisition. However, this dilution is balanced against the acquisition of the GKN Group and its assets.

### **3. Any future Melrose Share issues and sales of Melrose Shares by major Melrose Shareholders may have an adverse effect on the market price of the Melrose Shares**

Other than in respect of the Acquisition, the Melrose Group has no current plans for any subsequent offering of Melrose Shares. However, it is possible that the Melrose Group may decide to offer additional Melrose Shares in the future. An additional offering or a significant sale of Melrose Shares by any major Melrose Shareholder could have an adverse effect on the market price of the outstanding Melrose Shares.

### **4. Melrose may be unable to acquire the entire issued and to be issued share capital of GKN which would mean there would be minority shareholders in GKN**

To effect a compulsory acquisition of any remaining GKN Shares, Melrose will need first to have acquired, or unconditionally contracted to acquire, not less than 90 per cent. in value of the GKN Shares to which the Acquisition relates and not less than 90 per cent. of the voting rights carried by the GKN Shares to which the Offer relates. The Offer is conditional upon valid acceptances being received (and not, where permitted, withdrawn) in respect of not less than 90 per cent. of the GKN Shares, but this percentage may be reduced by Melrose to any percentage above 50 per cent. Were the Acceptance Condition threshold to be reduced, Melrose could complete the Acquisition without being able to acquire compulsorily the remaining GKN Shares it does not own. Although Melrose would 'control' GKN and be entitled to affect the composition of the GKN Board, depending on the level of acceptances received, Melrose may not control sufficient voting rights to be able to procure that GKN makes applications to cancel the listing of the GKN Shares on the Official List with a premium listing, to cancel the trading in GKN Shares on the London Stock Exchange's main market for listed securities and to re-register GKN as a private limited company. In such circumstances, minority shareholders would retain a stake in GKN and they would benefit from certain legal protections afforded to them under English law in respect of their minority shareholdings.

In addition, it may also take longer and be more difficult to effect any post-closing operational improvement; and the full benefits of the Acquisition may not be obtained or may only be obtained over a longer period of

time. In addition, if Melrose owns less than 100 per cent. of GKN after the completion of the Acquisition, Melrose may not be able to pass certain shareholder resolutions or carry out joint cash-pooling or other intra-group transactions between members of the Melrose Group and the GKN Group. This may adversely affect Melrose's ability to achieve the expected benefits of the Acquisition after the Acquisition is completed.

**5. The Melrose Group's ability to continue to pay dividends on the Melrose Shares will depend on the availability of distributable reserves**

Melrose's ability to pay dividends is limited under English company law, which limits a company to only paying dividends to the extent that it has distributable reserves available for this purpose. As a holding company, Melrose's ability to pay dividends in the future is affected by a number of factors, principally its ability to receive sufficient dividends from subsidiaries. The payment of dividends to Melrose by its subsidiaries is, in turn, subject to legal and regulatory requirements both under English company law and under the laws of other foreign jurisdictions and the existence of sufficient distributable reserves in such subsidiaries. The ability of these subsidiaries to pay dividends and Melrose's ability to receive distributions from its investments in other entities is subject to applicable local laws and regulatory requirements and other restrictions, including, but not limited to, applicable tax laws and restrictions in some of the Melrose Group's debt facilities. In addition, the financial condition and operating requirements of Melrose's subsidiaries may limit Melrose's ability to obtain cash from its subsidiaries. These laws and restrictions could limit the payment of future dividends and distributions to Melrose by its subsidiaries, which could restrict Melrose's ability to pay a dividend to holders of the Existing Melrose Shares or the New Melrose Shares.

**6. Exchange rate fluctuations may impact the price of Melrose Shares or the value of any dividends paid**

The Melrose Shares, and any dividends to be announced in respect of such shares, will be quoted in pounds sterling. An investment in Melrose Shares by an investor in a jurisdiction whose principal currency is not pounds sterling exposes the investor to foreign currency rate risk. Any depreciation of the pound sterling in relation to such foreign currency will reduce the value of the investment in the Melrose Shares in foreign currency terms and may adversely impact the value of any dividends.

**7. Holders of Melrose Shares outside the United Kingdom may not be able to participate in future equity offerings**

English law provides for pre-emption rights generally to be granted to the Melrose Shareholders, unless such rights are disapplied by shareholder resolution. However, Melrose Shareholders outside the United Kingdom may not be entitled to exercise these rights. US holders of shares are customarily excluded from exercising any such pre-emption rights they may have unless a registration statement under the US Securities Act is effective with respect to those rights, or an exemption from the registration requirements or similar requirements in other jurisdictions thereunder is available. The Melrose Group has no current intention to file any such registration statement, and cannot assure prospective investors that any exemption from the registration requirements would be available to enable US or other overseas holders to exercise such pre-emption rights or, if available, that it will utilise any such exemption.

**PART III**  
**IMPORTANT INFORMATION**

**1. GENERAL**

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or by Rothschild, RBC Europe Limited or Investec Bank plc. Neither the delivery of this document nor any offer or subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as at any time subsequent to its date.

The contents of this document or any subsequent communication from the Company or from any of Rothschild, RBC Europe Limited or Investec Bank plc or any of their respective affiliates, officers, directors, employees or agents is not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents, or use of any information contained in this document for any purpose other than considering the Acquisition or an investment in the New Melrose Shares is prohibited. By accepting delivery of this document, each offeree of the New Melrose Shares agrees to the foregoing.

Melrose is a public limited company incorporated under the laws of England and Wales. All of the Melrose Directors are citizens or residents of countries other than the United States. Substantially all of the assets of such persons and a significant proportion of the assets of the Company are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon such persons or the Company, or to enforce against them judgments of US courts, including judgments predicated upon civil liabilities under the securities laws of the United States or any state or territory within the United States. The United States and the United Kingdom do not have a treaty providing for the reciprocal recognition of judgments (other than arbitral awards) in civil and commercial matters. Consequently, a final and conclusive judgment by any federal or state court of the United States based on civil liability, whether or not predicated solely upon US federal securities laws, would not automatically be enforceable in England and Wales. In addition, it is doubtful whether the courts of England and Wales would accept jurisdiction and impose civil liability if proceedings were commenced in England or Wales in an original action predicated solely upon US federal securities laws.

Without limitation, the contents of the websites of the Company and GKN do not form part of this document.

The information given is as of the date of this document and, except as required by the FCA, the Panel, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the City Code, the Disclosure Guidance and the Transparency Rules or any other applicable law, will not be updated.

GKN Shareholders should note that as this document is a prospectus equivalent document which has been prepared for the purpose of paragraph 1.2.2(2) and 1.2.3(3) of the Prospectus Rules made under Section 84 of FSMA, there is no obligation for Melrose to produce a supplementary document under Section 87G of FSMA and no such document is intended to be prepared and therefore withdrawal rights, as provided for under Section 87G of FSMA, will not be introduced.

Capitalised terms have the meanings ascribed to them in Part XVII (Definitions) of this document.

**2. CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS**

Certain statements contained in this document constitute “forward-looking statements”.

All statements other than statements of historical fact are, or may be deemed to be, forward looking statements. Forward looking statements are statements of future expectations that are based on management’s current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward looking statements include, among other things, statements concerning the potential exposure of Melrose, the Melrose Group, GKN, the GKN Group and/or the Enlarged Group to market risks and statements expressing management’s expectations, beliefs, estimates, forecasts, projections and assumptions, including as to future potential cost savings, synergies, earnings, cash flow, return on average capital employed, production and prospects. These forward looking statements are identified by their use of terms and phrases such as

“anticipate”, “believe”, “could”, “estimate”, “expect”, “goals”, “intend”, “may”, “objectives”, “outlook”, “plan”, “probably”, “project”, “risks”, “seek”, “should”, “target”, “will” and similar terms and phrases.

There are a number of factors that could affect the future operations of Melrose, the Melrose Group, GKN, the GKN Group and/or the Enlarged Group and that could cause results to differ materially from those expressed in the forward looking statements included in this document, including (without limitation): (a) changes in demand for Melrose’s and/or GKN’s products; (b) currency fluctuations; (c) loss of market share and industry competition; (d) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such acquisitions; and (e) changes in trading conditions.

All forward looking statements contained in this document are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers should not place undue reliance on forward looking statements which are subject to inherent uncertainties, including both economic and business risk factors underlying any such forward-looking information.

Each forward looking statement speaks only as of the date of this document. Neither Melrose nor the Melrose Group undertakes any obligation to publicly update or revise any forward looking statement as a result of new information, future events or otherwise, except to the extent legally required including, without limitation, by the Listing Rules, Prospectus Rules, DTRs and MAR. In light of these risks, results could differ materially from those stated, implied or inferred from the forward looking statements contained in this document.

Forward-looking statements contained in this document do not in any way seek to qualify the working capital statement contained in paragraph 11 of Part XV (Additional Information) of this document.

### **3. MARKET AND ECONOMIC DATA**

This document contains information regarding Melrose’s, GKN’s and the Enlarged Group’s business and the markets in which they operate and compete, which Melrose has obtained from various third party sources. Where information has been sourced from a third party it has been accurately reproduced and, so far as Melrose is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading and the source of such information has been disclosed.

### **4. CURRENCY AND EXCHANGE RATE INFORMATION**

Unless otherwise specified, the financial information contained in this document has been expressed in sterling or US Dollars.

### **5. NOTE ON GKN INFORMATION**

This document contains certain information relating to GKN and the GKN Group and its business, management and operations including information contained in Part II (*Risk Factors*), Part IX (*Information on GKN*) and Part XV (*Additional Information*). This information has been compiled from GKN’s annual reports and accounts and information publicly available on its website, each of which have been published by GKN and has not been commented on or verified by Melrose. Melrose is not affiliated with GKN and Melrose has not had the cooperation of GKN management or due diligence access to GKN, its business or management. This information has been accurately reproduced from such sources and, so far as Melrose is aware and is able to ascertain from information published by GKN, no facts have been omitted which would render the reproduced information inaccurate or misleading and the source of such information has been disclosed.

### **6. GKN FINANCIAL PROJECTIONS**

Certain guidance in respect of GKN’s performance for the financial year ending 31 December 2017 have been disclosed by GKN in: (i) its trading update published on 13 October 2017, (ii) the subsequent guidance update published on 16 November 2017, (iii) the announcement published on 12 January 2018 and (iv) the announcement published on 22 January 2018 (together, the “**GKN Financial Projections**”).

Neither Melrose nor any Melrose Director was involved in the preparation or review of the GKN Financial Projections. The GKN Financial Projections were not intended for publication by Melrose and should not be regarded as forward looking guidance by Melrose or any of the Melrose Directors. Melrose is unable to confirm whether the GKN Financial Projections have been prepared to the standard required in producing a profit forecast in the context of the Acquisition. Forward looking statements may be affected by a number of risks and uncertainties and none of Melrose or its advisers accept responsibility for the accuracy, reasonableness, validity or completeness of the GKN Financial Projections or the estimates and assumptions

that underlie them, other than accepting responsibility for ensuring that the GKN Financial Projections are correctly and fairly produced and presented.

Neither GKN Shareholders nor Melrose Shareholders should rely upon any of the GKN Financial Projections in making any decision about New Melrose Shares or the Acquisition.

## **7. SOURCES AND BASES OF SELECTED FINANCIAL INFORMATION**

### *The Melrose Group*

Unless otherwise stated, financial information relating to Melrose has been extracted (without material adjustment) from the Melrose 2016 Annual Report, the Melrose 2015 Annual Report for the years ended 31 December 2016 and 31 December 2015 respectively, from the 2014 Old Melrose Annual Report for the year ended 31 December 2014 and from the Melrose 2017 Interim Results for the six months ended 30 June 2017 and 30 June 2016. As a consequence of applying reverse acquisition accounting principles, the consolidated results of Melrose for the year ended 31 December 2015 comprise the results of Old Melrose and its subsidiaries for the year ended 31 December 2015 consolidated with those of Melrose from 19 November 2015. The comparative figures for the Melrose Group are those of the Melrose Group headed by Old Melrose for the year ended 31 December 2014 except for the presentation of the issued share capital, merger reserve, capital redemption reserve and other reserves balances which have been restated to reflect the reserves position of the Melrose Group as if the Company had been the parent company during both periods presented.

As disclosed in note 1 to the Melrose Group's audited consolidated financial statements for the year ended 31 December 2015, the comparative figures for the year ended 31 December 2014 have been restated to include the results of the Elster Group and Prelok within discontinued operations. The balance sheet for the year ended 31 December 2014 has been restated to reflect the completion of the acquisition accounting of Eclipse, Inc. and to reflect the new parent company of the Melrose Group. Accordingly, the restated financial information for the year ended 31 December 2014 has been extracted without adjustment from the unaudited, restated comparatives included in the audited consolidated financial statements for the year ended 31 December 2015.

On 31 August 2016, the Melrose Group completed the acquisition of Nortek. The results of the Nortek Group are included in the audited consolidated financial statements of the Melrose Group for the year ended 31 December 2016 for the four month period from the date of acquisition to 31 December 2016. Unless otherwise stated, financial information relating to Nortek has been extracted (without material adjustment) from the historical financial information of Nortek for the financial year ended 31 December 2016, as set out in the announcement released by Melrose on 24 March 2017, and of Nortek for the financial years ended 31 December 2015 and December 2014, as set out in the circular of Melrose dated 6 July 2016. These financial statements of Nortek were prepared under IFRS using policies which are consistent with those used in preparing the latest audited consolidated financial statements of the Melrose Group and covered by the accountants' reports thereon.

The financial information concerning the Company and the Melrose Group contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act. Full individual accounts of the Company and each of its subsidiary undertakings for each financial year to which the financial information relates and on which the auditors gave unqualified reports have been delivered to the Registrar of Companies in England and Wales. The consolidated financial statements of the Melrose Group in respect of the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 were reported on by Deloitte LLP is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales.

### *GKN*

Unless otherwise stated, financial information relating to GKN has been extracted (without material adjustment) from the GKN 2016 Annual Report, the GKN 2015 Annual Report and the GKN 2014 Annual Report for financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 respectively and the GKN 2017 Interim Results for the six months ended 30 June 2017.

For the purposes of including narrative in relation to the expected financial effects of implementing the Acquisition Melrose has used consensus financial information for GKN. GKN consensus comprises all analyst notes available to Melrose since 13 October 2017 (being the date of GKN's trading statement) and includes divisional and group level estimates from the following analysts: Barclays (16 October 2017), Berenberg (16 October 2017), Deutsche Bank (16 October 2017), J P Morgan Cazenove (group level only, 16 October



2017), UBS (16 October 2017), Peel Hunt (17 October 2017), Citi (18 October 2017), Liberum (23 October 2017), Jefferies (9 November 2017) and Bank of America Merrill Lynch (16 November 2017). Estimates from the following analysts have been excluded from the consensus as they adjust estimated trading profit for the impairment charge in the Aerospace business: Bank of America Merrill Lynch (17 November 2017), Deutsche Bank (17 November 2017), J P Morgan Cazenove (6 Dec 2017), Investec (18 December 2017) and UBS (10 January 2018). Estimates from Investec (6 November 2017) have been excluded from the consensus as it is a connected adviser to Melrose. The minimum GKN Group trading full-year 2017 estimate per the consensus is £776 million, the maximum GKN Group trading profit full-year 2017 estimate is £792 million and the arithmetic average is £784 million. In accordance with Rule 28.8(c) of the City Code, the consensus estimates are not shown with the agreement or the approval of GKN.

The minimum group sales and trading profit margin full-year 2017 estimates per the consensus are £9,883 million and 7.6% respectively, the maximum group sales and trading profit margin full-year 2017 estimates are £10,241 million and 8.0% respectively and the arithmetic averages are £10,113 million and 7.7% respectively.

## 8. NON-IFRS FINANCIAL MEASURES

This document contains certain financial measures which are not defined or recognised under IFRS, including underlying profit. There are no generally accepted principles governing the calculation of these measures and they may not be comparable to measures reported by other companies, as those companies may compute such measures differently to Melrose or GKN, as applicable. Furthermore, the normalised financial measures of Melrose and GKN may not be directly comparable.

### *Underlying results of the Melrose Group*

For the financial years ended 31 December 2016 and 31 December 2015, Melrose has analysed its results on an underlying basis. Underlying profit / (loss) excludes items which are significant in size or volatility or by nature are non-trading or non-recurring, or any item released to the income statement that was previously a fair value item booked on acquisition. The Melrose Board considers these underlying results to be the most suitable measure to monitor how the Melrose Group is performing and, consequently, underlying operating profit and underlying operating margin are key performance indicators reported to the Melrose Board.

Underlying profit / (loss) was first reported by the Melrose Board in the Melrose 2016 Annual Report, and therefore has been provided for the financial years ended 31 December 2016 and 31 December 2015. Prior to this, the Melrose Board analysed its results of operations using headline figures, which excluded exceptional costs, exceptional income and intangible asset amortisation and which is not directly comparable to the underlying figures below. As a result, the underlying profit / (loss) is not included for the financial year ended 31 December 2014. The Melrose 2016 Annual Report, the Melrose 2015 Annual Report and the Old Melrose 2014 Annual Report are incorporated by reference into this document.

The following tables set out a reconciliation of statutory operating (loss) / profit to underlying operating profit, statutory loss before tax to underlying profit before tax and statutory loss after tax to underlying profit / (loss) after tax of the Melrose Group for the financial years ended 31 December 2016 and 31 December 2015:

	<u>Year ended</u> <u>31 December</u>	
	<u>2016</u>	<u>2015</u>
	<u>£m</u>	<u>£m</u>
Operating (loss) / profit . . . . .	(61.6)	4.8
Restructuring costs . . . . .	51.4	7.6
Acquisition and disposal costs . . . . .	38.7	0.3
Amortisation of intangible assets . . . . .	36.3	8.1
Removal of one-off uplift in the value of inventory . . . . .	18.2	—
Equity-settled compensation scheme charges . . . . .	22.8	4.0
Release of fair value provision . . . . .	(1.7)	—
Adjustments to operating profit . . . . .	<u>165.7</u>	<u>20.0</u>
<b>Underlying operating profit . . . . .</b>	<b>104.1</b>	<b>24.8</b>

	<u>Year ended</u> <u>31 December</u>	
	<u>2016</u>	<u>2015</u>
	<u>£m</u>	<u>£m</u>
Loss before tax . . . . .	(69.3)	(30.7)
Adjustments to operating (loss)/profit per above . . . . .	165.7	20.0
Accelerated future year charges following repayment of debt . . . . .	—	13.1
Adjustments to loss before tax . . . . .	<u>165.7</u>	<u>33.1</u>
<b>Underlying profit before tax . . . . .</b>	<b>96.4</b>	<b>2.4</b>
	<u>Year ended</u> <u>31 December</u>	
	<u>2016</u>	<u>2015</u>
	<u>£m</u>	<u>£m</u>
Loss after tax . . . . .	(39.0)	(16.3)
Adjustments to loss before tax per above . . . . .	165.7	33.1
Incremental deferred tax asset recognition on UK losses . . . . .	(10.4)	(14.5)
Tax effect of adjustments to underlying profit before tax . . . . .	<u>(45.9)</u>	<u>(3.7)</u>
Adjustments to loss after tax . . . . .	<u>109.4</u>	<u>14.9</u>
<b>Underlying profit / (loss) after tax . . . . .</b>	<b>70.4</b>	<b>(1.4)</b>

## 9. OTHER SOURCES AND BASES

The maximum aggregate value of the Acquisition of £7.3 billion is calculated by multiplying the maximum number of New Melrose Shares to be issued under the terms of the Offer (being 2,598,898,592) by the price per Melrose Share of 226.4 pence (being the Closing Price per Melrose Share on the Latest Practicable Date) plus the £1.4 billion of cash equivalent to 81 pence per share multiplied by the maximum number of GKN Share capital including options of 1,744,227,243.

The maximum percentage of the ordinary share capital of the Company that will be owned by former GKN Shareholders of 57% is calculated by dividing the maximum number of the New Melrose Shares to be issued (being 2,598,898,592 assuming Melrose acquires the entire issued and to be issued share capital of GKN) by the combined total number of Existing Melrose Shares and New Melrose Shares in issue immediately following Admission and multiplying the resulting maximum sum by 100 to produce a percentage.

The market capitalisation of Melrose of £4,394,877,939 as at the Latest Practicable Date is calculated by multiplying the number of Melrose Shares in issue as at the Latest Practicable Date by the price per Melrose Share of 226.4 pence (being the Closing Price on the Latest Practicable Date).

On the Latest Practicable Date, Melrose held no Melrose Shares in treasury.

The total number of New Melrose Shares that may be issued pursuant to the terms of the Acquisition is calculated by multiplying the entire issued share capital of GKN by 1.49.

Unless otherwise stated, all prices quoted for Melrose Shares and GKN Shares have been derived from the Daily Official List.

Certain figures included in this document have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables or forms may vary slightly and figures shown as totals in certain tables or forms may not be an arithmetic aggregation of the figures that precede them.

The Company will make an appropriate announcement to a Regulatory Information Service giving details of the Acquisition if and as it proceeds and as may be required by the City Code, Listing Rules and/or the Disclosure Guidance and Transparency Rules.

## 10. ENFORCEMENT OF CIVIL LIABILITIES

An Overseas Shareholder may not be able to enforce a judgment against some or all of the Melrose Directors and executive officers of the Company. All of the Melrose Directors and executive officers are residents of the UK. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Melrose Directors and executive officers within the Overseas Shareholder's country of residence or to enforce against the Melrose Directors and executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an

Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Melrose Directors or executive officers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Melrose Directors or executive officers in any original action based solely on the foreign securities laws brought against the Company or the Melrose Directors or the executive officers in a court of competent jurisdiction in England or other countries.

#### **11. NOTICE TO GKN US SHAREHOLDERS AND GKN SHAREHOLDERS IN RESTRICTED JURISDICTIONS**

There will be no public offer of the New Melrose Shares in the US.

Except pursuant to an applicable exemption, each of this document, the Offer Document and the Form of Acceptance does not constitute an offer of the New Melrose Shares to any person with a registered address, or who is resident or located, in the US or any other Restricted Jurisdiction. The New Melrose Shares have not been, and will not be, registered under the US Securities Act or any state securities laws in the United States or under the relevant laws of any other Restricted Jurisdiction or of any state, province or territory of any other Restricted Jurisdiction, and may not be offered, sold, resold, taken up, transferred, delivered or distributed, directly or indirectly, into, in or within the US or any other Restricted Jurisdiction except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of such jurisdiction.

Each person to whom the New Melrose Shares are distributed, offered or sold inside the US will be deemed by its acceptance of the New Melrose Shares to have represented and agreed, on its behalf and on behalf of any investor accounts for which it is subscribing for or purchasing the New Melrose Shares, that it is an Eligible US Holder acquiring the New Melrose Shares for its own account or for the account of an Eligible US Holder.

The New Melrose Shares will be “restricted securities” within the meaning of Rule 144(a)(3) under the US Securities Act. Resales of New Melrose Shares may only be made (i) outside the US in offshore transactions to non-US Persons as defined in, and in reliance on Regulation S or (ii) within the US to investors that are Eligible US Holders. The Company will require the provision of a letter by investors in the US and any transferees in the US containing representations as to status under the US Securities Act. The Company will refuse to issue or transfer New Melrose Shares to investors that do not meet the foregoing requirements.

**PART IV**

**EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Each of the times and dates in the table below is indicative only and may be subject to change.<sup>(1)</sup> References to a time of day are to London time.

Publication and posting of the Offer document and the Form of Acceptance . . . . .	1 February 2018
Publication of this Document . . . . .	1 February 2018
<b>Melrose General Meeting</b> . . . . .	<b>11.00 a.m. on 8 March 2018</b>
First Closing Date . . . . .	1.00 p.m. on 9 March 2018
Last Business Day on which GKN Shareholders can accept the Offer (unless extended) <sup>(2)</sup> . . . . .	29 March 2018
Latest date and time by which the Offer may be declared or become unconditional as to acceptances <sup>(3)</sup> . . . . .	1.00 p.m. on 2 April 2018
Latest date on which the Offer may become or be declared wholly unconditional (unless extended) <sup>(4)</sup> . . . . .	23 April 2018
<b>Admission of, and dealings (for normal settlement) commence in, New Melrose Shares on the London Stock Exchange</b> . . . . .	<b>8.00 a.m. on the Effective Date</b>
New Melrose Shares issued and credited to CREST accounts . . . . .	As soon as possible after 8.00 a.m. on the Effective Date
Despatch of share certificates in respect of New Melrose Shares and cheques in respect of fractional entitlements to New Melrose Shares (where applicable) and payment of cash consideration due to GKN Shareholders pursuant to the terms of the Offer . . . . .	No later than 14 calendar days after the Effective Date

Notes:

- (1) The dates and times given are indicative only and are based on current expectations and may be subject to change (including as a result of changes to the timetable for fulfilment of regulatory and merger clearance approvals or as otherwise may be agreed with the Panel). If any of the times and/or dates above change, the revised times and/or dates will be announced via a Regulatory Information Service.
- (2) As 2 April 2018 is a public holiday in England and Wales, Eligible GKN Shareholders should ensure their Forms of Acceptance or Electronic Acceptances (as the case may be) are submitted in sufficient time so as to be received by the Receiving Agent prior to this date.
- (3) If the Offer becomes or is declared unconditional as to acceptances, Melrose has agreed to keep the Offer open for acceptances for at least 14 days following such date.
- (4) Except with the consent of the Panel, all Conditions must be fulfilled (or waived (if so permitted)) or the Offer must lapse within 21 days of the First Closing Date, or the date the Offer becomes or is declared unconditional as to acceptances, whichever is the later.

**PART V**  
**INDICATIVE STATISTICS**

Number of Melrose Shares in issue as at the Latest Practicable Date . . . . .	1,941,200,503
Number of New Melrose Shares to be issued in connection with the Acquisition <sup>(1)</sup> . . . . .	up to 2,598,898,592
Number of Melrose Shares to be in issue immediately following Admission (with no Melrose Shares held in treasury) . . . . .	up to 4,540,099,095
New Melrose Shares as a percentage of the Enlarged Share Capital immediately following Admission (with no Melrose Shares held in treasury) <sup>(2)</sup> . . . . .	57%

Note:

- (1) On the assumption that there will be 1,941,200,503 Melrose Shares in issue at Admission (being the number of Melrose Shares in issue as at the Latest Practicable Date) and 1,744,227,243 GKN Shares in issue (being the number of GKN Shares in issue as at the Latest Practicable Date).
- (2) On the assumption that Melrose acquires the entire issued and to be issued share capital of GKN, the maximum number of New Melrose Shares are issued and that no further Melrose Shares are issued from the date of this document until the Effective Date (other than the New Melrose Shares).

**PART VI**

**DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS**

**DIRECTORS**

Christopher Miller  
David Roper  
Simon Peckham  
Geoffrey Martin  
Justin Dowley  
Elizabeth Hewitt  
David Lis  
Archie G. Kane

**COMPANY SECRETARY**

Jonathon Crawford

**REGISTERED OFFICE**

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20 Colmore Circus Queensway  
Birmingham B4 6AT

**JOINT SPONSOR AND LEAD FINANCIAL  
ADVISOR TO MELROSE**

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London EC4N 8AL

**FINANCIAL ADVISER TO MELROSE**

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Riverbank House  
2 Swan Lane  
London EC4R 3BF

**JOINT SPONSOR AND BROKER TO MELROSE**

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2 Gresham Street  
London EC2V 7QP

**LEGAL ADVISER TO MELROSE**

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CityPoint  
One Ropemaker Street  
London EC2Y 9HU

**LEGAL ADVISER TO SPONSORS**

Linklaters LLP  
One Silk Street  
London EC2Y 8HQ

**REPORTING ACCOUNTANTS TO MELROSE**

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1 More London Place  
London SE1 2AF

Deloitte LLP  
2 New St Square,  
London EC4A 3BZ

**PART VII**  
**INFORMATION ABOUT THE ACQUISITION AND THE OFFER**

**1. Introduction**

On 17 January 2018, the Melrose Board announced the terms of a firm offer to acquire the entire issued and to be issued share capital of GKN.

Under the terms of the Acquisition, GKN Shareholders will be entitled to receive 1.49 New Melrose Shares and 81 pence in cash in exchange for each GKN Share held.

The Acquisition is subject to a number of Conditions, including the approval of Melrose Shareholders and clearance from EU, US and other antitrust authorities and approvals or confirmation of non-applicability from (i) CFIUS and other US defence and federal agencies, (ii) the German BMWi and (iii) the French Ministry of Economy. The full terms and Conditions of the Acquisition, including how to accept the Offer, are set out in the Offer Document.

Subject to the satisfaction or, where applicable, waiver of the Conditions (other than those Conditions which relate to Admission), it is expected that the Offer will become or be declared unconditional in all respects by no later than 19 April 2018 (unless extended with the consent of the Panel), with the New Melrose Shares expected to be admitted to listing on the Official List with a premium listing and to trading on the main market for listed securities of the London Stock Exchange by 8.00 a.m. on the Effective Date.

The Acquisition will be effected by way of a takeover offer (as defined in Part 28 of the Companies Act). Subject to the Panel's consent, Melrose has reserved the right to effect the Acquisition by way of a Scheme.

**2. Melrose Approval of the Acquisition**

As a result of its size, the Acquisition is classified as a Class 1 transaction for Melrose for the purposes of the Listing Rules. Accordingly, Melrose will be required to seek the approval of Melrose Shareholders for the Acquisition at the General Meeting. The Acquisition will also be conditional on Melrose Shareholders granting authority at the General Meeting to the Melrose Directors to allot and issue the New Melrose Shares to GKN Shareholders.

**3. Summary of the terms of the Offer**

Under the terms of the Offer (which is subject to the Conditions, including the approval of the Melrose Shareholder Resolutions at the General Meeting expected to be held on 8 March 2018) and further terms summarised below, GKN Shareholders are entitled to receive:

**1.49 New Melrose Shares** **for each GKN Share**  
**and 81 pence in cash**

Based on Melrose's Closing Price of 226.4 pence per Melrose Share on 31 January 2018 (being the Latest Practicable Date), the Acquisition:

- values each GKN Share at 418.3 pence;
- values the entire issued and to be issued ordinary share capital of GKN at approximately £7.3 billion; and
- represents an attractive immediate premium of:
  - approximately 26 per cent. to the Closing Price of 332.70 pence per GKN Share on 11 January 2018 (being the last Business Day before commencement of the Offer Period); and
  - approximately 28 per cent. to the Closing Price of 326.30 pence per GKN Share on 5 January 2018 (being the last Business Day prior to the approach made by Melrose to the GKN Board in connection with the Acquisition).

Following the Acquisition, GKN Shareholders will have received £1.4 billion in cash and own approximately 57 per cent. of the Enlarged Group, which will include both the current GKN and Melrose businesses.

The Offer includes a Mix and Match Facility, which will allow Eligible GKN Shareholders to elect, subject to offsetting elections, to vary the proportions in which they receive New Melrose Shares and cash in respect of their GKN Shares. The Mix and Match Facility allows Eligible GKN Shareholders to either:

- elect the “More Shares” option (equating to approximately 1.8622<sup>(1)</sup> New Melrose Shares for every GKN Share so elected if other GKN Shareholders make equal and opposite Mix and Match Elections), so as to surrender some or all of their entitlement to the cash component under the terms of the Offer (being 81 pence per GKN Share held) in exchange for additional New Melrose Shares (being approximately 0.3722<sup>(2)</sup> New Melrose Shares per 81 pence if other GKN Shareholders make equal and opposite Mix and Match Elections) in addition to the 1.49 New Melrose Shares due; or

(1) The full number of New Melrose Shares for every GKN Share under the “More Shares” option is 1.862242647058824.

(2) The full number of New Melrose Shares for every 81 pence under the “More Shares” option is 0.372242647058824.

- elect the “More Cash” option (equating to 405 pence for every GKN Share so elected if other GKN Shareholders make equal and opposite Mix and Match Elections), so as to surrender some or all of their entitlement to New Melrose Share under the terms of the Offer (being 1.49 New Melrose Shares per GKN Share held) in exchange for additional cash (being 324 pence per 1.49 New Melrose Shares if other GKN Shareholders make equal and opposite Mix and Match Elections) in addition to the 81 pence per GKN Share due.

The ratio for making elections under the Mix and Match Facility has been determined by reference to the offer price of 405 pence per GKN Share made when Melrose first approached the GKN Board in connection with the terms of the Acquisition.

**IMPORTANT: An election under the Mix and Match Facility does not guarantee that you will receive either approximately 1.8622 New Melrose Shares under the “More Shares” option or 405 pence under the “More Cash” option in respect of each GKN Share so elected. Elections under the Mix and Match Facility could be scaled back pro rata, with any unsuccessful elections for the “More Cash” option or “More Shares” option being treated as an election to receive the Base Consideration of 81 pence and 1.49 New Melrose Shares. Adjustments to the entitlements of GKN Shareholders pursuant to the Mix and Match Elections may be made by Equiniti under instruction from Melrose on a basis that Melrose consider to be fair and reasonable to the extent necessary to satisfy all entitlements pursuant to the Mix and Match Elections as nearly as may be practicable. Such adjustments shall be final and binding on GKN Shareholders.**

It should be noted that, the total number of New Melrose Shares to be issued and the maximum aggregate amount of cash to be paid under the terms of the Acquisition will not be varied as a result of elections under the Mix and Match Facility. Satisfaction of elections made by Eligible GKN Shareholders under the Mix and Match Facility will therefore depend on the extent to which other GKN Shareholders make offsetting elections. To the extent that elections for “More Cash” or “More Shares” cannot be satisfied in full, they will be scaled down on a pro-rata basis and rounded down to the nearest whole number of GKN Shares. As a result, Eligible GKN Shareholders who make an election under the Mix and Match Facility will not necessarily know the exact number of New Melrose Shares or the amount of cash they will receive until settlement of the consideration due to them is made following the Effective Date. The Mix and Match Facility will not affect the entitlement to the Base Consideration due under the Offer to any GKN Shareholder who does not make an election under the Mix and Match Facility.

The New Melrose Shares will be issued credited as fully paid and will rank pari passu in all respects with the Melrose Shares in issue at the time the New Melrose Shares are issued pursuant to the Offer, including the right to receive and retain dividends and other distributions declared, made or paid by reference to a record date falling after the Effective Date. Applications will be made to the UKLA for the New Melrose Shares to be admitted to the Official List with a premium listing and to trading on the main market for listed securities of the London Stock Exchange.

**If, after 17 January 2018, any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the GKN Shares, Melrose reserves the right to reduce the offer consideration by an amount up to the amount of such dividend and/or distribution and/or return of capital so announced, declared or paid, in which case any reference in this document to the offer consideration for the GKN Shares will be deemed to be a reference to the offer consideration as so reduced and GKN Shareholders will be entitled to receive and retain that dividend and/or distribution and/or return of capital. For the avoidance of doubt, any payments made in cash or by way of the delivery of shares on the vesting of awards calculated by reference to dividends accrued in respect of**



**those underlying vested shares are not to be construed as a dividend, distribution or return of capital for these purposes. In the event of any such dividend and/or other distribution and/or other return of capital being announced, declared or paid in respect of the GKN Shares, an appropriate adjustment will be made to the Mix and Match Facility.**

#### **4. Background to and reasons for the Acquisition**

Melrose's focus is to acquire high quality industrial manufacturing businesses with strong fundamentals whose performance can benefit from a change in culture and direction. The strategy is based on supporting and incentivising management teams to transform and grow their businesses, exit low margin sales, ensure appropriate costs and invest in operations to improve efficiencies so as to achieve superior profit growth, increased operating margins and strong profit conversion to cash. Through a combination of these factors, Melrose has been able to increase underlying operating margins on the businesses that it has owned by 30 to 70 per cent from their original levels, including 60 per cent on Nortek, its most recent acquisition, in just 10 months under ownership to 30 June 2017. Melrose employs prudent levels of leverage and invests heavily in its businesses. On average, Melrose has invested an amount equivalent to a third of the original equity purchase price in its businesses over time.

The Melrose Board believes that GKN owns good industrial manufacturing businesses serving strong end markets, delivering aerospace and vehicle components to a blue chip customer base. Despite the longstanding support of its shareholders, GKN management has a track record of failing to deliver on its margin targets. The Melrose Board believes that, through its demonstrated track record and experience, Melrose can improve GKN's operational and financial performance to ensure it achieves its potential. In particular, the Melrose Board expects to re-energise and re-purpose GKN's operations to enable them to exceed GKN's own previously stated top-end group trading margin target of 10 per cent.<sup>(1)</sup>

The Melrose Board believes that the Acquisition represents a significant opportunity for Melrose to deploy its strategy to deliver substantial value for shareholders.

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(1) This statement is not and is not intended as a profit forecast or a Quantified Financial Benefit Statement for the purposes of Rule 28 of the City Code and should not be interpreted as such. "Trading margin" means management trading profit expressed as a percentage of management sales. Based on GKN's 2008 annual report, "trading profit" is defined as operating profit or loss before: strategic restructuring and impairment charges of subsidiaries and joint ventures, amortisation of non-operating intangible assets arising on business combinations, profits and losses on the sale or closures of businesses, change in the value of derivative and other financial instruments and profits and losses, after tax, arising on discontinued operations.

#### **5. Summary information on GKN**

GKN is a global engineering business, designing, manufacturing and servicing systems and components for OEMs around the world. With its headquarters in Redditch, United Kingdom, GKN operates across Europe, Asia Pacific and the Americas. Approximately £3,743 million of GKN's sales were generated in Europe (excluding the UK), £3,326 million in the Americas, £1,296 million in Asia Pacific and £1,047 million in the United Kingdom, in each case in the financial year ended 31 December 2016. GKN employs approximately 22,650 people in Europe (excluding the UK), 14,000 in Asia Pacific, 15,900 in the Americas and 5,600 in the UK, in each case as at 31 December 2016, including subsidiaries and joint ventures.

Its three divisions comprise:

- Aerospace (36% GKN Group revenue, 44% GKN Group Segment operating profit)<sup>(1)</sup>: a leading tier one supplier of aircraft and engine structures and electrical interconnection systems to the global aerospace industry
- Driveline (49% GKN Group revenue, 43% GKN Group Segment operating profit)<sup>(1)</sup>: the leading tier one supplier of automotive driveline systems and solutions to the world's leading vehicle manufacturers
- Powder Metallurgy (11% GKN Group revenue, 15% GKN Group Segment operating profit)<sup>(1)</sup>: the world's largest manufacturer of sintered components and a leading producer of metal powder
- Other businesses (4% GKN Group revenue, 1% GKN Group segment operating profit)<sup>(1)</sup>: GKN Wheels & Structures and GKN Shafts & Services

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(1) Segment operating profit excludes unallocated corporate costs of £21 million as of 31 December 2016.

Further information relating to GKN is set out in Part IX (*Information On GKN*) of this document.

## 6. Summary information on Melrose

Melrose's strategy is to acquire high-quality manufacturing businesses, with strong fundamentals and the potential for significant development and improvement under Melrose management.

Through investing in businesses, changing management focus and operational improvements, Melrose seeks to increase and realise the value in such businesses at the appropriate time and to return the proceeds to shareholders.

The Melrose Group consists of four divisions:

### Air Management

The Air Management division is the largest in the Melrose Group. It comprises two businesses: a global HVAC business which produces residential, commercial and custom HVAC equipment and is based in Missouri, USA; and Air Quality & Home Solutions ("AQH"), which manufactures ventilation products under new management headquartered in Wisconsin, USA.

### Security & Smart Technology

The Security & Smart Technology division comprises the Security & Control, Core Brands and GTO Access Systems businesses, which have been consolidated under one management team in California, USA. It is one of the world's leading developers and manufacturers of security, home automation and access control technologies for the residential audio video and professional video markets.

### Ergonomics

The Ergonomics division comprises Ergotron, a world leading manufacturer and distributor of innovative products designed with ergonomic features including wall mounts, carts, workstations and stands. The business is headquartered in Minneapolis, USA and is organised into three segments: commercial; original design and manufacture; and consumer.

### Energy

The Energy division manufactures and services turbogenerators and transformers under the Brush brand as well as switchgear for rail and industrial use under the Hawker Siddeley Switchgear brand name and small mobile generators as Harrington Generators International.

## 7. Financial effects of implementing the Acquisition

Assuming no changes from the latest publicly available information, completion of the Acquisition will result in an increase in the net assets of Melrose to £4,531 million as at 30 June 2017, excluding any goodwill impact (GKN had net assets of £2,546 million as at 30 June 2017), and an increase in operating profit of £784 million (based on GKN analysts' trading profit consensus as at 12 January 2018), for the year ending 31 December 2017.

Nothing in this paragraph 7 shall be construed as a profit forecast or be interpreted to mean that the future earnings per share, profits, margins or cash flows of Melrose will necessarily be greater or less than the historical published earnings per share, profits, margins or cash flows of Melrose.

## 8. Intentions of Melrose with regard to GKN's Business, Employees and the GKN pension scheme Lack of access to undertake detailed planning

**Melrose has not been provided with access to GKN's management or internal GKN data and therefore has only been able to undertake diligence from industry information and publicly available data. Accordingly, Melrose has not been able to undertake any substantial analysis in order to formulate detailed plans or intentions regarding the impact of the Acquisition on the GKN businesses.**

However, Melrose is an experienced acquirer of businesses whose performance it believes can be improved and expects to be able to apply its proven model of increasing underlying profitability margins through a combination of exiting lower margin sales, efficiency measures focusing on operating performance (including through appropriate incentives) and reduced cost base as well as targeted investment. On average, Melrose invests an amount equivalent to a third of the equity consideration into acquired businesses during the period of its ownership.

## **Intentions in respect of GKN**

Melrose attaches great importance to retaining the skills, knowledge and expertise of GKN's operational management and employees.

Melrose intends to carry out an in-depth review of GKN's businesses alongside the operational management team as appropriate in order to formulate a detailed improvement plan and has already identified several immediate actions which it expects to implement which comprise:

- head office restructuring and consequent simplification of the management structure;
- change of culture to focus on performance and reduced cost base;
- focus on profitability, not sales, by exiting unprofitable or low margin business;
- investment in operations to produce returns rather than growth only;
- management focus back on business by changing incentives and ensuring targets are delivered; and
- fast economic-based decision making to create a speedy, flat and non-bureaucratic organisation.

## **Head Office**

As above, Melrose expects to restructure GKN's head office in order to simplify the management structure and remove shared functions. Melrose currently has had no information upon which to make an assessment of the suitability of, or requirement for the head office location, or its flexibility as a site and in view of the restructuring described can give no certainty on its retention. The functions and operations of the head office and their necessity for the success of the business will be assessed in consultation with operational management following the Effective Date. Following the undertaking of this review the best locations for these functions will be determined and actioned appropriately, which may involve some headcount reduction.

It is also anticipated that following the delisting of the GKN Shares (as further described in Paragraph 12 below) certain functions related to GKN's status as a listed company will no longer be required.

## **Potential disposals**

Once they have been improved, Melrose also expects to sell the Powder Metallurgy business in the medium term and certain smaller businesses in the Aerospace and Driveline divisions, which it may deem non-core following its review. By first improving these non core businesses, we will ensure they deliver more, not less, value to their trusted customers both before and after any sale. Our margin improvement expectations are reliant on changing the internal ways of working within GKN, and not on altering the relationships with GKN's main customers.

## **R&D**

Melrose understands the importance of R&D to GKN. Other than the GKN's announcement on 22 January 2018 regarding its investment in its R&D programme, GKN does not disclose a detailed breakdown around its R&D programmes and initiatives, as such, it is not possible for Melrose to have formed any bespoke intentions in respect of R&D in any particular division. However, Melrose's stated strategy is to invest in its businesses, which includes R&D.

## **Operational management reviews**

The Melrose Board recognises that in order to achieve improved performance, cost savings for the Enlarged Group will be required following the Acquisition becoming or being declared wholly unconditional. Melrose's approach to its acquisitions, which it would look to replicate in this situation, is to simplify management structure, establish direct reporting lines and work with operational management teams to establish specific profit improvement plans. Such plans typically include optimisation of production footprint, improvements in productivity and reductions in general administrative expenses.

In respect of GKN, Melrose will conduct a detailed review following the Acquisition becoming or being declared wholly unconditional. A central tenet of ownership by Melrose is the empowerment of operational management to create a sense of ownership and the removal of any unnecessary administrative barriers. As such this review will be undertaken with the operational management of the business and will look at every facet of the businesses within the GKN Group. Melrose will agree with the operational management teams detailed plans for how to drive performance and improve their businesses, including a potential headcount

review. For example, addressing the underperformance identified by Melrose against the margin targets of the Aerospace division and Driveline division will be a focus of the review.

As would be expected, the time required to undertake the reviews for each business will vary, however, in previous acquisitions the time taken in the formalisation of detailed plans with operational management teams has not taken longer than two months. As set out above, optimisation of production footprint, improvements in productivity and reductions in general administrative expenses may result from implementation of the plan once the process described above has been completed in conjunction with the operational management teams.

Whilst no direct parallel can be drawn, to illustrate the nature of the reviews undertaken an example from our most recent acquisition follows.

### **Nortek**

Upon acquisition in 2016, in the first months of ownership Melrose undertook business reviews with the operational management teams in the form described above, which resulted in recommendations of various actions to improve the business and reduce Nortek's central cost base, including:

- Within Air Management, Melrose committed to an investment of £10 million to improve manufacturing processes and warehousing in Air Quality & Home Solutions, and a further investment of £3 million in HVAC including clean room production capabilities, and upgrading equipment at Saltillo, Mexico;
- consolidation of the Security & Control, Core Brands and GTO businesses into one division, Security & Smart Technology;
- committed investments totalling over £1 million at Ergotron for tooling to enable the business to break into new markets, including large furniture, insertion machines and new carts;
- closure of the central headquarters in Providence, the reorganisation of the businesses into three divisions in the Melrose Group: Air Management; Security & Smart Technology; and Ergonomics;
- decentralisation of head office functions back to the businesses, including HR, IT, legal, supply chain, distribution and benefits administration;
- implementation of Melrose treasury processes for hedging and cash control; and
- removal of the Nortek board, with oversight retained by the Melrose Board.

Accordingly, the outcome of the reviews will be driven in large part by Melrose in agreement with operational management teams. Pending conclusion of their respective review, each of the businesses within the GKN Group will continue to be operated in the ordinary course. Accordingly, beyond the statements set out in the Announcement, Melrose cannot be certain what, if any, repercussions there will be on the locations of GKN's places of business, any redeployment of GKN's fixed assets, research & development function, head office location, facilities and/or locations of GKN's divisions. or the number of employees (including in respect of the balance, the skills and functions of those employees), all of which will depend on the outcome of the review.

Following completion of the review, such actions as it is resolved are necessary will be taken in order to implement the improvements which are identified and deliver the expected benefits of the Acquisition.

### **Pensions**

The existing contractual and statutory employment rights, including in relation to existing pensions contributions, of GKN's management and employees will be fully safeguarded in accordance with applicable law. The accrued benefits for existing members of GKN's defined benefit pension schemes will not be affected. GKN's UK defined benefit pension schemes will remain closed to admission of new members and to future accrual. Melrose notes the statements by the Trustees of the GKN Group pension schemes on 16 January 2018 and GKN on 29 January 2018. The numbers published are entirely in line with Melrose's own reading of the pension exposure at GKN and Melrose looks forward to meeting the trustees as soon as is appropriate. Melrose confirms its intention to make a substantial voluntary cash contribution of £150 million to the GKN pension schemes within 12 months of the completion of the Offer. Melrose has an impeccable track record of safeguarding and improving pensioners' rights in every acquisition it has made.

The Acquisition will not have any impact on the existing businesses of Melrose.

## 9. Current Trading and Prospects

### Melrose

On 1 February 2018, Melrose released a trading update, which is set out below. Please refer to Part XIV (*Melrose Profit Estimate*) for further details.

*“Melrose is today providing a trading update ahead of its audited 2017 preliminary results.*

- *Melrose confirms trading in 2017 was in line with management expectations*
- *Nortek trading has been transformed more comprehensively and faster than envisaged at the time of the acquisition; underlying operating profits at constant currency are up approximately 50% compared to last year of \$241.0 million and approximately 65% up on the full year prior to acquisition of \$220.1 million<sup>(1), (2)</sup>*
- *Nortek’s underlying operating margin<sup>(3)</sup> increased to approximately 15%, an increase of more than 5 percentage points*
- *The well-publicised structural change in the global gas turbine market has led to Brush commencing employee consultations today in relation to the intended closure of its Dutch turbogenerator facility and the downsizing of its turbogenerator production in the UK*

(1) This statement has been provided on an underlying operating profit basis consistent with the current accounting policies of Melrose, which are in accordance with IFRS, adjusted for constant currency at the 2016 average exchange rates for the comparison to 2016 and at the 2015 average exchange rates for the comparison to 2015. The principal exchange rate is GBP:USD and the average rates applied to calculate growth in underlying operating profit on a constant currency basis are 1.3554 for 2016 and 1.5284 for 2015. The average GBP:USD exchange rate for 2017 is 1.2888

Underlying operating profit excludes items which are significant in size or volatility or by nature are non-trading or non-recurring, or any item released to the Income Statement that was previously a fair value item booked on acquisition. These items include acquisition and disposal costs, restructuring and transformation charges, which include the losses incurred within closed businesses in the year of closure, and amortisation of intangible assets acquired in business combinations

(2) For the purposes of Rule 28 of the Code, this statement constitutes a profit estimate (the “Profit Estimate”). The Profit Estimate, the assumptions on which it is based, and the reports from Deloitte LLP (acting as reporting accountants for Melrose) and Rothschild and RBC Europe Limited (acting as financial advisers for Melrose, together, the “Financial Advisers”) as required by Rule 28.1 of the Code are set out in the Appendix to this Announcement

(3) Underlying operating profit as a percentage of revenue

*Simon Peckham, Chief Executive of Melrose said:*

*“Changing the culture and direction of Nortek by freeing it from the restrictions of a centralised group structure, when combined with our investments at the rate of approximately 2x depreciation, has resulted in this exceptional improvement in performance in a very short space of time. Over the years, in businesses spanning many different industry sectors from automotive to consumer products and from aerospace to security, the Melrose team’s widespread experience and expertise has continued to deliver exceptional results. We have no doubt this approach would also be successful at GKN.”*

### Nortek

*The Nortek businesses have built on a promising start under Melrose ownership to have an outstanding 2017. Having just completed its first full year in the Melrose group, underlying operating profit is up approximately 50% compared with 2016, which itself benefited from four months of Melrose improvements. Nortek has also achieved operating margins of approximately 15%, being the original three to five year aim at the time of the acquisition and an improvement of more than 5 percentage points. The business has been extremely successful in converting this strong performance into cash, with a cash conversion rate under Melrose ownership of over 100%.<sup>(4)</sup>*

(4) Defined as operating cash generated before capital expenditure as a percentage of EBITDA. EBITDA is defined as underlying operating profit before interest, tax, depreciation and amortisation.

*This improvement has been driven by the hard work of the Nortek operational management teams, freed from the restrictions of the formerly centralised group structure, to implement the necessary improvement programmes funded by Melrose planned investments equal to approximately 2x depreciation. The full benefits of these investments are still unfolding alongside further improvements planned for 2018 as Melrose looks to maintain the pace of change in order to deliver further value for shareholders.*

The following are examples of these ongoing improvement programmes:

- *Global HVAC*—A strengthened and refocused management team under the incumbent CEO is currently spending £9 million to upgrade the key US production facilities in Tualatin and Oklahoma City, which will improve productivity and enable the production of state-of-the-art custom air handling products for the healthcare and data centre markets, with the full benefits expected to flow from 2018 onwards. This has been matched by significant investment in the R&D centre in Saskatoon, Canada, focused on new product development and process improvements that are pivotal to the success of the production plants. A detailed product profitability review has led not only to the exiting of approximately 12% of low margin divisional sales, but has also provided the business with a better understanding of its cost base and enabled a more informed approach to tendering.
- *Air Quality and Home Solutions (AQH)*—A new CEO with significant large customer experience has been installed and the distraction of the loss making European business of Best Italia S.p.A has been removed by selling it to a suitable home within Electrolux in July 2017. Now streamlined and refocused, AQH is part way through optimising a previously fragmented production footprint. This involves a site consolidation in Canada and increased production at the Hartford, USA headquarters, made possible by an ongoing £16 million investment to upgrade Hartford's plant and equipment, including automated lines and laser welders, and a consolidation of the entire warehousing operation into the main facility. An in-depth product portfolio review has supported the continued refreshing of the product range, with a number of new product launches due in 2018.
- *Security and Smart Technology*—The opening of the new Carlsbad, USA headquarters in April 2018 will complete the consolidation of the Nortek Security and Control, Core Brands and GTO businesses under one management team. This includes a significant investment to upgrade their research and development capabilities. The consolidation strengthens the core team under the incumbent CEO and refocuses the business on profitable channels, improving the product mix to take advantage of customer changes in the market. This has been supported by significant investment in tooling for new products such as Nova and the further development of the leading Elan platform.
- *Ergotron*—Already a high margin business on acquisition, Melrose has made further investments focused on supporting expansion projects long sought-after by the existing management team. These include growth in e-commerce and the APAC and European markets, as well as a restructuring of the Tualatin, USA production facility and further development of Ergotron's market leading 'WorkFit' and medical cart products.

The Board believes that these and other ongoing investments will enable Nortek to continue to build on the success achieved to date to deliver further improvement for the benefit of shareholders.

## **Brush**

As flagged in Melrose's full year 2016 results announcement on 2 March 2017 and again in the interim 2017 results announcement on 31 August 2017, the Brush turbogenerator business (which represented less than 5% of the Melrose Group revenues for 2016<sup>(5)</sup>) is facing significant structural market changes. These have been caused by worldwide environmental policy which has triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush's turbogenerator sales falling from 122 units in 2016 to a forecast for 2018 of approximately 50 units.

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(5) Based on annualised revenues to include Nortek for the period prior to ownership.

This has meant that every aspect of the turbogenerator business has been under review. With no material change in these market conditions expected in the foreseeable future, Brush has commenced consultations with employees today in relation to restructuring its turbogenerator business to reflect the reduced levels of activity.

This restructuring involves the intended closure of the turbogenerator production facility at Ridderkerk, Netherlands and the transfer of its 4-pole turbogenerator production to the facility in Plzen, Czech Republic, while the factory in Changshu, China has already been closed. In the UK, Brush has entered into consultation with its workforce about the future of 2-pole turbogenerator production at the Loughborough, UK facility, which accounts for approximately half the workforce at the site. The 520-strong workforce employed at Brush's other UK sites in the transformers, switchgear and mobile generator businesses remain unaffected.

The cash cost of these restructuring items is estimated to be £40 million and is expected to be materially complete by the end of 2018. This is expected to mitigate the current £12 million annual losses of the turbogenerator business and align it to the new market conditions. The carrying value of the business has been

reduced to £300 million. The Board continues to be fully committed to supporting Brush and its management team in emerging from these adverse market conditions so as to be positioned to have the best possible long-term future.

Melrose's Chairman Christopher Miller said:

*"We expect continuing strong performances at each Nortek division and are delighted with the progress we have made so far. There is more to go for. Nortek will also benefit from recent favourable tax changes announced in the US.*

*Brush, albeit a very small part of the Melrose portfolio, is a different story. We are doing all we can to support the business and its management team in tackling extremely adverse market conditions to be positioned for the best possible long-term future.*

*Meanwhile we are working hard on our proposal to merge the business and shareholder interests of GKN with Melrose to create a manufacturing powerhouse worth in excess of £10 billion today. The merger would create one of the largest companies in the UK and advance the fortunes of GKN's divisions, employees, customers and pensioners across the piece. We believe it's an exciting prospect for both sets of shareholders and that our long-term track record, with Nortek as just the most recent example, is clear proof of the transformation we can make at GKN."*

GKN

On 13 October 2017, GKN released a trading statement, an extract of which is set out below:

*"GKN plc, the global engineering business that serves the aerospace and automotive markets, today issues a trading update for the period since the half year results announcement on 26 July 2017, brought forward as a result of two significant external claims. As a result of these, together with continuing operational challenges in GKN Aerospace North America, the Group now expects management profit before tax<sup>(1)</sup> for 2017 to be slightly above 2016.*

*GKN has been made aware of two probable claims which are expected to result in a charge of around £40 million in the fourth quarter of 2017. One relates to GKN Aerospace and the other GKN Driveline. Both claims are commercially sensitive with no additional information disclosable at this time.*

*Overall in the third quarter, the Group achieved good organic sales growth, with GKN Driveline continuing to outperform the market and GKN Aerospace delivering sales slightly up on the prior year. Group trading margin in the third quarter was lower than the comparable period in the prior year, mainly due to programme transitions and on-going operational challenges in GKN Aerospace North America.*

...

*Following a detailed review, GKN Aerospace North America will incur a £15 million non-cash charge at its Alabama, USA facility relating to revised assumptions on programme inventory and receivables balances.*

*Given the issues above, the review of the carrying value of goodwill and other assets at the year-end is expected to produce a significant non-cash impairment charge, relating to the North American business, which will be disclosed outside management profit before tax*

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(1) Financial information set out in this announcement, unless otherwise stated, is presented on a management basis which aggregates the sales and trading profit of subsidiaries with the Group's share of the sales and trading profit of equity accounted investments. References to trading margins are to trading profit expressed as a percentage of sales. Where appropriate, reference is made to organic results which exclude the impact of acquisitions/divestments as well as currency translation on the results of overseas operations."

On 16 November 2017, GKN published further guidance, an extract of which is set out below:

*"A review of working capital has been initiated across other Aerospace plants in North America. While this review is not yet complete it is likely to result in a further write-off estimated to be between £80 million and £130 million, much of which built up before 2017.*

*With the exception of the working capital write-off referred to above, all other guidance for the full year remains unchanged."*

On 12 January 2018, GKN published a further announcement, an extract of which is set out below:

*“Trading update*

*Q4 2017 trading was in line with expectations and the Group therefore continues to expect 2017 management profit before tax<sup>(1)</sup> to be slightly ahead of 2016 (which was £678 million) before the additional working capital write-off in North American Aerospace announced on 16 November 2017. The balance sheet review in North America has progressed significantly and the one time write-off and associated costs are still estimated to be between £80 million and £130 million, albeit nearer the upper end of that range. These balance sheet write-offs will be included within management profit before tax.*

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(1) Financial information set out in this announcement, unless otherwise stated, is presented on a management basis which aggregates the sales and trading profit of subsidiaries with the Group’s share of the sales and trading profit of equity accounted investments.

*As previously announced, the review of the carrying value of goodwill and other fixed assets at the year-end will produce a significant non-cash impairment charge relating to the North American Aerospace business, which, in line with our accounting policy, will be disclosed outside of management profit before tax.*

*Transformation programme*

*GKN commenced a wide-ranging review in 2017. This was necessary because, while sales have been growing, both profit margins and cash generation have been below expectations.*

*A new strategy has been developed to improve significantly performance in all of GKN’s businesses. This will continue to leverage GKN’s in-depth global knowledge of the automotive and aerospace industries to drive leadership in its chosen markets.*

*GKN is now creating differentiated product segments that will be classified as either core or non-core. There will be three different strategies for the core product segments—improve (e.g. Constant Velocity Joints), grow (e.g. Aero Engines) and develop (e.g. eDrive and Additive Manufacturing). Each strategy will have different capital expenditure targets and different expectations for growth, margin improvement, cash generation and return on investment. However, all will have stretching targets to be achieved through a transformation programme (“Project Boost”). Furthermore, to ensure that the strategy is delivered and that shareholder value is realised, a much stronger performance and accountability culture will be instilled throughout the business, supported by changes to incentives to align with the new strategy.*

*Project Boost is a two year programme to improve cash and profit that will incorporate all areas of the business operating system including culture. This includes optimising direct and indirect procurement, process and productivity, and capital allocation. Portfolio rationalisation of our non-core product segments will also be a priority. The development of this programme has been ongoing for a number of months. The Board is confident Project Boost will deliver a step change in profit margin and cash generation, and expects to deliver a significant increase in annual cash flow with the full run rate achieved during 2020 through a combination of cost and capital expenditure reduction and pricing discipline.”*

On 22 January 2018, GKN released an announcement relating to eDrive, an extract of which is set out below:

*“GKN Driveline today announces that its order book for electric driveline (eDrive) technologies hit a record £2 billion<sup>(1)</sup> by the end of last year following a series of significant programme wins with major global automakers. The order book growth underpins and extends GKN’s market-leading position in eDrive systems.*

*GKN’s success is accelerating its annual eDrive sales growth. Sales, which were previously forecast to rise from £33m in 2017 to £200m in 2020, are now expected to increase over eight-fold to £275m. In 2022, GKN forecasts that eDrive sales will reach £500m.*

*GKN’s success has been achieved through a long term commitment to Research and Development. In 2017, the Research and Development expense charged to the income statement was £36m, with total investment of over £123m over the past six years. Whilst impacting near-term financial performance, this investment is now delivering strong sales and order book growth. Through the R&D programme, GKN is rapidly bringing full systems capability to the market and is able to offer a range of solutions to meet customer demands. GKN is delivering components, sub-systems and full-systems in response to a variety of OEM needs. Building on systems integration leadership recognised by recent Automotive News PACE Awards, GKN will be adding GKN eMotors to their gear and torque management technology portfolio.*

*As at 31 December 2017, GKN’s order book relating to eDrive was £2 billion following a number of major programme wins. Amongst these are:*



- *GKN's Multimode eTransmission system is due to launch on a Chinese OEM's platform across a number of vehicle models from 2018*
- *GKN is due to supply a semi-integrated electric driveline unit from 2019 for a new vehicle launched by a premium European automaker*
- *GKN has developed an integrated electric driveline system for a European OEM's global programme that is expected to be first launched in China from next year"*

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(1) Order book corresponds to cumulative business awarded by customers (including share of joint ventures) less orders fulfilled and cancellations, based on GKN's best reasonable estimates in terms of volumes, selling prices and project lifespans.

Save as set out above and so far as Melrose is aware having regard to publicly available information, there has been no significant change in the financial or trading position of the GKN Group since 30 June 2017, the date to which GKN's last published unaudited consolidated financial interim statements were prepared.

## **10. Overseas Shareholders**

The availability of the New Melrose Shares under the terms of the Acquisition to persons not located in the UK may be affected by the laws of the jurisdiction where they are located. Such persons should inform themselves about and observe any applicable requirements.

For further details in relation to Overseas Shareholders, see the *Notice to Overseas Shareholders* and paragraph 10 of Part III (*Important Information*) of this document. Further information for Overseas Shareholders who are citizens or resident in the US is set out in the *Notice relating to the United States of America* at paragraph 11 of Part III (*Important Information*) of this document and also in paragraph 11 of this Part VII below.

## **11. US Persons**

There will be no public offering of the New Melrose Shares in the United States. The New Melrose Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, accordingly, may not be offered, sold, resold, taken up, transferred, delivered or distributed, directly or indirectly, into, in or within the United States or to, or for the account or benefit of, US Persons (as defined in Regulation S), except in reliance on an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The New Melrose Shares are being offered or sold only: (a) outside the United States to non-US Persons (as defined in Regulation S under the US Securities Act) in offshore transactions within the meaning of, and in accordance with, the safe harbour from the registration requirements provided by Regulation S; and (b) within, into or in the United States to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A under the US Securities Act) or accredited investors (as defined in Rule 501(a) under the US Securities Act) (in both cases, "Eligible US Holders"). Such Eligible US Holders will be required, among other things, to warrant, to undertake, to acknowledge or to provide supporting documentation with respect to certain information and/or obligations, as the case may be, in order to participate in the transaction. Such warranties will include, among others, warranties as to the facts which establish that the US Person is an Eligible US Holder. A Form of "QIB and Accredited Investor Questionnaire and Acknowledgement" is available from the Receiving Agent.

Accordingly, Melrose is not extending the Offer into the US unless an exemption from the registration requirements of the US Securities Act is available and, subject to certain exceptions, this document does not constitute and will not constitute an offer or an invitation to apply for or an offer or an invitation to acquire any New Melrose Shares in the US. Subject to certain exceptions, this document will not be sent to, and no New Melrose Shares will be credited to a stock account in CREST of, any GKN Shareholder with a registered address in the US.

Subject to certain exceptions, any person who acquires New Melrose Shares will be deemed to have declared, warranted and agreed, by accepting delivery of this document, the Offer Document and Form of Acceptance and delivery of the New Melrose Shares, that they are either an Eligible US Holder or they are not, and that at the time of acquiring the New Melrose Shares they will not be, in the US and are not a US Person (as defined in Regulation S) or acting on behalf of, or for the account or benefit of a US Person (as defined in Regulation S).

Notwithstanding the foregoing, New Melrose Shares may be offered to and acquired by US Persons in the United States pursuant to an available exemption from registration under the US Securities Act. Any US Person to whom New Melrose Shares are offered and by whom New Melrose Shares are acquired will be required, among other things, to warrant, to undertake or to acknowledge certain information and/or obligations, as the case may be, in order to participate in the transaction. Such warranties will include, among others, warranties as to the fact that the US Person is an Eligible US Holder.

Each recipient of this document, the Offer Document and the Form of Acceptance acknowledges that the New Melrose Shares are “restricted securities” within the meaning of Rule 144(a)(3) of the US Securities Act and it represents that it will not resell the New Melrose Shares absent registration or an available exemption or safe harbour from registration under the US Securities Act. Resales of New Melrose Shares may only be made (i) outside the US in offshore transactions to non-US Persons as defined in, and in reliance on, Regulation S or (ii) within the US to investors that are Eligible US Holders. Melrose will require the provision of documentation from investors in the US and any transferees in the US containing representations and/or further information as to status under the US Securities Act. Melrose will refuse to issue or transfer New Melrose Shares to investors that do not meet the foregoing requirements

## **12. Compulsory Acquisition, Delisting of GKN Shares and Re-registration of GKN**

If Melrose receives acceptances of the Offer in respect of, and/or otherwise acquires, both 90 per cent. or more in value of the GKN Shares to which the Acquisition relates and 90 per cent. or more of the voting rights carried by those shares, and assuming that all of the other Conditions of the Offer have been satisfied or waived (if capable of being waived), Melrose intends to apply the provision of sections 974 to 991 of the Companies Act to compulsorily acquire any outstanding GKN Shares to which the Acquisition relates and in respect of which the Offer has not been accepted. Any GKN Shares compulsorily acquired will be acquired on the same terms as the Offer.

If the Offer becomes or is declared unconditional in all respects and Melrose has, by virtue of its shareholdings and acceptances of the Offer, acquired GKN Shares carrying 75 per cent. or more of the voting rights of GKN, it is intended that an application will be made to the London Stock Exchange for the cancellation of the trading of GKN Shares on its main market for listed securities and the UKLA will be requested to cancel the listing of GKN Shares on the Official List.

It is anticipated that the cancellation of GKN’s listing on the Official List and admission to trading on the London Stock Exchange’s main market for listed securities will take effect no earlier than 20 Business Days following the later of the date on which the Offer becomes or is declared unconditional in all respects or, provided Melrose has, by virtue of its shareholdings and acceptances of the Offer, acquired GKN Shares carrying 75 per cent. or more of the voting rights of GKN, the date on which Melrose has made an announcement of that fact.

As soon as possible after the cancellation of the trading of GKN Shares on the London Stock Exchange’s main market for listed securities and the cancellation of the listing of GKN Shares on the Official List, it is intended that GKN will be re-registered as a private limited company.

**Delisting of the GKN Shares and the re-registration of GKN as a private limited company will significantly reduce the liquidity and marketability of any GKN Shares not acquired by Melrose and their value may be affected as a consequence. Any remaining GKN Shareholders would become minority shareholders in a majority controlled private limited company and may therefore be unable to sell their GKN Shares. There can be no certainty that GKN would pay any further dividends or other distributions or that such minority GKN Shareholders would again be offered an opportunity to sell their GKN Shares on terms which are equivalent to or no less advantageous than those under the Offer.**

## **13. The New Melrose Shares**

The New Melrose Shares to be issued pursuant to the terms of the Offer will be issued in registered form and will be capable of being held in certificated and uncertificated form.

The New Melrose Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Melrose Shares, including in relation to the right to receive notice of, and to attend and vote at, general meetings of Melrose, the right to receive and retain any dividends and other distributions declared, made or paid by reference to a record date falling after the Effective Date and to participate in the assets of Melrose upon a winding-up of Melrose. As with the Existing Melrose Shares, the New Melrose Shares will not be subject to any redemption provisions.

#### **14. Listing, Dealings and Settlement of the New Melrose Shares and the Existing Melrose Shares**

Application will be made for the admission of the New Melrose Shares to the Official List with a premium listing and the trading on the London Stock Exchange's main market for listed securities.

It is expected that, subject to admission of the New Melrose Shares will become effective and trading on the London Stock Exchange will commence at 8.00 a.m. on the Effective Date and dealings for normal settlement in the New Melrose Shares will commence at or shortly after that time.

No application has been made or is currently intended to be made by Melrose for the New Melrose Shares to be admitted to listing or trading on any other exchange.

#### **15. Dilution**

The issue of 2,598,898,592 New Melrose Shares will result in Melrose's issued ordinary share capital increasing by approximately 134% (on the basis of 1,941,200,503 Melrose Shares being in issue as at the Latest Practicable Date and assuming no further Melrose Shares are issued prior to Admission). Immediately following Admission, former GKN Shareholders will hold approximately 57% of Melrose's issued ordinary share capital (assuming Melrose acquires the entire issued and to be issued share capital of GKN and Melrose issues 2,598,898,592 New Melrose Shares). As a result, the voting rights of Existing Melrose Shareholders would be diluted, such that the Existing Melrose Shareholders would, immediately following Admission, hold voting rights of approximately 43% of the total voting rights that they had held immediately prior to Admission (assuming Melrose acquires the entire issued and to be issued share capital of GKN and Melrose issues 2,598,898,592 New Melrose Shares).

#### **16. Taxation**

Certain information about UK taxation in relation to the Offer and the New Melrose Shares is set out in Part XII (*Taxation*) of this document. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your own independent tax adviser without delay.

**PART VIII**  
**INFORMATION ON MELROSE**

*The selected historical financial information and other historical financial information in relation to Melrose in this Part VIII (Information on Melrose) has, unless otherwise stated, been extracted without material adjustment from the audited consolidated accounts of the Melrose Group for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 and from the unaudited consolidated accounts of the Melrose Group for the six months ended 30 June 2017 and 30 June 2016, as referred to in Part A (Selected Historical Financial Information of the Melrose Group) of Part XI (Historical Financial Information) of this document.*

*Investors should read the whole of this document and the documents incorporated herein by reference and should not just rely on the financial information set out in this Part VIII (INFORMATION On Melrose).*

**1. Introduction and History**

Melrose is a public limited company registered in England and Wales and, since 19 November 2015, has been the holding company of the Melrose Group. The Melrose Group traces its history back to October 2003 when its then holding company, Melrose PLC, was floated on AIM with the strategy of acquiring businesses whose operational performance, in the opinion of its directors, could be improved to create greater shareholder value. Melrose PLC moved to the London Stock Exchange's main market for listed securities in December 2005. As part of a series of capital returns to Melrose Shareholders, during November 2012, Old Melrose became the holding company of the Melrose Group and, on 19 November 2015, Melrose became the new holding company of the Melrose Group, in each case pursuant to a scheme of arrangement sanctioned by the Court.

The Melrose Group has a track record of acquiring businesses and making the necessary changes to maximise the value inherent in those businesses to the benefit of shareholders. The Melrose Directors have extensive experience in identifying and evaluating acquisition opportunities, quoted and unquoted, both in the UK and overseas.

Since 2003, the Melrose Group has raised approximately £3.6 billion from shareholders and returned in cash approximately £4.3 billion to shareholders and as at the Latest Practicable Date has a market capitalisation of £4.4 billion.

In May 2005, the Melrose Group acquired two specialist engineering businesses, Dynacast and McKechnie, for an enterprise value of £429 million and, in July 2008, the Melrose Group acquired FKI plc for an enterprise value of approximately £1.0 billion. During the period of its ownership, the Melrose Group significantly improved the operational performance of these businesses. In May 2007, the Melrose Group completed the sale of a large part of McKechnie for £428 million (with the buyer also assuming £2.8 million of indebtedness) and, in July 2011, it completed the sale of Dynacast for an enterprise value of £377 million (including £11 million of pension liabilities assumed by the buyer). In August 2007, shareholders approved a return of capital of £220 million following the McKechnie disposal (which, together with the dividends already paid, equalled approximately 95 per cent of the original capital raised from shareholders and the further capital raised to buy Dynacast and McKechnie). In August 2011, the Melrose Group returned approximately £373 million to shareholders following the disposal of Dynacast.

In August 2012, the Melrose Group acquired Elster for an enterprise value of approximately £1.8 billion. In July 2013, the Melrose Group disposed of Truth Hardware for a total consideration of £135 million, followed by the disposal of Marelli Motori in August 2013 for a total consideration of £177 million. In November 2013, the Melrose Group completed the sale of Crosby and Acco for a total consideration of £633 million. Finally, in December 2013, the Melrose Group disposed of Harris Waste Management Group (which, together with Truth Hardware, Marelli Motori, Crosby and Acco, previously formed part of FKI plc). Following these divestments, in February 2014, the Melrose Group returned approximately £595 million in cash to shareholders.

At the end of October 2014, Elster acquired Eclipse, Inc., a US-based specialist in the field of low-temperature combustion technology, for a total consideration of US\$158 million. Upon completion, Eclipse, Inc. formed part of the gas division of Elster. In November 2014, the Melrose Group disposed of the Bridon group (previously part of FKI plc) for a total consideration of £365 million, with the Melrose Group contributing £6.7 million into the Bridon Group (2013) Pension Scheme, which was transferred to the buyer. Following this disposal, in February 2015, the Melrose Group returned approximately £200 million in cash to shareholders.

In December 2015, the Melrose Group completed the sale of Elster to Honeywell for a total cash consideration of approximately £3.3 billion. In February 2016, the Melrose Group returned approximately £2.4 billion in cash

to shareholders and contributed £8.8 million into the remaining Brush UK pension scheme to take it to fully funded.

In August 2016, the Melrose Group completed the acquisition of Nortek for an enterprise value of £2.2 billion, financed from the net proceeds of a rights issue raising £1.6 billion, and the balance funded through debt of £0.6 billion.

## **2. The Melrose Group's strategy**

Melrose's strategy is to acquire high-quality manufacturing businesses, with strong fundamentals and the potential for significant development and improvement under Melrose management. Through investing in businesses, changing management focus and operational improvements, Melrose seeks to increase and realise the value in such businesses at the appropriate time and to return the proceeds to shareholders.

The Melrose Group looks for the following characteristics in an investment, among other things:

- (a) a manufacturing company with a strong market position and high quality products; and
- (b) a business that needs change to improve its performance through investment, refocusing or other company specific issues.

The Melrose Group expects to challenge and be challenged as it works in tandem with management teams to improve the growth prospects of its businesses. Management teams are given incentive arrangements that align their interests with shareholders so that they will benefit in any post-acquisition value creation.

The Melrose Group is not a passive investor and its senior executives work closely with business management to support the development of its subsidiaries. This includes long-term strategic planning.

The Melrose Group finances its acquisitions in such a way as to give it flexibility to improve its businesses. It does not saddle its businesses with high levels of debt.

The Melrose Group's focus since its inception has always been to make good businesses better and to generate superior returns for its shareholders. Over the years, the Melrose Group has raised equity to acquire businesses in which it saw significant potential and has later sold them at the appropriate time, before returning proceeds to its shareholders. As a result, the market capitalisation of Melrose and its predecessors, Old Melrose and Melrose PLC, has changed. When Melrose raises equity its market capitalisation increases by an amount corresponding to the equity raise, when Melrose returns proceeds to shareholders its market capitalisation decreases by an amount corresponding to the capital return.

## **3. Organisational structure and businesses**

Following the acquisition of Nortek in August 2016, the Melrose Group now consists of four divisions.

### *Air Management*

The Air Management division is the largest in the Melrose Group. It comprises two businesses: a global HVAC business which produces residential, commercial and custom HVAC equipment and is based in Missouri; and Air Quality & Home Solutions ("AQH"), which manufactures ventilation products under new management headquartered in Wisconsin, USA.

### *Security & Smart Technology*

The Security & Smart Technology division comprises the Security & Control, Core Brands and GTO Access Systems businesses, which have been consolidated under one management team in California, USA. It is one of the world's leading developers and manufacturers of security, home automation and access control technologies for the residential audio video and professional video markets.

### *Ergonomics*

The Ergonomics division comprises Ergotron, a world leading manufacturer and distributor of innovative products designed with ergonomic features including wall mounts, carts, workstations and stands. The business is headquartered in Minneapolis, USA and is organised into three segments: commercial; original design and manufacture; and consumer.

## Energy

The Energy division manufactures and services turbogenerators and transformers under the Brush brand as well as switchgear for rail and industrial use under the Hawker Siddeley Switchgear brand name and small mobile generators as Harrington Generators International.

### **4. Current trading, trends and prospects**

#### *Melrose*

Melrose invests in international manufacturing companies and is therefore directly and indirectly impacted by events occurring in the global economy. The world economy remains uncertain and generally there has been continued nervousness amongst most economic commentators, many of whom are concerned that growth may be difficult to achieve over the near term. This caution applies to most major economies of the world.

#### *Air Management*

Whilst the HVAC market has always been subject to seasonality, other critical trends are beginning to converge, influencing the HVAC market for commercial and residential buildings.

The continued acceleration of digitalisation, growth of the IoT, convergence of technologies and connectivity is driving demand for critical space air conditioning and puts further emphasis on building energy reduction.

The continuous regulation of energy and water conservation in buildings driven by global warming and an impending global water shortage has placed an emphasis on improving energy efficiency and reducing greenhouse gas emissions.

This is matched by an increasing need for suppliers to be agile in responding quickly to customers' needs to comply with the changing regulatory environment.

Furthermore, urbanisation is an overriding trend that bodes well for the business as it will lead to investment in infrastructure.

Custom markets are impacted by both an increase in energy and water efficiency requirements and new building code standards. In addition to efficiency performance, fan control and ventilation standards continue to evolve, with these factors driving the need to incorporate higher performing components.

The HVAC business has invested heavily in research and development to upgrade its product offering to match regulatory, environmental and market demand. At the same time, it has simplified its structure, streamlined processes and remained close to customers to ensure it can react quickly to any changing requirements.

Specifically for AQH, consumers are seeking new solutions to improve the quality of their indoor air as the negative health impact of poor air quality becomes more widely recognised.

Building codes in North America are forcing higher efficiency and more advanced solutions to address indoor air quality concerns as homes become more tightly sealed. Indoor air quality products are common in Canada and are gaining awareness as a whole-home solution in the US. The use of built-in, portable and personal air purification devices is growing at an accelerated pace in Asia Pacific.

Customers in traditional product channels are becoming more flexible and buying in multiple formats, including traditional retailers entering the building maintenance and repair spaces. The customer landscape is also experiencing ongoing consolidation, with increasing emphasis on margin enhancement and omnichannel presence.

In response to increased demand for air purification products, AQH has formed relationships with many local builders, driving increased sales volume. AQH continues to refresh its product offering, with recent introductions including new bathroom ventilation fan and range hood product lines.

#### *Security & Smart Technology*

The division operates in a dynamic market, with rapidly advancing technologies, new services entrants, consolidation among traditional service companies and growing global demand. The traditional security services market is evolving to embrace the possibilities of IoT, creating a wider range of offerings and greater focus on software and connectivity. Technology is shifting towards utilising video and audio technologies (including voice control) as a means to sense and control residential and commercial environments.

The basic security business continues to be the core of service company offerings, with automation/control services added to supplement service customers' sales revenue.

Software is becoming a critical technological requirement of the division as connectivity and user interfaces become primary competitive differentiators. Smartphone proliferation continues to drive demand for, and lower the initial cost of, home control systems.

### *Ergonomics*

Ergotron's key product segments are underpinned by strong global technology and wellness trends, including the development of electronic medical records systems, digital learning in education and corporate wellness, which drive a need for sit/stand workstations. Staying on top of these markets requires continuous focus on product research and development.

Electronic medical record and digital learning regulation and funding varies widely by country and trends are localised. Although the US market is relatively mature and growth is modest, the Melrose Group is seeing new applications for tablets in healthcare that represent new opportunity.

Wellness trends have driven strong interest in sit/stand workstations in the office in the US and other geographies. Public awareness of the benefits of creating workplace cultures of movement is growing and with it investment in ergonomic office equipment.

### *Energy*

The Brush Turbogenerator business (which represented less than 5% of the Melrose Group revenues for 2016, based on annualised revenues to include Nortek for the period prior to ownership.) is facing significant structural market changes. These have been caused by worldwide environmental policy which has triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush's turbogenerator sales falling from 122 units in 2016 to a forecast for 2018 of approximately 50 units.

Some of Brush's businesses have strong UK revenue streams, principally the Switchgear and Transformer businesses which sell to the UK Distribution Network Operators ("DNOs"). The DNOs are regulated by Ofgem, the UK government regulator for gas and electricity markets, under the eight year RIIO-ED1 network regulation model which runs from 1 April 2015 to 31 March 2023.

### *Interim results as at 30 June 2017*

On 31 August the interim unaudited financial statements of the Melrose Group were published for the six months ended 30 June 2017, Nortek achieved a record first half performance with an underlying operating profit of £145.5 million and underlying operating margin of 14.7%. Brush experienced its toughest market conditions since Melrose acquired it in 2008. Melrose Group net debt was £669.1 million.

On 1 February 2018, Melrose released a trading update, which is set out below. Please refer to Part XIV (*Melrose Profit Estimate*) for further details.

*"Melrose is today providing a trading update ahead of its audited 2017 preliminary results.*

- *Melrose confirms trading in 2017 was in line with management expectations*
- *Nortek trading has been transformed more comprehensively and faster than envisaged at the time of the acquisition; underlying operating profits at constant currency are up approximately 50% compared to last year of \$241.0 million and approximately 65% up on the full year prior to acquisition of \$220.1 million<sup>(1),(2)</sup>*
- *Nortek's underlying operating margin<sup>(3)</sup> increased to approximately 15%, an increase of more than 5 percentage points*
- *The well-publicised structural change in the global gas turbine market has led to Brush commencing employee consultations today in relation to the intended closure of its Dutch turbogenerator facility and the downsizing of its turbogenerator production in the UK*

(1) This statement has been provided on an underlying operating profit basis consistent with the current accounting policies of Melrose, which are in accordance with IFRS, adjusted for constant currency at the 2016 average exchange rates for the comparison to 2016 and at the 2015 average exchange rates for the comparison to 2015. The principal exchange rate is GBP:USD and the average rates applied to calculate growth in underlying operating profit on a constant currency basis are 1.3554 for 2016 and 1.5284 for 2015. The average GBP:USD exchange rate for 2017 is 1.2888

Underlying operating profit excludes items which are significant in size or volatility or by nature are non-trading or non-recurring, or any item released to the Income Statement that was previously a fair value item booked on acquisition. These items include acquisition and disposal costs, restructuring and transformation charges, which include the losses incurred within closed businesses in the year of closure, and amortisation of intangible assets acquired in business combinations

- (2) For the purposes of Rule 28 of the Code, this statement constitutes a profit estimate (the “Profit Estimate”). The Profit Estimate, the assumptions on which it is based, and the reports from Deloitte LLP (acting as reporting accountants for Melrose) and Rothschild and RBC Europe Limited (acting as financial advisers for Melrose, together, the “Financial Advisers”) as required by Rule 28.1 of the Code are set out in the Appendix to this Announcement
- (3) Underlying operating profit as a percentage of revenue

*Simon Peckham, Chief Executive of Melrose said:*

*“Changing the culture and direction of Nortek by freeing it from the restrictions of a centralised group structure, when combined with our investments at the rate of approximately 2x depreciation, has resulted in this exceptional improvement in performance in a very short space of time. Over the years, in businesses spanning many different industry sectors from automotive to consumer products and from aerospace to security, the Melrose team’s widespread experience and expertise has continued to deliver exceptional results. We have no doubt this approach would also be successful at GKN.”*

### **Nortek**

*The Nortek businesses have built on a promising start under Melrose ownership to have an outstanding 2017. Having just completed its first full year in the Melrose group, underlying operating profit is up approximately 50% compared with 2016, which itself benefited from four months of Melrose improvements. Nortek has also achieved operating margins of approximately 15%, being the original three to five year aim at the time of the acquisition and an improvement of more than 5 percentage points. The business has been extremely successful in converting this strong performance into cash, with a cash conversion rate under Melrose ownership of over 100%.<sup>(4)</sup>*

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(4) Defined as operating cash generated before capital expenditure as a percentage of EBITDA. EBITDA is defined as underlying operating profit before interest, tax, depreciation and amortisation.

*This improvement has been driven by the hard work of the Nortek operational management teams, freed from the restrictions of the formerly centralised group structure, to implement the necessary improvement programmes funded by Melrose planned investments equal to approximately 2x depreciation. The full benefits of these investments are still unfolding alongside further improvements planned for 2018 as Melrose looks to maintain the pace of change in order to deliver further value for shareholders.*

*The following are examples of these ongoing improvement programmes:*

- *Global HVAC—A strengthened and refocused management team under the incumbent CEO is currently spending £9 million to upgrade the key US production facilities in Tualatin and Oklahoma City, which will improve productivity and enable the production of state-of-the-art custom air handling products for the healthcare and data centre markets, with the full benefits expected to flow from 2018 onwards. This has been matched by significant investment in the R&D centre in Saskatoon, Canada, focused on new product development and process improvements that are pivotal to the success of the production plants. A detailed product profitability review has led not only to the exiting of approximately 12% of low margin divisional sales, but has also provided the business with a better understanding of its cost base and enabled a more informed approach to tendering.*
- *Air Quality and Home Solutions (AQH)—A new CEO with significant large customer experience has been installed and the distraction of the loss making European business of Best Italia S.p.A has been removed by selling it to a suitable home within Electrolux in July 2017. Now streamlined and refocused, AQH is part way through optimising a previously fragmented production footprint. This involves a site consolidation in Canada and increased production at the Hartford, USA headquarters, made possible by an ongoing £16 million investment to upgrade Hartford’s plant and equipment, including automated lines and laser welders, and a consolidation of the entire warehousing operation into the main facility. An in-depth product portfolio review has supported the continued refreshing of the product range, with a number of new product launches due in 2018.*
- *Security and Smart Technology—The opening of the new Carlsbad, USA headquarters in April 2018 will complete the consolidation of the Nortek Security and Control, Core Brands and GTO businesses under one management team. This includes a significant investment to upgrade their research and development capabilities. The consolidation strengthens the core team under the incumbent CEO and refocuses the*



*business on profitable channels, improving the product mix to take advantage of customer changes in the market. This has been supported by significant investment in tooling for new products such as Nova and the further development of the leading Elan platform.*

- *Ergotron—Already a high margin business on acquisition, Melrose has made further investments focused on supporting expansion projects long sought-after by the existing management team. These include growth in e-commerce and the APAC and European markets, as well as a restructuring of the Tualatin, USA production facility and further development of Ergotron’s market leading ‘WorkFit’ and medical cart products.*

*The Board believes that these and other ongoing investments will enable Nortek to continue to build on the success achieved to date to deliver further improvement for the benefit of shareholders.*

### **Brush**

*As flagged in Melrose’s full year 2016 results announcement on 2 March 2017 and again in the interim 2017 results announcement on 31 August 2017, the Brush turbogenerator business (which represented less than 5% of the Melrose Group revenues for 2016<sup>(5)</sup>) is facing significant structural market changes. These have been caused by worldwide environmental policy which has triggered a fall in volumes in the gas turbine market of over 60% from its peak in 2011. This in turn has resulted in Brush’s turbogenerator sales falling from 122 units in 2016 to a forecast for 2018 of approximately 50 units.*

(5) Based on annualised revenues to include Nortek for the period prior to ownership.

*This has meant that every aspect of the turbogenerator business has been under review. With no material change in these market conditions expected in the foreseeable future, Brush has commenced consultations with employees today in relation to restructuring its turbogenerator business to reflect the reduced levels of activity.*

*This restructuring involves the intended closure of the turbogenerator production facility at Ridderkerk, Netherlands and the transfer of its 4-pole turbogenerator production to the facility in Plzen, Czech Republic, while the factory in Changshu, China has already been closed. In the UK, Brush has entered into consultation with its workforce about the future of 2-pole turbogenerator production at the Loughborough, UK facility, which accounts for approximately half the workforce at the site. The 520-strong workforce employed at Brush’s other UK sites in the transformers, switchgear and mobile generator businesses remain unaffected.*

*The cash cost of these restructuring items is estimated to be £40 million and is expected to be materially complete by the end of 2018. This is expected to mitigate the current £12 million annual losses of the turbogenerator business and align it to the new market conditions. The carrying value of the business has been reduced to £300 million. The Board continues to be fully committed to supporting Brush and its management team in emerging from these adverse market conditions so as to be positioned to have the best possible long-term future.*

*Melrose’s Chairman Christopher Miller said:*

*“We expect continuing strong performances at each Nortek division and are delighted with the progress we have made so far. There is more to go for. Nortek will also benefit from recent favourable tax changes announced in the US.*

*Brush, albeit a very small part of the Melrose portfolio, is a different story. We are doing all we can to support the business and its management team in tackling extremely adverse market conditions to be positioned for the best possible long-term future.*

*Meanwhile we are working hard on our proposal to merge the business and shareholder interests of GKN with Melrose to create a manufacturing powerhouse worth in excess of £10 billion today. The merger would create one of the largest companies in the UK and advance the fortunes of GKN’s divisions, employees, customers and pensioners across the piece. We believe it’s an exciting prospect for both sets of shareholders and that our long-term track record, with Nortek as just the most recent example, is clear proof of the transformation we can make at GKN.”*

*There has been no change to the Melrose Board’s expectations since the publication of the trading statement on 1 February 2018.*

## 5. Melrose breakdown of revenue

A split of Melrose's continuing revenue by geographical area, as extracted without material adjustment from the consolidated accounts of the Melrose Group for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 and the six months ended 30 June 2017 and 30 June 2016, is set out below.

	Year ended 31 December					
	Six months ended 30 June 2017	Six months ended 30 June 2016	2016	2015	2014 <sup>(1)</sup>	2014
	£m	£m	£m	£m	£m	£m
	Unaudited					
UK	53.0	33.4	88.9	83.2	83.6	159.2
Europe	53.2	27.1	82.3	66.3	84.5	507.9
North America	930.2	23.7	638.8	57.4	91.7	408.4
Other	49.2	20.5	79.3	54.2	64.5	302.0
<b>Total</b>	<b>1,085.6</b>	<b>104.7</b>	<b>889.3</b>	<b>261.1</b>	<b>324.3</b>	<b>1,377.5</b>

Notes:

(1) Restated to include the revenue of the Elster Group and Prelok within discontinued operations.

## 6. Pensions

The Melrose Group acquired a number of defined benefit plans as part of the acquisition of Nortek, including the funded Nortek, Inc. (Nortek US) Retirement plan, the unfunded Nortek Supplemental Executive Retirement Plans and the unfunded post-retirement medical benefits in the US, the Eaton-Williams Group Pension and Assurance Scheme in the UK and a number of small funded and unfunded defined arrangements across Europe (the "Nortek Plans"). Of the Nortek Plans, the most significant is the Nortek, Inc. (Nortek US) Retirement plan, which is closed both to new members and to current members' future service.

The Melrose Group also continues to be responsible for the Brush UK Plan (which is in surplus) with respect to its business as well as the Brush US Plan. These plans are closed both to new members and to current members' future service.

At 30 June 2017 the accounting net deficit of the Melrose Group's defined benefit pension plans was £22.2 million (31 December 2016: £33.4 million). Total plan assets at 30 June 2017 were £522.2 million (31 December 2016: £522.6 million) and total plan liabilities were £544.4 million (31 December 2016: £556.0 million).

## 7. Capitalisation and Indebtedness

The following table shows the capitalisation and indebtedness of the Melrose Group as at 30 June 2017. The figures for capitalisation have been extracted without material adjustment from the Melrose Group's consolidated unaudited interim accounts for the six months ended 30 June 2017, incorporated into this document by reference. The statement of indebtedness has been prepared under IFRS using policies which are consistent with those used in preparing the latest audited consolidated financial statements of the Melrose Group referred to in Part A (*Selected Historical financial information of the Melrose Group*) of Part XI (*Historical Financial Information*) of this document.

	As at 30 June 2017
	<u>£m</u> Unaudited
<b>Total capitalisation and indebtedness</b>	
Total current debt . . . . .	0.6
—secured . . . . .	0.6
—unsecured . . . . .	—
Total non-current debt (excluding current portion of long-term debt) . . . . .	709.4
—secured . . . . .	709.4
—unsecured . . . . .	—
<b>Shareholders' equity</b>	
Share capital . . . . .	133.1
Share premium . . . . .	1,492.6
Other reserves . . . . .	359.1
<b>Total capitalisation</b> . . . . .	<b><u>1,984.8</u></b>

There have been no material changes to the capitalisation figures since 30 June 2017.

The following table details the net debt of the Melrose Group as at 31 December 2017, sourced from the Company's management accounts, which are prepared in accordance with IFRS:

	As at 31 December 2017
	<u>£m</u> Unaudited
Cash and cash equivalents . . . . .	16.3
Current debt (secured and unsecured) . . . . .	(0.4)
Non-current debt (secured and unsecured) . . . . .	(587.7)
<b>Net debt</b> . . . . .	<b><u>(571.8)</u></b>

## 8. Borrowings and funding

### *The Melrose Group*

Melrose is a holding company whose principal assets are its investments in the shares of its subsidiaries. The liquidity and capital resource requirements of each subsidiary vary in the light of their own financial position and activity.

The Melrose Group's principal sources of funds are funds raised from time to time from the issue of ordinary shares and bank and other borrowings, as well as cash dividends received, and money borrowed, from its subsidiaries.

The Melrose Group's net debt position at 30 June 2017 was £669.1 million compared to a net debt position of £541.5 million at 31 December 2016.

In 2016 Melrose acquired Nortek with £1,056.5 million of net debt. Subsequent to that acquisition, Melrose refinanced all of Nortek's debt facilities, which consisted of 8.5% Senior Notes with a principal value of US\$735.0 million which were due to mature in 2021, in addition to a US\$605.4 million Senior Secured Term Loan facility due to mature in 2020. Nortek also held a US\$325.0 million ABL facility which was due to mature in 2021 but this was not drawn against at the date of acquisition. The ABL facility and the Senior Secured Term Loan facility were cancelled immediately on the date of acquisition and on 30 September 2016 the Nortek 8.5% Senior Notes were repaid together with the applicable redemption premium of US\$31.3 million and accrued interest of US\$28.6 million, resulting in a repayment including principal of US\$794.9 million.

The Existing Facilities Agreement was entered into on 6 July 2016 to assist with the acquisition of Nortek. It consists of a US\$350 million term loan facility and a US\$900 million revolving credit facility. As with previous facilities, this facility has two financial covenants. There is a net debt to underlying EBITDA (calculated on a consolidated basis with customary adjustments) covenant and an interest cover covenant, both of which are tested half yearly, each June and December. The first of these covenants is set at a maximum of 3.5x leverage for each of the half yearly measurement dates for the remainder of the term, provided that if any acquisition (other than the acquisition of Nortek) would result in this ratio, calculated on a pro forma basis,

being 2.5x or higher, then Melrose PLC may elect the covenant to be set at a maximum of 3.75x for the immediate three test dates following such election. The interest cover covenant is set at a minimum of 4.0x throughout the life of the facility.

The revolving credit facilities under the Existing Facilities Agreement can be used (when required) by the Melrose Group to finance short-term working capital requirements. The Melrose Group's businesses display no significant seasonality in their borrowing requirements. Melrose PLC draws down under these revolving credit facilities and on lends to subsidiaries as required. Overseas subsidiaries can directly avail of overdraft facilities in their jurisdictions as required. The Existing Facilities Agreement matures on 6 July 2021 but will be repaid and cancelled on the Effective Date or up to 14 calendar days after the Effective Date with a portion of the proceeds of the Facilities.

In addition, there are a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Melrose Group. These uncommitted facilities have been lightly used.

### *The Enlarged Group*

Melrose intends to finance the cash consideration that may become payable to GKN Shareholders pursuant to the Acquisition with proceeds of borrowings under its debt facilities. On 17 January 2018, Melrose PLC entered into a senior term and revolving credit facilities agreement with, among others, certain of its subsidiaries as original borrowers and/or original guarantors, Lloyds Bank plc and Royal Bank of Canada as original lenders (the "**Lenders**"), Lloyds Bank plc and Royal Bank of Canada as mandated lead arrangers and bookrunners and Lloyds Bank plc as agent (the "**New Facilities Agreement**").

The New Facilities Agreement provides for term facilities and revolving credit facilities in an aggregate principal amount of up to £2,600,000,000, \$2,000,000,000 and €500,000,000, under which certain members of the Melrose Group may borrow upon the satisfaction of certain conditions (the "**Facilities**"). The proceeds of borrowings under the Facilities may be used to finance the cash consideration payable to GKN Shareholders pursuant to the Acquisition, to refinance indebtedness under the Existing Facilities Agreement and existing indebtedness of the GKN Group, to pay fees and expenses relating to the Acquisition and the refinancing of indebtedness and for general corporate purposes. The loans under the Facilities will be available on a customary "certain funds" basis.

### *Interest Rates and Fees*

Loans under the Facilities will bear interest at a rate of LIBOR or EURIBOR, as appropriate, plus a margin ranging from 0.75% to 2.25%. The margin for each loan will be subject to adjustment based on group leverage. Under the terms of the New Facilities Agreement a ticking fee is payable at a rate of (a) 20% per annum of the applicable margin on the undrawn amount of a lender's available commitments under the Facilities minus any commitments of that lender under the Existing Facilities Agreement from (and excluding) the date falling one month after the date of the New Facilities Agreement to (and excluding) the earlier of the date of first borrowing under the New Facilities Agreement and the date falling six months after the date of the New Facilities Agreement and (b) 30% per annum of the applicable margin on the undrawn amount of a lender's available commitments under the Facilities minus any commitments of that lender under the Existing Facilities Agreement from (and including) the date falling six months after the date of the New Facilities Agreement (unless the first borrowing has occurred prior to such date) to (and excluding) the date of first borrowing under the New Facilities Agreement. In addition, a commitment fee is payable at a rate of 35% per annum of the applicable margin on the undrawn amount of a lender's available commitments under the Facilities from (and including) the date of first borrowing under the New Facilities Agreement until the end of the relevant availability period.

### *Maturity*

The maturity of the Facilities ranges from, in respect of the term facility, the earlier of (i) 3 years and 6 months after the date of the New Facilities Agreement and (ii) 3 years after the date of first borrowing thereunder and, in respect of the revolving credit facilities, 5 years after the date of the New Facilities Agreement.

### *Prepayments*

The Facilities may be voluntarily prepaid or cancelled by the Melrose Group without penalty or premium. The New Facilities Agreement permits each lender to require the mandatory prepayment of all amounts owing to that lender upon a change of control of Melrose PLC.

### Guarantees

Loans under the New Facilities Agreement will be guaranteed on a senior basis by Melrose PLC and certain of its subsidiaries. In addition, it is a requirement under the New Facilities Agreement that certain material members of the GKN Group provide guarantees in favour of the Lenders following completion of the Acquisition, subject to certain limitations (including in respect of financial assistance laws). The Facilities will be unsecured.

### Certain Covenants and Events of Default

The New Facilities Agreement contains certain operating covenants which will restrict the ability of the Melrose Group and the GKN Group to, among other things:

- create security over assets;
- sell or transfer assets;
- make acquisitions;
- make loans;
- give guarantees;
- merge or consolidate; and
- incur additional indebtedness.

The New Facilities Agreement contains a net debt to underlying EBITDA (calculated on a consolidated basis with customary adjustments) covenant and an interest cover covenant, both of which are tested half yearly, each June and December. The first of these covenants is set at a maximum of 3.5x leverage for each of the half yearly measurement dates for the term of the Facilities. The interest cover covenant is set at a minimum of 4.0x throughout the life of the Facilities. The New Facilities Agreement also contains certain customary representations and warranties, affirmative covenants and events of default.

Under the terms of the New Facilities Agreement, Melrose PLC has agreed that it will not amend or waive any Condition without the consent of the lenders if to do so would be materially prejudicial to the interests of the lenders under the New Facilities Agreement, save as required by the UKLA, the London Stock Exchange, the Panel or the Court. Without the consent of the lenders, Melrose may reduce the minimum threshold for acceptances in Condition (a) to not less than 50% of the ordinary shares in the capital of GKN plus one share.

## **9. Restrictions on use of capital resources**

There are no notable restrictions on the use of the Melrose Group's capital resources.

## **10. Treasury policies**

The Melrose Group has a centralised treasury function whose primary role is to manage funding, liquidity and financial risks. Treasury is not a profit centre and does not enter into speculative transactions. The treasury policies of the Melrose Group are controlled by the Melrose Board and are subject to discussion on a regular basis, on the recommendation of Melrose's Group Finance Director. Whenever appropriate, the Melrose Group's treasury policy is to remit surplus cash resources to the UK companies in the Melrose Group.

## **11. Cash flow analysis**

### *The Melrose Group*

The selected cash flow information set out below has been extracted without material adjustment from the Melrose 2016 Annual Report, the Melrose 2015 Annual Report and the Old Melrose 2014 Annual Report for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 respectively, and the Melrose 2017 Interim Results and the Melrose 2016 Interim Results for the six months ended 30 June 2017 and 30 June 2016 respectively, each of which are incorporated by reference into this document.

	Six months ended 30 June		Year ended 31 December			
	2017	2016	2016	2015	2014 <sup>(1)</sup>	2014
	£m	£m	£m	£m	£m	£m
	Unaudited				Unaudited	
Net cash (used in)/from operating activities from continuing operations . . .	(99.1)	(8.1)	50.6	(57.8)	(10.5)	111.4
Net cash from operating activities from discontinued operations . . . . .	—	—	—	89.2	127.0	5.1
<b>Net cash (used in)/from operating activities . . . . .</b>	<b>(99.1)</b>	<b>(8.1)</b>	<b>50.6</b>	<b>31.4</b>	<b>116.5</b>	<b>116.5</b>
<b>Investing activities</b>						
Disposal of businesses . . . . .	—	—	—	3,381.0	374.8	374.8
Acquisition and disposal costs . . . . .	(0.1)	(0.1)	(0.1)	(25.6)	(8.5)	(14.6)
Net cash disposed . . . . .	—	—	—	(93.5)	(14.6)	(8.5)
Purchase of property, plant and equipment	(20.1)	(2.4)	(16.8)	(17.4)	(29.8)	(54.3)
Proceeds from disposal of property, plant and equipment . . . . .	0.3	0.2	0.3	—	—	3.9
Purchase of computer software and development costs . . . . .	(0.9)	(0.2)	(0.6)	(0.3)	(0.4)	(7.9)
Dividends received from joint ventures . .	—	0.3	0.9	0.3	1.2	3.3
Dividends paid to non-controlling interests . . . . .	—	—	—	—	—	(0.4)
Interest received . . . . .	0.3	1.5	1.8	10.1	14.2	14.7
Acquisition of businesses and non-controlling interests . . . . .	—	—	(1,130.0)	—	—	(97.6)
Cash acquired on acquisition of businesses . . . . .	—	—	9.4	—	—	1.5
Net cash (used in)/from investing activities operations from continuing operations . . . . .	(20.5)	(0.7)	(1,135.1)	3,254.6	336.9	214.9
Net cash used in investing activities operations from discontinued operations . . . . .	—	—	—	(38.7)	(126.1)	(4.1)
<b>Net cash (used in)/from investing activities . . . . .</b>	<b>(20.5)</b>	<b>(0.7)</b>	<b>(1,135.1)</b>	<b>3,215.9</b>	<b>210.8</b>	<b>210.8</b>
<b>Financing activities</b>						
Dividends paid . . . . .	(35.8)	(3.8)	(5.8)	(80.6)	(83.6)	(83.6)
Return of capital . . . . .	—	(2,388.5)	(2,388.5)	(200.4)	(595.3)	(595.3)
Net proceeds from rights issue . . . . .	—	—	1,612.0	—	—	—
Movements in borrowings . . . . .	156.2	—	(535.0)	(595.1)	226.1	226.1
Repayment of finance leases . . . . .	(0.5)	—	—	—	—	—
Costs of raising debt finance . . . . .	—	—	(10.9)	—	—	—
Costs of amending borrowing facilities . .	—	—	—	—	(3.6)	(3.6)
Net cash from/(used in) financing activities from continuing operations . .	119.9	(2,392.3)	(1,328.2)	(876.1)	(456.4)	(456.4)
Net cash used in financing activities from discontinued operations . . . . .	—	—	—	—	—	—
<b>Net cash from/(used in) financing activities . . . . .</b>	<b>119.9</b>	<b>(2,392.3)</b>	<b>(1,328.2)</b>	<b>(876.1)</b>	<b>(456.4)</b>	<b>(456.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>	<b>0.3</b>	<b>(2,401.1)</b>	<b>(2,412.7)</b>	<b>2,371.2</b>	<b>(129.1)</b>	<b>(129.1)</b>
Cash and cash equivalents at beginning of period . . . . .	42.1	2,451.4	2,451.4	70.5	200.4	200.4
Effect of foreign exchange rate changes .	(1.5)	1.1	3.4	9.7	(0.8)	(0.8)
<b>Cash and cash equivalents at end of period . . . . .</b>	<b>40.9</b>	<b>51.4</b>	<b>42.1</b>	<b>2,451.4</b>	<b>70.5</b>	<b>70.5</b>

Note:

(1) Restated to include the cash flows of the Elster Group and Prelok within discontinued operations.

## 12. Dividends

It is the intention of the Melrose Board to maintain a dividend policy going forward which will take into account the New Melrose Shares issued pursuant to the Acquisition and will be appropriate taking into account the size of the Melrose Group. The Melrose Group's policy is to return surplus cash and business disposal proceeds to Melrose Shareholders.

The table below shows the dividend per ordinary share in Melrose paid for the financial years ended 31 December 2016 and 31 December 2015, and per ordinary share in Old Melrose for the financial year ended 31 December 2014:

	Year ended 31 December		
	2016	2015	2014
	£m	£m	£m
Dividend per share . . . . .	2.2 pence <sup>(1)</sup>	1.0 pence <sup>(2)</sup>	1.5 pence <sup>(2)</sup>

Note:

- (1) Includes a partial restatement for the bonus factor of 18.8 per cent related to the 2016 Rights Issue.
- (2) Adjusted by a bonus factor of 18.8 per cent related to the 2016 Rights Issue.

## PART IX

### INFORMATION ON GKN

*The information set out in this Part IX (Information on GKN) in relation to GKN (including the historical financial information) has, unless otherwise stated, been extracted without material adjustment from the GKN 2016 Annual Report, which is incorporated into this document by reference, and accordingly has not been subject to comment or verification by Melrose or its Directors.*

*Investors should read the whole of this document and the documents incorporated herein by reference and should not just rely on the financial information set out in this Part IX (Information On GKN).*

#### 1. Introduction

GKN is a global engineering business, designing, manufacturing and servicing systems and components for OEMs around the world. With its headquarters in Redditch, United Kingdom, GKN operates across Europe, Asia Pacific and the Americas. Approximately £3,743 million of GKN's sales were generated in Europe (excluding the UK), £3,326 million in the Americas, £1,296 million in Asia Pacific and £1,047 million in the United Kingdom, in each case in the financial year ended 31 December 2016. GKN employs approximately 22,650 people in Europe (excluding the UK), 14,000 in Asia Pacific, 15,900 in the Americas and 5,600 in the UK, in each case as at 31 December 2016, including subsidiaries and joint ventures.

#### 2. Business overview

GKN's three divisions comprise:

***Aerospace (36% GKN Group revenue, 44% GKN Group Segment operating profit): a leading tier one supplier of aircraft and engine structures and electrical interconnection systems to the global aerospace industry***

- global number two in aerostructures and in the independent aero engine components market, and number three in electrical wiring systems; and
- develops, manufactures and supplies niche products such as ice protection, fuel systems, transparencies including specially coated cockpit and cabin windows, and flotation devices.

***Driveline (49% GKN Group revenue, 43% GKN Group Segment operating profit): the leading tier one supplier of automotive driveline systems and solutions to the world's leading vehicle manufacturers***

- develops, manufactures and supplies an extensive range of automotive driveline products and systems, for use in everything from the smallest ultra-low-cost cars to the most sophisticated premium vehicles that demand complex driving dynamics; and
- number one in driveline and all-wheel drive (AWD) markets; eDrive systems include electric axles and transmissions.

***Powder Metallurgy (11% GKN Group revenue, 15% GKN Group Segment operating profit): the world's largest manufacturer of sintered components and a leading producer of metal powder***

- global leader in sintered components; and
- global number two manufacturer of metal powder.

***Other businesses (4% GKN Group revenue, 1% GKN Group segment operating profit)<sup>(1)</sup>:***

- GKN Wheels & Structures is a manufacturer of off highway wheels and a specialist in advanced structures and chassis systems for automotive and off-highway; and
- GKN Shafts & Services is a global supplier of power management products and services.

<sup>(1)</sup> Note: Other businesses accounted for 1% of total trading profits, whilst corporate costs accounted for £21 million but are unallocated between the divisions.

#### 3. Borrowings and funding

At 31 December 2016, GKN's UK committed bank facilities were £863 million (2015: £864 million). Within this amount there are committed revolving credit facilities of £800 million (2015: £800 million) and a



£48 million (2015: £64 million) eight-year amortising facility from the European Investment Bank (“EIB”). The revolving credit facilities of £800 million mature in 2019, while the second of five equal, annual £16 million EIB repayments was paid in 2016. At 31 December 2016, £48 million of the EIB facility was drawn (2015: £64 million drawn) and there were no drawings on any of the UK revolving credit facilities (2015: no drawings). Capital market borrowings at 31 December 2016 and 31 December 2015 comprised a £350 million 6.75% annual unsecured bond maturing in October 2019 and a £450 million 5.375% semi-annual unsecured bond maturing in September 2022. Subsequent capital market borrowings comprise a £300 million 3.375% annual unsecured bond maturing in 2032.

As at 31 December 2016, GKN had net debt of £704 million (2015: £769 million). All of GKN’s committed credit facilities have financial covenants requiring EBITDA of GKN’s subsidiaries to be at least 3.5 times net interest payable and for net debt to be no greater than 3 times EBITDA of such subsidiaries. The covenants are tested every six months using the previous 12 months’ results. For the 12 months to 31 December 2016, EBITDA was 12.8 times greater than net interest payable, while net debt was 0.7 times EBITDA. GKN has a series of cross currency interest rate swaps to better align its foreign currency income receipts in US dollars and Euros with its debt and had the effect of converting its sterling bonds into US dollars (\$951 million) and Euros (€284 million). The cross currency interest rate swaps have been designated as a net investment hedge of GKN’s US dollar and Euro net assets.

## PART X

### OPERATING AND FINANCIAL REVIEW

#### **PART A: Operating and Financial Review of the Melrose Group**

The operating and financial review for the Melrose Group for the six months ended 30 June 2017 as set out in the Melrose 2017 Interim Results and each of the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014, as set out in Melrose 2016 Annual Report, the Melrose 2015 Annual Report and the Old Melrose 2014 Annual Report respectively, are incorporated by reference into, and form part of, this Part. For a cross-reference list of such sections, being the Chairman's statement, the Chief Executive's review and the Finance Director's review, refer to Part XVI (*Documents Incorporated By Reference*) of this document. The operating and financial review of the Melrose Group is a discussion and analysis of the Melrose Group's past performance and, to the extent that any of the relevant sections referred to in the Melrose 2017 Interim Results, the Melrose 2016 Annual Report, the Melrose 2015 Annual Report and the Old Melrose 2014 Annual Report contain outlook information and other forward-looking statements, such statements shall not be incorporated by reference into this document. Reference should also be made to the 2016, 2015 and 2014 financial information incorporated by reference into this document (see Part B (*Historical financial information of the Melrose Group*) of Part XI (*Historical Financial Information*) of this document, the risk factors in Part II (*Risk Factors*) of this document and paragraph 2 of Part VIII (*Information on Melrose*) of this document.

## **PART B: Operating and Financial Review of the GKN Group**

The operating and financial review for the GKN Group for the six months ended 30 June 2017 as set out in GKN 2017 Interim Results and each of the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014, as set out in GKN 2016 Annual Report, the GKN 2015 Annual Report and the GKN 2014 Annual Report respectively, are incorporated by reference into, and form part of, this Part. For a cross-reference list of such sections, being the Chairman's statement, the Chief Executive's review and the Financial Review, refer to Part XVI (*Documents Incorporated By Reference*) of this document. The operating and financial review of the GKN Group is a discussion and analysis of the GKN Group's past performance and, to the extent that any of the relevant sections referred to in GKN 2016 Annual Report, the GKN 2015 Annual Report, the GKN 2014 Annual Report and the GKN 2017 Interim Results contain outlook information and other forward-looking statements, such statements shall not be incorporated by reference into this document. Reference should also be made to the 2016, 2015 and 2014 financial information incorporated by reference into this document (see Part D (*Historical Financial Information of the GKN Group*) of Part XI (*Historical Financial Information*) of this document) and the risk factors in Part II (*Risk Factors*) of this document.

**PART XI**  
**HISTORICAL FINANCIAL INFORMATION**

**PART A: Selected Historical Financial Information of the Melrose Group**

**1. Selected Historical Financial Information Melrose Group**

The selected financial information for the Melrose Group set out below has been extracted without material adjustment from the historical financial information incorporated by reference as set out in Part B of this Part below. Investors should read the whole of this document before making an investment decision and should not rely solely on the summarised information in this Part A.

**Consolidated Income Statement**

	Six months ended 30 June		Year ended 31 December			
	2017	2016	2016	2015	2014 <sup>(1)</sup>	2014
	£m	£m	£m	£m	£m	£m
		<b>Unaudited</b>			<b>Un-audited</b>	
<b>Revenue</b> . . . . .	1,085.6	104.7	889.3	261.1	324.3	1,377.5
Gross profit . . . . .	342.5	30.3	263.3	82.1	107.7	502.5
Operating profit/(loss) . . . . .	57.9	(9.5)	(61.6)	4.8	37.0	162.4
Profit/(loss) before tax . . . . .	47.8	(9.2)	(69.3)	(30.7)	12.5	128.9
Profit/(loss) for the year from continuing operations . . . . .	38.2	(8.8)	(39.0)	(16.3)	8.2	87.1
Profit for the year from discontinued operations . . . . .	—	—	—	1,424.3	186.5	107.6
<b>Profit/(loss) for the year</b> . . . . .	<b>38.2</b>	<b>(8.8)</b>	<b>(39.0)</b>	<b>1,408.0</b>	<b>194.7</b>	<b>194.7</b>
<b>Earnings per share</b>						
From continuing operations:						
Basic . . . . .	2.0p	(0.6)p	(2.6)p <sup>(2)</sup>	(0.3)p <sup>(2)</sup>	0.8p	7.9p
Diluted . . . . .	2.0p	(0.6)p	(2.6)p <sup>(2)</sup>	(0.3)p <sup>(2)</sup>	0.7p	7.8p
<b>Underlying results</b>						
Underlying operating profit . . . . .	141.2	5.9	104.1	24.8		
Underlying profit before tax . . . . .	131.1	6.2	96.4	2.4		
Underlying profit / (loss) after tax . . . . .	95.3	4.9	70.4	(1.4)		
Underlying diluted earnings per share—continuing . . . . .	4.9p	0.3p	4.4p	Nil p		

Notes:

- (1) Restated to include the results of the Elster Group and Prelok within discontinued operations.
- (2) Pursuant to the 2016 Rights Issue on 24 August 2016, 1,741.6 million new Ordinary Shares were issued by the Company to part fund the acquisition of the Nortek Group. In accordance with IAS 33, a bonus factor associated with the issue of the new share capital of 18.8491% has been applied to the number of Ordinary Shares for the financial years ended 31 December 2016 and 2015 for the purposes of earnings per share calculations.

## Condensed Consolidated Balance Sheet

The table below sets out certain consolidated balance sheet information of the Melrose Group for the three years ended 31 December 2016, 31 December 2015 and 31 December 2014 (which is audited) and for the six months ended 30 June 2017 (which is unaudited) and, for comparative purposes, for the six months ended 30 June 2016 (which is unaudited), prepared in accordance with IFRS.

	Six months ended 30 June		Year ended 31 December 2016 <sup>(1)</sup>	Year ended 31 December			
	2017	2016		2016	2015	2014 <sup>(2)</sup>	2014
	£m	£m		£m	£m	£m	£m
	Unaudited		Unaudited	Un-audited			
Non-current assets . . . . .	2,743.9	431.9	2,941.2	2,998.6	412.7	2,685.7	2,689.9
Current assets . . . . .	741.9	186.1	707.8	709.0	2,576.1	498.4	498.4
<b>Total assets . . . . .</b>	<b>3,485.8</b>	<b>618.0</b>	<b>3,649.0</b>	<b>3,707.6</b>	<b>2,988.8</b>	<b>3,184.1</b>	<b>3,188.3</b>
Current liabilities . . . . .	517.3	95.8	583.6	579.4	88.0	452.0	452.0
Non-current liabilities . . . . .	983.7	47.5	902.6	965.4	55.4	1,158.4	1,162.6
<b>Total liabilities . . . . .</b>	<b>1,501.0</b>	<b>143.3</b>	<b>1,486.2</b>	<b>1,544.8</b>	<b>143.4</b>	<b>1,610.4</b>	<b>1,614.6</b>
<b>Net asset . . . . .</b>	<b>1,984.8</b>	<b>474.7</b>	<b>2,162.8</b>	<b>2,162.8</b>	<b>2,845.4</b>	<b>1,573.7</b>	<b>1,573.7</b>

Note:

- (1) Restated to reflect completion of the acquisition accounting for Nortek.
- (2) Restated to reflect completion of the acquisition accounting for Eclipse and the new parent company.

## Condensed Consolidated Statement of Cash Flows

The table below sets out certain consolidated cash flow information of the Melrose Group for the three years ended 31 December 2016, 31 December 2015 and 31 December 2014 (which is audited) and for the six months ended 30 June 2017 (which is unaudited) and, for comparative purposes, for the six months ended 30 June 2016 (which is unaudited), prepared in accordance with IFRS.

	Six months ended 30 June		Year ended 31 December			
	2017	2016	2016	2015	2014 <sup>(1)</sup>	2014
	£m	£m	£m	£m	£m	£m
	Unaudited		Unaudited			
Net cash (used in)/from operating activities . . . . .	(99.1)	(8.1)	50.6	31.4	116.5	116.5
Net cash (used in)/from investing activities . . . . .	(20.5)	(0.7)	(1,135.1)	3,215.9	210.8	210.8
Net cash from/(used in) financing activities . . . . .	119.9	(2,392.3)	(1,328.2)	(876.1)	(456.4)	(456.4)
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>	<b>0.3</b>	<b>(2,401.1)</b>	<b>(2,412.7)</b>	<b>2,371.2</b>	<b>(129.1)</b>	<b>(129.1)</b>

Note:

- (1) Restated to reflect completion of the acquisition accounting for Eclipse and the new parent company.

## **PART B: Historical Financial Information of the Melrose Group**

The audited consolidated financial statements of the Melrose Group for the financial year ended 31 December 2016 as set out in the Melrose 2016 Annual Report, the audited consolidated financial statements of the Melrose Group for the financial year ended 31 December 2015 as set out in the Melrose 2015 Annual Report and the audited consolidated financial statements of Old Melrose for the financial year ended 31 December 2014 as set out in the Old Melrose 2014 Annual Report, together with the auditors' reports thereon and notes thereto are incorporated by reference into this document as set out in Part XVI (*Documents Incorporated by Reference*) and available for inspection as set out in paragraph 18.1 of Part XV (*Additional Information*). Each of these consolidated financial statements was prepared in accordance with IFRS.

The unaudited consolidated financial statements of the Melrose Group set out in the interim results for the six months ended 30 June 2017 and the six months ended 30 June 2016, included in the Melrose 2017 Interim Results and Melrose 2016 Interim Results respectively, together with the notes thereto, are also incorporated by reference into this document as set out in Part XVI (*Documents Incorporated by Reference*) and available for inspection as set out in paragraph 18.1 of Part XV (*Additional Information*). Each of these consolidated financial statements was prepared in accordance with IFRS.

As disclosed in note 1 to the Melrose Group's audited consolidated financial statements for the year ended 31 December 2015, the comparative figures for the year ended 31 December 2014 have been restated to include the results of the Elster Group and Prelok within discontinued operations. The balance sheet for the year ended 31 December 2014 has been restated to reflect the completion of the acquisition accounting of Eclipse, Inc. and to reflect the new parent company of the Melrose Group. Accordingly, the restated financial information for the year ended 31 December 2014 has been extracted without adjustment from the unaudited, restated comparatives included in the audited consolidated financial statements for the year ended 31 December 2015.

The auditors of Melrose, Deloitte LLP, issued unqualified audit opinions on Melrose's and Old Melrose's, as applicable, consolidated financial statements for each of the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014.

### **1. Nortek Inc.**

On 31 August 2016, the Melrose Group completed the acquisition of Nortek. The results of the Nortek Group are included in the audited consolidated financial statements of Melrose for the year ended 31 December 2016 for the four month period from the date of acquisition to 31 December 2016.

Historical financial information of Nortek for the financial year ended 31 December 2016, as set out in the announcement released by Melrose on 24 March 2017, and of Nortek for the financial years ended 31 December 2015 and December 2014, as set out in the circular of Melrose dated 6 July 2016, are incorporated by reference into this document. These financial statements of Nortek were prepared under IFRS using policies which are consistent with those used in preparing the latest audited consolidated financial statements of the Melrose Group and covered by the accountants' reports thereon.

## PART C: Selected Historical Financial Information of the GKN Group

### 2. Selected Historical Financial Information of the GKN Group

The selected financial information for the GKN Group set out below has been extracted without material adjustment from the historical financial information incorporated by reference as set out in Part D of this Part below. Investors should read the whole of this document before making an investment decision and should not rely solely on the summarised information in this Part C.

#### Consolidated Income Statement

The table below sets out certain consolidated income statement information of the GKN Group for the three years ended 31 December 2016, 31 December 2015 and 31 December 2014 (which is audited) and for the six months ended 30 June 2017 (which is unaudited) and, for comparative purposes, for the six months ended 30 June 2016 (which is unaudited), prepared in accordance with IFRS.

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	£m	£m	£m	£m	£m
	Unaudited				
<b>Revenue</b> . . . . .	4,879	4,237	8,822	7,231	6,982
Operating / profit . . . . .	591	209	335	323	289
Profit / before tax . . . . .	559	182	292	245	221
<b>Management results</b>					
Management operating profit . . . . .	436	390	773	679	687
Management profit before tax . . . . .	393	344	678	603	601
Management profit / after tax . . . . .	307	268	534	470	480

#### Condensed Consolidated Balance Sheet

The table below sets out certain consolidated balance sheet information of the GKN Group for the three years ended 31 December 2016, 31 December 2015 and 31 December 2014 (which is audited) and for the six months ended 30 June 2017 (which is unaudited) and, for comparative purposes, for the six months ended 30 June 2016 (which is unaudited), prepared in accordance with IFRS.

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	£m	£m	£m	£m	£m
	Unaudited				
Non-current assets . . . . .	5,373	5,268	5,442	4,702	4,143
Current assets . . . . .	3,957	3,274	3,521	2,807	2,537
<b>Total assets</b> . . . . .	<b>9,330</b>	<b>8,542</b>	<b>8,963</b>	<b>7,509</b>	<b>6,680</b>
Current liabilities . . . . .	(2,625)	(2,559)	(2,669)	(2,244)	(1,906)
Non-current liabilities . . . . .	(4,159)	(4,067)	(4,132)	(3,379)	(3,273)
<b>Total liabilities</b> . . . . .	<b>(6,784)</b>	<b>(6,626)</b>	<b>(6,801)</b>	<b>(5,623)</b>	<b>(5,179)</b>
<b>Net assets</b> . . . . .	<b>2,546</b>	<b>1,916</b>	<b>2,162</b>	<b>1,886</b>	<b>1,501</b>

## Condensed Consolidated Statement of Cash Flows

The table below sets out certain consolidated cash flow information of the GKN Group for the three years ended 31 December 2016, 31 December 2015 and 31 December 2014 (which is audited) and for the six months ended 30 June 2017 (which is unaudited) and, for comparative purposes, for the six months ended 30 June 2016 (which is unaudited), prepared in accordance with IFRS.

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	£m	£m	£m	£m	£m
	Unaudited				
Net cash from operating activities . . . . .	368	242	666	775	658
Net cash used in investing activities . . . . .	(280)	(207)	(331)	(894)	(391)
Net cash from/(used in) in financing activities . . . . .	171	(131)	(294)	108	(135)
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>	<b>259</b>	<b>(96)</b>	<b>41</b>	<b>(11)</b>	<b>132</b>



## **PART D: Historical Financial Information of the GKN Group**

The audited consolidated financial statements of the GKN Group for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014, included in the GKN 2016 Annual Report, the GKN 2015 Annual Report and the GKN 2014 Annual Report, together with the auditors' reports thereon and notes thereto and the GKN 2016 Interim Results and the GKN 2017 Interim Results, are incorporated by reference into this document as set out in paragraph Part XVI (*Documents Incorporated by Reference*) and available for inspection as set out in paragraph 18.1 of Part XV (*Additional Information*). Each of these consolidated financial statements was prepared in accordance with IFRS.

The unaudited consolidated financial statements of the GKN Group set out in the interim results for the six months ended 30 June 2017 and 30 June 2016 respectively, included in the GKN 2017 Interim Results and GKN 2016 Interim Results, together with the notes thereto, are also incorporated by reference into this document as set out in Part XVI (*Documents Incorporated by Reference*) and available for inspection as set out in paragraph 18.1 of Part XV (*Additional Information*). Each of these consolidated financial statements was prepared in accordance with IFRS as adopted by the EU.

The auditors of GKN (Deloitte LLP in 2016 and PwC in 2015 and 2014) issued unqualified audit opinions on GKN's, consolidated financial statements for each of the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014.

At this stage and given the lack of access that Melrose has had to the GKN business, Melrose is unable to confirm that no material adjustments need to be made to the financial statements of the GKN Group to achieve consistency with the accounting policies of Melrose. The Directors have reviewed the accounting policies of the GKN Group disclosed within its most recent audited financial statements and have not identified any accounting policy differences that, in their view, would in themselves give rise to material adjustments needing to be made to the financial statements of GKN to achieve consistency with the accounting policies of Melrose. However, there may be differences in the application of these accounting policies and Melrose cannot confirm that any such differences, if identified, may not be material.

## PART XII TAXATION

### 1. UK Taxation

The following statements are intended to apply only as a general and non-exhaustive guide based upon the Melrose Directors' understanding of current UK tax law as applied in England and Wales and to the current published practice of HMRC (which may not be binding on HMRC), both of which are subject to change, possibly with retrospective effect. The acquisition of Melrose Shares involves a number of complex tax considerations and the comments below do not purport to be a complete analysis of all potential tax consequences of acquiring, holding or disposing of the Melrose Shares.

The following statements are intended to apply only to Eligible GKN Shareholders who (unless the position of non-UK resident shareholders is expressly referred to) are resident and, in the case of individuals domiciled in the United Kingdom for UK tax purposes (and not in any other territory), who will hold following the Acquisition, their New Melrose Shares directly as investments and who are the beneficial owners of their New Melrose Shares and who have not acquired (or been deemed to have acquired) their New Melrose Shares through any form of option arrangements or by reason of their or another person's office or employment. The statements may not apply to certain classes of shareholders such as dealers in securities or Melrose Shareholders who are trustees or who hold their New Melrose Shares through any form of investment vehicle.

Changes in tax legislation in any of the countries in which the Company has assets, in the United Kingdom (or in any other country in which a subsidiary of the Company is located and through which acquisitions are made) or changes in tax treaties negotiated by those countries, could adversely affect the returns from the Company to investors or increase the tax liabilities of Melrose Shareholders.

**Eligible GKN Shareholders who are in any doubt as to their tax position regarding the acquisition, ownership and disposal of New Melrose Shares or who are subject to tax in a jurisdiction other than the United Kingdom should consult their own tax advisers.**

#### 1.1 *Taxation of chargeable gains*

##### *Sale of New Melrose Shares by individuals*

Following an acquisition of New Melrose Shares, a subsequent disposal or deemed disposal of any such shares by a holder who is an individual within the charge to UK capital gains tax may, depending upon such holder's circumstances and subject to any available exemption or relief (such as the annual exemption of £11,300 for 2017/18 or £11,700 for 2018/19 available for UK resident individuals apart from non-domiciled individuals claiming the remittance basis of taxation), give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax.

Individuals who have ceased to be resident for tax purposes in the UK for a period of less than five years and who dispose of their New Melrose Shares during that period may, in certain circumstances (including the availability of exemptions, reliefs and/or allowable losses), be subject to tax on their return to the United Kingdom in respect of gains realised whilst they are not resident in the United Kingdom.

##### *Sale of New Melrose Shares by companies*

Following an acquisition of New Melrose Shares, a subsequent disposal or deemed disposal of any such shares by a holder who is a company within the charge to UK corporation tax may, depending upon such holder's circumstances and subject to any available exemption or relief (such as indexation), give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax.

In calculating any such chargeable gain, companies who are Eligible GKN Shareholders may claim an indexation allowance in respect of the subscription monies and base costs paid for their New Melrose Shares. Where shares have been purchased or acquired on different dates, consideration will need to be given to the "pooling" rules to determine the correct indexed base cost available to set off against the consideration proceeds to calculate the chargeable gain arising. The indexation allowance will generally only apply from the date the shareholder became liable to make, or made, payment of the subscription monies. It may not be used to create or increase an allowable loss.

## 1.2 *Taxation of dividends*

Under current UK tax law, the Company will not be required to withhold tax at source from dividend payments it makes.

### *Individuals*

UK resident individual shareholders are entitled to an annual tax-free dividend allowance on the first £5,000 of dividend income received. As a result, from 6 April 2017 until 5 April 2018 the tax position is as follows:

- (i) a Melrose Shareholder who is an individual, resident in the UK for tax purposes does not pay any income tax on the first £5,000 of dividend income they receive;
- (ii) a Melrose Shareholder who is liable to UK income tax at the basic rate (*i.e.* total income exceeds personal allowances but who is not liable to UK income tax at either the higher or the additional rate) is subject to UK income tax on any dividend income in excess of £5,000 at the rate of 7.5 per cent, to the extent that the dividend income in excess of £5,000 falls above the Melrose Shareholder's personal allowance (£11,500 for the 2017/18 tax year);
- (iii) a Melrose Shareholder who is liable to UK income tax at the higher rate will be subject to UK income tax on any dividend income in excess of £5,000 at the rate of 32.5 per cent to the extent that the dividend income in excess of £5,000 falls above the threshold for the higher rate of UK income tax but below the threshold for the additional rate of UK income tax, when it is treated as the top slice of the Melrose Shareholder's income; and
- (iv) a Melrose Shareholder who is liable to UK income tax at the additional rate will be subject to UK income tax on any dividend income in excess of £5,000, at the rate of 38.1 per cent to the extent that the dividend income in excess of £5,000 falls above the threshold for the additional rate of UK income tax, when it is treated as the top slice of the Melrose Shareholder's income.

Please note that the tax free dividend allowance will reduce to £2,000 for the tax year 6 April 2018 to 5 April 2019. Otherwise, the tax rates for this year remain the same as for the 2017/18 tax year.

### *Companies*

Subject to certain exceptions for traders in securities and insurance companies, a corporate Melrose Shareholder resident in the UK for tax purposes will normally be exempt from corporation tax on any dividend received from Melrose (unless certain conditions are not met) and will not be able to claim a tax credit in respect of any such dividend, though each shareholder's position will depend on its individual circumstances. If the conditions for exemption are not, or cease to be, satisfied, or if a Melrose Shareholder elects for an otherwise exempt dividend to be taxable, the Melrose Shareholder will be subject to UK corporation tax on dividends received from Melrose. UK corporation tax would be charged on such dividends at the rate applicable to that corporate shareholder. Shareholders within the charge to corporation tax should consult their own professional advisers.

## 1.3 *Stamp duty and SDRT*

### *Offer*

No stamp duty or SDRT will generally be payable on the issue of the New Melrose Shares.

### *Subsequent Transfers*

Stamp duty at the rate of 0.5 per cent (rounded up to the next multiple of £5) of the amount or value of the consideration given will generally be payable on an instrument transferring New Melrose Shares. A charge to SDRT will also arise on an unconditional agreement to transfer New Melrose Shares (at the rate of 0.5 per cent of the amount or value of the consideration payable). However, if within six years of the date of the agreement becoming unconditional, an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument, any SDRT already paid will be refunded (generally, where the tax repaid is not less than £25, with interest at the relevant prevailing rate from the date on which the payment was made until the order for repayment is issued) provided that a claim for payment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee. An exemption from stamp duty is available on an instrument transferring New Melrose Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

### *Shares held through CREST*

Paperless transfers of New Melrose Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent of the amount or value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within CREST. Under the CREST system, no stamp duty or SDRT will arise on a transfer of New Melrose Shares into the system by a Melrose Shareholder for their own account unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent) will arise.

### *New Melrose Shares held through clearance services or depositary receipt schemes*

Special rules apply where New Melrose Shares are issued or transferred to, or to a nominee or agent for, either a person whose business is or includes issuing depositary receipts within section 67 or section 93 of the Finance Act 1986 or a person providing a clearance service within section 70 or section 96 of the Finance Act 1986, under which SDRT or stamp duty may be charged at the higher rate of 1.5 per cent of the amount or value of the consideration payable or, in certain circumstances, the value of the New Melrose Shares (rounded up to the next multiple of £5 in the case of stamp duty). Following litigation, HMRC have confirmed that they will no longer seek to apply 1.5 per cent SDRT on an issue of shares into a clearance service or depositary receipt arrangement on the basis that the charge is not compatible with EU law. HMRC's view is that the 1.5 per cent SDRT or stamp duty charge will continue to apply to transfers of shares into a clearance service or depositary receipt arrangement unless they are an integral part of an issue of share capital. Accordingly, specific professional advice should be sought before transferring shares to, or to a nominee or agent for, a person whose business includes issuing depositary receipts or a person providing clearing services.

**The above statements are intended only as a general guide to the current stamp duty and SDRT position. Transfers to certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for SDRT, be required to notify and account for it.**

## PART XIII

### DIRECTORS, CORPORATE GOVERNANCE AND EMPLOYEES

#### 1. Melrose Directors

The following table sets out information relating to the Melrose Directors:

<u>Name</u>	<u>Function</u>
Christopher Miller . . . . .	<i>Chairman</i>
David Roper . . . . .	<i>Vice-Chairman</i>
Simon Peckham . . . . .	<i>Chief Executive</i>
Geoffrey Martin . . . . .	<i>Group Finance Director</i>
Justin Dowley . . . . .	<i>Senior Non-executive Director</i>
Elizabeth Hewitt . . . . .	<i>Non-executive Director</i>
David Lis . . . . .	<i>Non-executive Director</i>
Archie G. Kane . . . . .	<i>Non-executive Director</i>

The business address of each of the Directors is 11<sup>th</sup> Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom.

#### 1.1 Profiles of the Directors

The names, business experience and principal business activities outside the Melrose Group of the Melrose Directors, as well as the dates of their initial appointment as Directors, are set out below. The composition of the Melrose Board will not change as a result of the Acquisition.

##### **Christopher Miller**

*Chairman*

Mr. Miller qualified as a chartered accountant with Coopers & Lybrand, following which he was an associate director of Hanson plc. In September 1988 he joined the board of Wassall PLC as its chief executive. Between October 2000 and May 2003 he was involved in private investment activities. Mr. Miller was appointed as an executive Director of Melrose PLC on 29 May 2003, of Old Melrose on 8 October 2012 and of Melrose on 30 September 2015.

##### **David Roper**

*Vice-Chairman*

Mr. Roper qualified as a chartered accountant with Peat Marwick Mitchell, following which he worked in the corporate finance divisions of S.G. Warburg, BZW and Dillon Read. In September 1988 he was appointed to the board of Wassall PLC and became its deputy chief executive in 1993. Between October 2000 and May 2003 he was involved in private investment activities and served as a non-executive director on the boards of two companies in France. Mr. Roper was appointed as an executive Director of Melrose PLC on 29 May 2003, of Old Melrose on 8 October 2012 and of Melrose on 30 September 2015.

##### **Simon Peckham**

*Chief Executive*

Mr. Peckham qualified as a solicitor in 1986. In 1990 he joined Wassall PLC, becoming an executive director in 1999. From October 2000 until May 2003 he worked for the equity finance division of The Royal Bank of Scotland and was involved in several high profile transactions. Mr. Peckham was appointed as an executive Director of Melrose PLC on 29 May 2003, of Old Melrose on 8 October 2012 and of Melrose on 29 September 2015.

##### **Geoffrey Martin**

*Group Finance Director*

Mr. Martin qualified as a chartered accountant with Coopers & Lybrand, where he worked within the corporate finance and audit departments. In 1996 he joined Royal Doulton PLC and was group finance director from October 2000 until June 2005. During this time, he was involved in projects including raising public equity,

debt refinancings and the restructuring and outsourcing of the manufacturing and supply chain. Mr. Martin was appointed as an executive Director of Melrose PLC on 7 July 2005, of Old Melrose on 8 October 2012 and of Melrose on 29 September 2015.

### **Justin Dowley**

*Senior Non-executive Director*

Mr. Dowley qualified as a chartered accountant with Price Waterhouse. He has extensive experience within the banking, investment and asset management sector and was latterly vice chairman of EMEA Investment Banking, a division of Nomura International PLC; he was also a founder partner of Tricorn Partners, Head of Investment Banking at Merrill Lynch Europe and a director of Morgan Grenfell. Mr. Dowley was appointed as a non-executive Director of Melrose PLC on 1 September 2011, of Old Melrose on 8 October 2012 and of Melrose on 30 September 2015. He is also currently a non-executive director of Scottish Mortgage Investment Trust PLC and is a director of a number of private companies.

### **Elizabeth Hewitt**

*Non-executive Director*

Ms. Hewitt qualified as a chartered accountant with Arthur Andersen & Co., following which she held a variety of positions within Gartmore Investment Management, CVC and 3i Group plc. Between 2004 and 2011, Ms. Hewitt was the group director of corporate affairs for Smith & Nephew plc, following a secondment to the Department for Business, Innovation and Skills and the HM Treasury, where she worked to establish The Enterprise Capital Fund. Ms. Hewitt was a trustee of Cancer Research from 2005 to 2011. Ms. Hewitt was appointed as a non-executive Director of Old Melrose on 8 October 2013 and of Melrose on 30 September 2015. Ms. Hewitt is also currently a non-executive director of Savills plc and Novo Nordisk A/S and a member of the House of Lords Commission.

### **David Lis**

*Non-executive Director*

Mr. Lis began his career as an investment analyst at NatWest, following which he became a fund manager at J Rothschild Investment Management and Morgan Grenfell. Mr. Lis founded Windsor Investment Management, serving as managing director until its acquisition by the RBS fund management arm, Capital House. In 1997 Mr. Lis joined Norwich Union Investment Management (which later merged to form Aviva Investors), before becoming Head of Equities in 2012 and latterly Chief Investment Officer, Equities and Multi Assets, before his retirement in March 2016. Mr. Lis was appointed as a non-executive Director of Melrose on 12 May 2016. Mr. Lis is also currently a non-executive director of Electra Private Equity PLC and BCA Marketplace plc.

### **Archie G. Kane**

*Non-executive Director*

Mr Kane qualified as a chartered accountant with Mann Judd Gordon & Company. After a move into the financial services sector as Group Financial Controller of the TSB subsidiary United Dominions Trust, Mr Kane became Group Strategy Director. Mr Kane later served in senior roles for Lloyds Bank and was CEO of the former mutual Scottish Widows in 2003. In 2009 he moved to become Group Executive Director for all the group's insurance businesses and for Scotland, until his retirement in May 2011. Mr Kane continues to serve as a non-executive Governor of the Board of Bank of Ireland. Mr Kane was appointed as a non-executive Director of Melrose on 5 July 2017.

## **1.2 Interests of the Directors**

As at the Latest Practicable Date, the aggregate interests (all of which are beneficial) of the Directors or of persons closely associated with them in the share capital of the Company, and which have been notified by each Director to the Company pursuant to Article 19 of the Market Abuse Regulation and its predecessor legislation (in the case of persons closely associated, so far as is known to the relevant Director or could with reasonable diligence be ascertained by them), together with such interests as are expected to subsist immediately following Admission, are set out in the following table:

	Interests as at the Latest Practicable Date		Interests immediately following Admission <sup>(1)</sup>	
	Number of Existing Melrose Shares	Percentage of issued share capital	Number of Melrose Shares	Percentage of issued share capital
<b>Chairman</b>				
Christopher Miller . . . . .	30,182,696	1.6%	30,182,696	0.7%
<b>Vice-Chairman</b>				
David Roper . . . . .	15,730,130	0.8%	15,730,130	0.3%
<b>Executive Directors</b>				
Simon Peckham . . . . .	17,313,210	0.9%	17,313,210	0.4%
Geoffrey Martin . . . . .	7,400,256	0.4%	7,400,256	0.2%
<b>Non-executive Directors</b>				
Justin Dowley . . . . .	1,065,661	0.1%	1,065,661	0.0%
Elizabeth Hewitt . . . . .	120,877	0.0%	120,877	0.0%
David Lis . . . . .	433,947	0.0%	433,947	0.0%
Archie G. Kane . . . . .	0	0.0%	0	0.0%

Note:

(1) Assuming Melrose acquires the entire issued and to be issued share capital of GKN and the maximum number of New Melrose Shares are issued.

(2) None of the Directors is a GKN shareholder.

\* Does not include 2017 Incentive Shares held by Christopher Miller, David Roper, Simon Peckham and Geoffrey Martin details of which are set out below.

Taken together, the combined percentage interest of the Melrose Directors in the issued ordinary share capital of Melrose as at the Latest Practicable Date was approximately 3.7 per cent. Taken together, the combined percentage interest in the Enlarged Share Capital of the Melrose Directors immediately following completion of the Acquisition will be approximately 1.6 per cent (assuming Melrose acquires the entire issued and to be issued share capital of GKN and the maximum number of New Melrose Shares are issued).

### ***Directors' interests in share based long-term incentive plans***

On 29 June 2017, the Directors set out below exercised 2017 Incentive Options to subscribe for 2017 Incentive Shares pursuant to the 2017 Incentive Plan. As at the Latest Practicable Date no other Incentive Options to subscribe for 2017 Incentive Shares, or any other interest in any other long-term incentive plan have been granted to the Directors.

<u>Directors</u>	<u>Number of 2017 Incentive Shares held</u>
Christopher Miller . . . . .	2,583
David Roper . . . . .	2,583
Simon Peckham . . . . .	2,833
Geoffrey Martin . . . . .	2,833

The terms of the 2017 Incentive Plan and the 2017 Incentive Options are set out in paragraph 5 (*Terms of the 2017 Incentive Plan*) of Part XV (*Additional Information*) of this document, including details of the minimum holding period for executive Directors following crystallisation of the 2017 Incentive Shares and malus and clawback provisions applicable to executive Directors.

### **1.3 Other interests**

Except as set out in paragraph 15 (*Related Party Transactions*) of Part XV (*Additional Information*) of this document, no Director has, or has had, any interest in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of Melrose and which was effected by Melrose during the current or immediately preceding financial year or which remains in any respect outstanding or unperformed.

There are no outstanding loans granted by Melrose or any member of the Melrose Group to any of the Directors, nor has any guarantee been provided by Melrose or any of its subsidiaries for their benefit save that qualifying third party indemnity provisions are in place for the benefit of Directors in relation to certain losses and liabilities which they may potentially incur to third parties in the course of their duties.

## 2. Employment and remuneration arrangements for the Directors

Set out below is information on the current employment and remuneration arrangements for the Melrose Directors and the arrangements in place for the year ended 31 December 2016.

### 2.1 Directors' Service Agreements and Letters of Appointment

Details of the terms of each executive Director's service agreement are set out below.

Name	Date of Initial Appointment	Date of Expiry of Current Office <sup>(1)</sup>	Salary per annum (£'000)	Leave (days) <sup>(2)</sup>	Benefits on Termination	Notice Period	Confidentiality Obligations
Christopher Miller	30 September 2015	End of 2018 AGM	490	25	None other than payment in lieu of untaken holiday entitlement	12 months	During and after employment
David Roper	30 September 2015	End of 2018 AGM	490	25	None other than payment in lieu of untaken holiday entitlement	12 months	During and after employment
Simon Peckham	29 September 2015	End of 2018 AGM	490	25	None other than payment in lieu of untaken holiday entitlement	12 months	During and after employment
Geoffrey Martin	29 September 2015	End of 2018 AGM	392	25	None other than payment in lieu of untaken holiday entitlement	12 months	During and after employment

Notes:

(1) Each of the executive Directors was elected at the 2017 AGM and will stand for re-election at the 2018 AGM.

(2) In addition to UK public holidays.

Details of the terms of each non-executive Director's appointment with Melrose are set out below.

Name	Date of initial appointment	Date of Expiry of Current Office <sup>(1)</sup>	Non-executive fee per annum (£'000)	Expenses	Confidentiality Obligations	Termination Provisions <sup>(5)</sup>
Justin Dowley	30 September 2015	End of 2018 AGM	85 <sup>(2)</sup>	Reimbursement of travel, hotel and other incidental expenses incurred in the course of duties	Confidentiality undertaking without limitation in time	Without notice and/or compensation if removed from office by shareholders in general meeting
Elizabeth Hewitt	30 September 2015	End of 2018 AGM	80 <sup>(3)</sup>	Reimbursement of travel, hotel and other incidental expenses incurred in the course of duties	Confidentiality undertaking without limitation in time	Without notice and/or compensation if removed from office by shareholders in general meeting
David Lis	12 May 2016	End of 2018 AGM	72 <sup>(4)</sup>	Reimbursement of travel, hotel and other incidental expenses incurred in the course of duties	Confidentiality undertaking without limitation in time	Without notice and/or compensation if removed from office by shareholders in general meeting
Archie G. Kane	11 May 2017	End of 2018 AGM	70	Reimbursement of travel, hotel and other incidental expenses incurred in the course of duties	Confidentiality undertaking without limitation in time	Without notice and/or compensation if removed from office by shareholders in general meeting

Notes:

(1) With exception of Archie G. Kane, who was appointed as a Director of the Company on 5 July 2017 and who shall stand for election at the 2018 AGM, each of the non-executive Directors was elected or re-elected at the 2017 AGM and will stand for re-election at the 2018 AGM.

(2) Includes £5,000 in recognition of the role of senior non-executive Director and £10,000 in recognition of chairmanship of the Remuneration Committee.

(3) Includes £10,000 in recognition of chairmanship of the Audit Committee.

(4) Includes £2,500 in recognition of chairmanship of the Nomination Committee.

(5) In addition, at the end of any annual general meeting if not re-elected.

Save as set out above, there are no existing or proposed service agreements between any Director and any member of the Melrose Group providing for benefits upon termination of employment.



In the financial year ended 31 December 2016, the amount of remuneration paid (including any contingent or deferred compensation) and benefits in kind granted to each of the Directors by the Melrose Group for services in all capacities to the Melrose Group were as follows:

	<b>Total salary and fees</b>	<b>Taxable benefits</b>	<b>Annual bonus</b>	<b>Long-term incentives<sup>(1)</sup></b>	<b>Pension related benefits<sup>(2)</sup></b>	<b>Total</b>
	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>
Christopher Miller . . . . .	461	19	—	—	69	549
David Roper . . . . .	461	18	—	—	69	548
Simon Peckham . . . . .	461	19	438	—	69	987
Geoffrey Martin . . . . .	369	27	351	—	56	803
Perry Crosthwaite . . . . .	26 <sup>(3)</sup>	—	—	—	—	26
John Grant . . . . .	79 <sup>(4)</sup>	—	—	—	—	79
Justin Dowley . . . . .	76 <sup>(5)</sup>	—	—	—	—	76
Elizabeth Hewitt . . . . .	68 <sup>(6)</sup>	—	—	—	—	68
David Lis <sup>(7)</sup> . . . . .	42	—	—	—	—	42
Archie G. Kane <sup>(8)</sup> . . . . .	—	—	—	—	—	—

Notes:

- (1) Melrose's current long-term incentive arrangement for Directors is the 2017 Incentive Plan. This plan is scheduled to crystallise in 2020. Melrose's previous long-term incentive arrangement was the 2012 Incentive Plan, which crystallised on 31 May 2017. Accordingly, no value vested to participants under either the 2012 Incentive Plan or the 2017 Incentive Plan in respect of the year ended 31 December 2016.
- (2) Of the £263,025 attributable to pension contributions, £253,650 was paid as a supplement to base salary in lieu of pension arrangements. The balance of £9,375 was paid into the individual Directors' nominated private pension plans.
- (3) Perry Crosthwaite retired as a non-executive Director of the Company with effect from 11 May 2016. The fees referred to above reflect his fees for the period 1 January 2016 to 11 May 2016 and include £5,000 per annum in recognition of the role of senior non-executive Director, pro-rated for time served.
- (4) Includes £10,000 in recognition of chairmanship of the Audit Committee and £5,000 per annum in recognition of the role of senior non-executive Director. John Grant retired as a non-executive Director of the Company with effect from 11 May 2017.
- (5) Includes £10,000 in recognition of chairmanship of the Remuneration Committee.
- (6) Includes £2,500 in recognition of chairmanship of the Nomination Committee.
- (7) David Lis was appointed as a non-executive Director of Melrose on 12 May 2016 and the fees referred to above reflect his fees for the period 12 May 2016 to 31 December 2016.
- (8) Archie G. Kane was appointed as a non-executive Director of Melrose on 5 July 2017 and as such received no remuneration for the year ended 31 December 2016.

## 2.2 Pension arrangements of the executive Directors of Melrose

No Director is a member of any Melrose Group pension arrangement. The executive Directors may elect to receive a contribution by Melrose to their individual pension arrangements, or a supplement to base salary in lieu of a pension arrangement. Contributions by Melrose are calculated on base salary only.

## 3. Corporate Governance

The Melrose Board is accountable to the Melrose Shareholders for good governance. With the exception set out immediately below, Melrose complies with all the provisions of the UK Corporate Governance Code and with all the requirements of the Disclosure Guidance and Transparency Rules on audit committees and corporate governance statements.

Provision A.3.1 of the UK Corporate Governance Code requires that, on appointment, the Chairman should meet the independence criteria set out in provision B.1.1 of the UK Corporate Governance Code. The Melrose Board notes, and confirms its satisfaction with, the choice of an executive Chairman. Mr. Christopher Miller, the current executive Chairman of the Melrose Group, is one of the founding members of Melrose, having been a Director since its incorporation in 2003. Mr. Miller's long-standing involvement brings a wealth of experience to the Melrose Board and his oversight of corporate governance and compliance matters complements the work of the Melrose Group's non-executive Directors. Mr. Miller continues to play an active role in identifying and evaluating new opportunities for the Melrose Group. The role of Chairman is, and will remain, separate to that of the Chief Executive of the Company, in accordance with best practice and Board policy.

Further details of how Melrose has applied, and continues to apply, the principles identified in the UK Corporate Governance Code are set out in the Governance Report on pages 54 to 84 of the annual report and accounts for Melrose for the financial year ended 31 December 2016, which are incorporated by reference into this document.

#### **4. Board Committees**

In accordance with the provisions of the UK Corporate Governance Code, the Melrose Board has three standing committees: the Audit, Nomination and Remuneration Committees (the “**Committees**”). The duties of the Committees are set out in formal terms of reference, which are available from the company secretary or from the Melrose Group’s website: *www.Melroseplc.net*. Membership of the Committees is shown below. The company secretary acts as secretary to each of the Committees.

##### ***Audit Committee***

The Audit Committee currently comprises of four independent non-executive Directors, Mr. Justin Dowley, Ms. Elizabeth Hewitt, Mr. David Lis and Mr Archie G. Kane. Ms. Elizabeth Hewitt chairs the Audit Committee. Each member of the Audit Committee brings relevant financial experience from senior executive and non-executive positions as described in their biographies at paragraph 1.1 (*Profiles of the Directors*) of this Part XIII.

The Audit Committee reviews and monitors the integrity of the financial statements of the Melrose Group, including its interim accounts, the annual report (including the going concern assumptions and the assessment forming the basis of the longer-term viability statement) and any other formal announcements relating to the financial performance of the Melrose Group; keeps under review the effectiveness of the Melrose Group’s financial reporting, internal audit and controls, risk management systems and compliance controls; focuses and challenges the consistency of accounting policies, methods used to account for significant or unusual transactions and compliance with accounting standards; reviews the Melrose Group’s arrangements for its employees to raise concerns in confidence about possible wrongdoing in financial reporting, in accordance with the Melrose Group’s whistleblowing policy; develops, implements and monitors the Melrose Group’s policy on external audit and for overseeing the objectivity and effectiveness of the auditor; and reviews and considers the annual report and financial statements of the Melrose Group, to ensure that they are fair, balanced and understandable, and advises the Melrose Board as to whether it can state that this is the case.

##### ***Remuneration Committee***

The Remuneration Committee currently comprises of four independent non-executive Directors, Mr. Justin Dowley, Ms. Elizabeth Hewitt, Mr. David Lis and Mr. Archie G. Kane. Mr. Justin Dowley chairs the Committee.

The function of the Remuneration Committee is to review annually remuneration trends across the Melrose Group and obtain reliable and up-to-date information about the remuneration of directors and senior employees in other companies; consider and make recommendations to the Melrose Board on the framework for the remuneration of the executive Directors, the company secretary and other senior employees; ensure that the executive Directors and senior employees are provided with appropriate annual incentives to encourage enhanced performance and that they are rewarded for their individual contributions to the success of Melrose; and approve the structure of, and determine targets for, any long-term incentive plans operated by Melrose.

##### ***Nomination Committee***

The Nomination Committee currently comprises of Mr. Christopher Miller and four independent non-executive Directors, Mr. Justin Dowley, Ms. Elizabeth Hewitt, Mr. David Lis and Mr. Archie G. Kane. Mr. David Lis chairs the Nomination Committee.

The Nomination Committee keeps the size, structure and composition of the Melrose Board under regular review and recommends to the Melrose Board any adjustments as may be necessary from time to time; gives full consideration to succession planning to ensure an optimum balance of executive and non-executive Directors in terms of skills, experience and diversity; keeps under review the leadership needs of the business; and keeps up-to-date and fully informed about strategic issues and commercial changes affecting the Melrose Group and the markets in which it operates. The Nomination Committee uses external search consultants as appropriate.

## 5. Employees

The average monthly number of persons employed by the Melrose Group for the years ended 31 December 2016, 2015 and 2014 are set out in the table below. These numbers are subject to fluctuations based on acquisitions and disposals of businesses in the Melrose Group in accordance with the “buy, improve, sell” model:

	Year ended 31 December <sup>(1)</sup>			
	2016	2015	2014 <sup>(2)</sup>	2014
			Unaudited	
Energy	2,107	2,460	2,569	2,594
Air Management	6,743	—	—	—
Security & Smart Technology	2,602	—	—	—
Ergonomics	1,546	—	—	—
Nortek central <sup>(3)</sup>	86	—	—	—
Central—corporate	30	34	34	34
Elster Gas	—	—	—	3,699
Elster Water	—	—	—	985
Elster Electricity	—	—	—	1,395
<b>Total</b>	<b>13,114</b>	<b>2,494</b>	<b>2,603</b>	<b>8,707</b>

Notes:

- (1) For continuing operations only.
- (2) Restated to include the employees of the Elster Group and Prelok within discontinued operations.
- (3) At 31 December 2016, 10 Nortek central employees remained within the Melrose Group.

In a number of the Melrose Group’s facilities, its employees are represented in works councils or labour unions.

## 6. Directors’ Confirmations

During the last five years, no Director has:

- (a) been convicted in relation to a fraudulent offence;
- (b) been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or senior management of any company;
- (c) been subject to any official public incrimination and/or sanction by statutory or regulatory authorities (including designated professional bodies);
- (d) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer;
- (e) been a partner in a partnership which, while he was a partner or within 12 months of his ceasing to be a partner, was put into compulsory liquidation or administration or which entered into any partnership or voluntary arrangement, or had a receiver appointed over any partnership asset;
- (f) had a receiver appointed with respect to any assets belonging to him; or
- (g) has been a director of a company which has been placed in receivership, compulsory liquidation, creditors’ voluntary liquidation or administration or which entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors, at any time during which he was a director of that company or within 12 months after his ceasing to be a director.

## 7. Conflicts of Interest

In respect of any Director, there are no actual or potential conflicts of interest between any duties he has to Melrose or the Melrose Group, either in respect of the Acquisition or otherwise, and the private interests and/or other duties they may also have.

No Director has, or had during the year ended 31 December 2016, a material interest in any significant contract with Melrose or any member of the Melrose Group.

No Director was selected to be a Director pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with the Melrose Group.

There are no family relationships between any of the Directors.

## 8. Directorships and Partnerships

Save as set out below, no Director has held any directorships of any company, other than in relation to companies within the Melrose Group, or been a partner in a partnership at any time, in each case in the five years prior to the date of this document.

<u>Director</u>	<u>Current appointments</u>	<u>Former appointments</u>
Christopher Miller . . . . .	—	TMO Renewables Limited Queripel Partners LP
David Roper . . . . .	—	E-Act
Simon Peckham . . . . .	Greensphere Capital plc	—
Geoffrey Martin . . . . .	—	—
Justin Dowley . . . . .	Callerheugh Limited Claridge Partners Limited JP Boden (Holdings) Limited L.J and E.L Dowley Farming Partnership MCC Overseas Limited New Schools Network Old Bailey 2005 LLP Scottish Mortgage Investment Trust plc Tillmouth & Tweed Salmon Fishings LLP The Jockey Club Transport Innovation Ltd.	Ascot Authority (Holdings) Limited Burnham Overy Boathouse Limited Greenhouse Sports Limited Independent Port Handling Limited Intermediate Capital Group plc National Crime Agency Novae Group plc Reform Topco Limited
Elizabeth Hewitt . . . . .	Novo Nordisk A/S Savills PLC Silverwood Property Limited St George's Fields Ltd St George's Fields (No. 2) Ltd	Synergy Health plc
David Lis . . . . .	BCA Marketplace plc Electra Private Equity PLC	Friends Life Funds Limited Friends Life Investments Limited The Investor Forum CIC
Archie G. Kane . . . . .	Bank of Ireland	—

**PART XIV**  
**MELROSE PROFIT ESTIMATE**

**PART A:**

**General**

Today, Melrose published a trading update ahead of its audited 2017 preliminary results scheduled to be released on 20 February 2017, an extract of which is set out below. The statement below included in the trading update constitutes a “profit estimate” for the purposes of the Prospectus Rules:

*“Nortek trading has been transformed more comprehensively and faster than envisaged at the time of the acquisition; underlying<sup>1</sup> operating profits at constant currency are up approximately 50% compared to last year of \$241.0 million and approximately 65% up on the full year prior to acquisition of \$220.1 million<sup>2</sup>”*

(the “Melrose Profit Estimate”).

- 1 Underlying operating profit excludes items which are non-trading or non-recurring, or any item released to the Income Statement that was previously a fair value item booked on acquisition including acquisition and disposal costs, restructuring and transformation charges, which include the losses incurred within closed businesses in the year of closure, and amortisation of intangible assets acquired in business combinations.
- 2 Adjusted for constant currency at the 2016 average exchange rates for the comparison to 2016 and at the 2015 average exchange rates for the comparison to 2015. The principal exchange rate is GBP:USD and the average rates applied to calculate growth in underlying operating profit on a constant currency basis are 1: 1.3554 for 2016 and 1:1.5284 for 2015. The average GBP:USD exchange rate for 2017 is 1.2888.

As required by Annex I 13.2 Prospectus Rules Annex I item 13.2 of Commission Regulation (EC) No 809/2004, Deloitte LLP, Melrose’s reporting accountants have prepared a report in respect of the Melrose Profit Estimate. Part B of this Part XIV contains Deloitte LLP’s report on the Melrose Profit Estimate.

**Basis of preparation and principal assumptions**

The Melrose Profit Estimate is based on:

- the unaudited interim results of Melrose for the 6 months ended 30 June 2017; and
- the unaudited management accounts of Melrose for the 6 months ended 31 December 2017.

The Melrose Profit Estimate has been prepared on a basis consistent with the current accounting policies of Melrose. Given that the period to which the Melrose Profit Estimate relates has been completed, there are no other principal assumptions underpinning the Melrose Profit Estimate.

**PART B: Report on profit estimate**



Deloitte LLP  
Athene Place  
66 Shoe Lane  
London  
EC4A 3BQ

The Board of Directors  
on behalf of Melrose Industries PLC  
11<sup>th</sup> Floor  
The Colmore Building  
20 Colmore Circus Queensway  
Birmingham  
B4 6AT

N M Rothschild & Sons Limited  
New Court  
St Swithin's Lane  
London  
EC4N 8AL

Investec Bank plc  
2 Gresham Street  
London  
EC2V 7QP

1 February 2018

Dear Sirs

**Melrose Industries PLC**

We report on the Melrose Profit Estimate of Melrose Industries PLC (“Melrose”) and its subsidiaries (together the “Group”) for the year ended 31 December 2017 (the “Melrose Profit Estimate”). The Melrose Profit Estimate, and the basis on which it is prepared, are set out on page 103 (Part A of XIV) of the prospectus equivalent document (the “Prospectus Equivalent Document”) issued by Melrose dated 1 February 2018. This report has been prepared for the purposes of complying with Annex I item 13.2 of Commission Regulation (EC) No 809/2004 (the “Prospectus Directive Regulation”).

**Responsibilities**

It is the responsibility of the directors of Melrose (the “Directors”) to prepare the Melrose Profit Estimate in accordance with the requirements of the Prospectus Directive Regulation. In preparing the Melrose Profit Estimate, the Directors are responsible for correcting errors that they have identified which may have arisen in unaudited financial results and unaudited management accounts used as the basis of preparation for the Melrose Profit Estimate.

It is our responsibility to form an opinion as required by the Prospectus Directive Regulation as to the proper compilation of the Melrose Profit Estimate and to report that opinion to you.

Save for any responsibility arising for the purposes of complying with Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus Equivalent Document.

**Basis of Preparation of the Melrose Profit Estimate**

The Melrose Profit Estimate has been prepared on the basis stated on page 103 (Part A of XIV) of the Prospectus Equivalent Document and is based on:

- the unaudited interim results of Melrose for the 6 months ended 30 June 2017; and

- the unaudited management accounts of Melrose for the 6 months ended 31 December 2017.

The Melrose Profit Estimate is required to be prepared on a basis consistent with the current accounting policies of Melrose.

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information for the year to 31 December 2017 has been prepared and considering whether the Melrose Profit Estimate has been accurately computed using that information and consistent with the accounting policies of the Group.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Melrose Profit Estimate has been properly compiled on the basis stated.

However, the Melrose Profit Estimate has not been audited. The actual results reported may be affected by required revisions to accounting estimates due to changes in circumstances or the impact of unforeseen events and we can express no opinion as to whether the actual results achieved will correspond to those shown in the Melrose Profit Estimate and differences may be material.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices. We have not consented to the inclusion of this report and our opinion in any registration statement filed with the SEC under the US Securities Act of 1933 (either directly or by incorporation by reference) or in any offering document enabling an offering of securities in the United States (whether under Rule 144A or otherwise). We therefore accept no responsibility to, and deny any liability to, any person using this report and opinion in connection with any offering of securities inside the United States of America or who makes a claim on the basis they had acted in reliance on the protections afforded by United States of America law and regulation.

#### **Opinion**

In our opinion, the Melrose Profit Estimate has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

#### **Declaration**

For the purposes of complying with Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus Equivalent Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus Equivalent Document in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP

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**PART XV**  
**ADDITIONAL INFORMATION**

**1. Responsibility**

The Company and the Melrose Directors, whose names appear in paragraph 1 of Part XIII (*Directors, Corporate Governance and Employees*) of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Melrose Directors (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

**2. Corporate history**

2.1 Melrose was incorporated in England and Wales on 29 September 2015 under the Companies Act as a public company limited by shares with registration number 9800044 and with the name New Melrose Industries PLC. The Company's name was changed to Melrose Industries PLC on 19 November 2015.

2.2 The liability of the members of the Company is limited.

2.3 The Company is domiciled in the United Kingdom and its registered office is at 11<sup>th</sup> Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT. The Company's principal place of business is at Leconfield House, Curzon Street, London W1J 5JA (tel. no. +44 (0)20 7647 4500).

**3. Share capital**

3.1 The share capital history of the Company is as follows:

3.1.1 On incorporation the share capital of the Company was £1, comprising 1 subscriber share of £1, held by the company secretary of Melrose.

3.1.2 On 1 October 2015, the Company issued 50,000 redeemable preference shares of £1 each, paid up in full, to Shield Trust Limited.

3.1.3 On 19 November 2015, 995,206,966 ordinary shares of 26.5 pence each in the Company were issued to holders of ordinary shares in Old Melrose pursuant to the terms of the 2015 Scheme. In addition, the Melrose Board granted 47,625 2012 Incentive Options over 2012 Incentive Shares in exchange for existing options over 2012 Incentive Shares in Old Melrose on a one for one basis upon the 2015 Scheme becoming effective, and upon such exchange taking effect the existing options lapsed.

3.1.4 On 23 November 2015, the nominal value of each ordinary share of 26.5 pence each in the Company was reduced to 1 penny and the subscriber share was cancelled.

3.1.5 On 14 December 2015, the 50,000 redeemable preference shares of £1 each were redeemed and cancelled.

3.1.6 On 26 January 2016, 26 ordinary shares of 1 penny each in the Company were issued to Investec Bank plc. At 6.00 p.m. on 26 January 2016 the Melrose Directors capitalised a sum of £2,388,496,718.40 then standing to the credit of the Company's merger reserve and applied such sum in paying up in full 995,206,966 B shares of £2.40 each in the Company and allotted such B shares credited as fully paid up to the holders of ordinary shares in the Company pro rata to their holdings as at 5.00 p.m. on 26 January 2016. On 27 January 2016, such B shares were cancelled and extinguished in return for a payment by the Company to each holder of a B share, as shown on the register of members of the Company at 5.00 p.m. on 26 January 2016, of £2.40 per B share held by that holder.

3.1.7 On 28 January 2016, each ordinary share of 1 penny each in the Company was sub-divided into 7 ordinary shares of  $\frac{1}{7}$  pence each in the Company and forthwith upon such sub-division every 48 ordinary shares in the Company resulting from the sub-division was consolidated into one Melrose Share, provided that no shareholder was entitled to a fraction of a Melrose Share and all fractional entitlements arising out of the consolidation were aggregated into whole Melrose Shares and the Melrose Shares so arising sold and the net proceeds of sale donated to a charity chosen by the Melrose Board.

3.1.8 On 6 July 2016, the Company announced a 12 for 1 rights issue of 1,741,612,236 new Melrose Shares at a price of 95 pence per new Melrose Share, in connection with the acquisition of



Nortek (the “**2016 Rights Issue**”). The 1,741,612,236 new Melrose Shares were admitted to the Official List, and dealings in the new Melrose Shares commenced on the London Stock Exchange, nil paid, at 8.00 a.m. on 9 August 2016. On 24 August 2016, the Company announced that it had received valid acceptances in respect of 1,689,589,213 new Melrose Shares (representing approximately 97 per cent of the total Melrose Shares offered). The underwriters of the 2016 Rights Issue procured subscribers for the remaining 52,023,023 new Melrose Shares not validly taken up at a price of 142 pence per new Melrose Share. Dealings in the new Melrose Shares issued pursuant to the 2016 Rights Issue commenced on the London Stock Exchange, fully paid, at 8.00 a.m. on 24 August 2016.

- 3.1.9 26,506 2012 Incentive Options crystallised into 26,506 2012 Incentive Shares pursuant to the Articles. Immediately following the crystallisation and in accordance with the conversion formula set out in the Articles, conversion of the 2012 Incentive Shares into Melrose Shares was implemented by way of a capitalisation of the Company’s merger reserve, to effect a bonus issue to Existing Incentive Shareholders of 54,453,914 new Melrose Shares in aggregate. The 54,453,914 new Melrose Shares were admitted to the Official List, and dealings in the new Melrose Shares commenced on the London Stock Exchange, at 8.00 a.m. on 31 May 2017 (the “**2012 Incentive Share Crystallisation**”).
- 3.1.10 Immediately following the 2012 Incentive Share Crystallisation and pursuant to the authority contained in the Articles, the 26,506 2012 Incentive Shares were re-designated as 2012 Deferred Shares and were, pursuant to a resolution passed by shareholders of the Company on 11 May 2017, purchased by the Company for an aggregate price of one penny on 31 May 2017. Following the purchase by the Company, the 2012 Deferred Shares were cancelled
- 3.1.11 With effect from 31 May 2017, the Melrose Board granted a number of 2017 Incentive Options to subscribe for 2017 Incentive Shares to executive Directors and certain Melrose employees (including an aggregate total of 10,832 to executive Directors) pursuant to the 2017 Incentive Plan. Pursuant to a resolution passed by shareholders of the Company on 11 May 2017, the directors of the Company are authorised to grant a further 33,458 2017 Incentive Options and to allot 2017 Incentive Shares in the Company up to an aggregate nominal amount of £50,000. The terms of the 2017 Incentive Options are set out in paragraph 5 (*Terms of the 2017 Incentive Plan*) of this Part XV (*Additional Information*).
- 3.1.12 On 29 June 2017, the Company issued 12,831 2017 Incentive Shares in connection with the exercise by certain Directors and Melrose employees of 2017 Incentive Options to subscribe for 2017 Incentive Shares.

3.2 The following table sets out the issued share capital of the Company as at the Latest Practicable Date:

<u>Class</u>	<u>£</u>	<u>Number</u>	<u>Nominal value</u>
Ordinary . . . . .	133,110,892	1,941,200,503	<sup>48</sup> / <sub>7</sub> pence
2017 Incentive Shares . . . . .	12,831	12,831	£1

3.3 The following table sets out the issued share capital of the Company immediately following Admission:

<u>Class</u>	<u>£</u>	<u>Number</u>	<u>Nominal value</u>
Ordinary <sup>(1)</sup> . . . . .	311,321,081	4,540,099,095	<sup>48</sup> / <sub>7</sub> pence
2017 Incentive Shares . . . . .	12,831	12,831	£1

Note:

(1) Assuming Melrose acquires the entire issued and to be issued share capital of GKN and the maximum number of New Melrose Shares are issued.

3.4 The Transaction Resolutions to be proposed at the General Meeting approving the Acquisition and pursuant to which, the New Melrose Shares will be created and/or issued are set out in the Notice of General Meeting contained in the Circular.

3.5 Save as disclosed in this paragraph 3, as at the date of this document:

- 3.5.1 there has been no issue of shares or loan capital of the Company since its incorporation; and
- 3.5.2 the Company does not hold any Melrose Shares in treasury.

3.6 The principal legislation under which the Company operates and pursuant to which the Existing Melrose Shares have been, and the New Melrose Shares will be, created is the Companies Act and regulations made under the Companies Act. The Existing Melrose Shares are, and the New Melrose Shares will be, denominated in pounds sterling. The ISIN for the New Melrose Shares will be the same as for the Existing Melrose Shares, being GB00BZ1G4322, and the SEDOL number will continue to be BZ1G432. The New Melrose Shares will be in registered form and are capable of being held in either (i) certificated form; or (ii) uncertificated form, and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations).

#### **4. Articles of Association**

The following is a summary of the rights and restrictions attaching to the Melrose Shares, and the 2017 Incentive Shares, which are more fully set out in the Articles. The New Melrose Shares will have the same rights and restrictions as the Existing Melrose Shares.

##### **4.1 *Voting rights***

4.1.1 Subject to any special rights or restrictions as to voting attached to any class of shares by or in accordance with the Articles, at a general meeting every Melrose Shareholder present in person or by proxy has on a show of hands one vote and every Melrose Shareholder present in person or by proxy has on a poll one vote for every share of which he is the holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

4.1.2 The holders of Incentive Shares have the right to receive notice of and to attend general meetings of Melrose, but do not have the right to vote thereat.

##### **4.2 *Dividends***

4.2.1 Subject to the Articles and the Companies Act, the Company may by ordinary resolution declare a dividend to be paid to the Melrose Shareholders according to their respective rights and interests, but no dividend may exceed the amount recommended by the Melrose Board. The Melrose Board may declare and pay such interim dividends as appear to it to be justified by the profits of the Company available for distribution.

4.2.2 The Incentive Shares do not confer a right to be paid a dividend save as set out in paragraph 4.4 below.

4.2.3 Except as otherwise provided by the rights attached to shares, a dividend shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is declared and paid, but no amount paid up on a share in advance of a call may be treated for these purposes as paid up on the share. Dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

4.2.4 Except as otherwise provided by the rights attached to shares, dividends may be declared or paid in any currency and, with the prior authority of an ordinary resolution of the Company, payment of a dividend may be satisfied wholly or in part by the distribution of assets in specie.

4.2.5 A dividend unclaimed for a period of 12 years from the date it was declared or became due for payment is forfeited and ceases to remain owing by the Company.

##### **4.3 *Return of capital***

4.3.1 On a voluntary winding up of the Company the liquidator may, on obtaining any sanction required by law, divide among the members in kind the whole or any part of the assets of the Company, whether or not the assets consist of property of one kind or of different kinds and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members. For such purpose the liquidator may set the value he deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of members how the division is to be carried out between members or classes of members. The liquidator may not, however, distribute to a member without his consent an asset to which there is attached a liability or potential liability for the owner.

- 4.3.2 On a return of capital on winding up (but not otherwise), the holders of Incentive Shares shall be entitled to participate in the Company's assets available for distribution in accordance with paragraph 4.4.14 below.

#### 4.4 *Further rights attaching to Incentive Shares*

##### 4.4.1

- (a) The holders of the Incentive Shares shall, not later than 20 Business Days after the Trigger Date, be paid a dividend which shall be equal to such amount per Incentive Share (the "**Dividend Amount**") as equals the Conversion Number (as determined in accordance with paragraph 4.4.3 for the Trigger Date, except that if the Conversion Number is a fraction it shall not be rounded up) multiplied by SP (as determined in accordance with paragraph 4.4.3). To the extent that a dividend is paid in respect of Incentive Shares in accordance with this paragraph 4.4.1(a), those shares shall, with effect from the payment date, be re-designated, and in any event shall have the same rights (and no other rights), as non-voting Deferred Shares, having the rights set out in paragraph 4.4.11.
- (b) Prior to the Trigger Date, the Remuneration Committee may in its absolute discretion determine that the Dividend Amount to be paid on the Incentive Shares should be reduced in whole or in part. If the Dividend Amount is reduced in whole, the Incentive Shares shall be converted in accordance with the remaining provisions of this paragraph 4.4. If the Dividend Amount is reduced in part the Incentive Shares shall be converted in accordance with the remaining provisions of this paragraph 4.4 save that the Conversion Number shall be reduced to reflect the amount of the dividend per share to be paid. Melrose shall serve a notice on the holders of such Incentive Shares (a "**conversion notice**") informing such holders of the determination by the Remuneration Committee and such notice shall be served within five Business Days of such determination.
- (c) If the Company is unable (for whatever reason) to pay the full amount of the dividend which is due as provided for in paragraph 4.4.1(a) or paragraph 4.4.1(b) or if the Company decides not to pay such a dividend or if the Remuneration Committee determines in accordance with paragraph 4.4.1(b) that the Incentive Shares should be converted but the Company fails to convert the Incentive Shares in accordance with paragraph 4.4.1(b) and the remaining provisions of this paragraph 4.4, then the Company shall procure that such Incentive Shares shall be purchased, not later than 25 Business Days after the Trigger Date, by an employee share ownership trust nominated by the Company for a consideration per Incentive Share equal to the Dividend Amount (as defined in paragraph 4.4.1(a)).

- 4.4.2 If a conversion notice is served in accordance with paragraph 4.4.1(b), or pursuant to paragraphs 4.4.13 or 4.4.14, on conversion each Incentive Share shall convert into such number of fully paid ordinary shares as equals the Conversion Number (save where a dividend has been paid on the Incentive Shares in accordance with paragraph 4.4.1(b) in which case the Conversion Number shall be reduced to reflect the amount of any dividend per share actually paid), provided that for the purposes of such conversion (other than a conversion pursuant to paragraphs 4.4.13 or 4.4.14) the Conversion Number multiplied by NBS (as defined in paragraph 4.4.3) shall not exceed the sum of (i) 5 per cent of the aggregate number of ordinary shares in issue on the Commencement Date, plus (ii) 5 per cent of any additional ordinary shares issued or created by the Company on or after the Commencement Date, and to the extent that the Conversion Number multiplied by NBS does exceed that amount, the amount of any excess shall be paid by way of a dividend to the holders of the Incentive Shares immediately prior to the conversion.

4.4.3 Subject to paragraph 4.4.7 and paragraph 4.4.13 and subject always to adjustment in accordance with paragraph 4.4.15 and/or paragraph 4.4.16, the “**Conversion Number**” equals:

$$\frac{\frac{7.5}{100} \times (SP \times N) - IC \times \frac{1}{SP}}{NBS}$$

Where:

- N* = the number of ordinary shares in issue on the relevant Trigger Date.
- NBS* = 50,000.
- SP* = the price certified by Investec Bank plc (or other brokers for the time being of the Company) to be the average closing middle market quotation (in pounds sterling) of an ordinary share in the capital of the Company as derived from the Daily Official List for the 40 Business Days prior to the Trigger Date.
- IC* = the invested capital (in pounds sterling) relating to the ordinary shares, being the sum of the Indexed Capital for each month in which there is either an Ordinary Share Cost or a Return from (and including) the month in which the relevant Commencement Date for the Incentive Shares occurs up to (and including) the month in which the relevant Trigger Date for the Incentive Shares occurs (and for these purposes the Ordinary Share Cost for the first month shall be the deemed market capitalisation of the Company as at the Business Day immediately preceding the relevant Commencement Date for the Incentive Shares based on the price certified by Investec Bank plc (or other brokers for the time being of the Company) to be the average closing middle market quotation (in pounds sterling) of an ordinary share in the capital of the Company as derived from the Daily Official List for the 40 Business Days up to and including the business day immediately preceding the relevant Commencement Date).

and where:

- (i) the “**Indexed Capital**” for a month means the Net Capital for that month multiplied by the relevant Index Adjustment for the period from the commencement of that month until the commencement of the month in which the Trigger Date falls.
- (ii) the “**Net Capital**” for a month means the Ordinary Share Cost in that month or the Returns in that month or, in the event that there are both, the net amount of Ordinary Share Cost minus Returns, and which for the avoidance of doubt may be zero or a negative number.
- (iii) “**Ordinary Share Cost**” means the total amount (in pounds sterling) paid up (as to nominal value and any premium) on any allotment of ordinary shares in the period, provided that (I) if any part of such amount paid up on any ordinary share is paid up otherwise than in cash the amount paid up on that share shall be deemed to be the price certified by Investec Bank plc (or other broker for the time being of the Company) to be the average closing middle market quotation (in pounds sterling) of an ordinary share as derived from the Daily Official List for the ten Business Days immediately preceding the announcement of a transaction, where the terms of the transaction are agreed at the time of such announcement (and would require an announcement to be made pursuant to Chapter 10 of the Listing Rules were such Chapter to be applicable) or where the announcement constitutes an announcement of a firm intention to make an offer, pursuant to Rule 2.7 of the City Code (or its equivalent in other jurisdictions), and (II) if any ordinary shares shall be allotted credited as fully paid by way of capitalisation of profits or reserves the amount paid up on such shares shall be excluded from the calculation of Ordinary Share Cost.
- (iv) “**Returns**” means the sum of any dividends or distributions of any kind paid or made on or in respect of the ordinary shares, including (I) a purchase of any of the Company’s own shares (whether or not out of the proceeds of any fresh issue of shares or out of unrealised profits), (II) a reduction of share capital by repaying paid up share capital, and (III) any other returns of capital in the period, whether in cash or otherwise and however described, excluding

- a. any issue of shares credited as fully paid to shareholders by way of capitalisation of profits or reserves which is to be, or may at the election of the shareholders be, issued instead of the whole or any part of a cash dividend which the shareholders concerned would or could otherwise have received; and
- b. any issue of shares credited as fully paid to the shareholders (or as they may direct) by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve).

(v) “**Index Adjustment**” =

$$\left( \left( \frac{RPI_2}{RPI_1} \right)^{\frac{12}{t}} + 0.02 \right)^{\frac{t}{12}}$$

Where:

RPI<sub>1</sub> is the RPI for the month immediately preceding the start of the period referred to in (i) above (rounded to one decimal place).

RPI<sub>2</sub> is the RPI for the month immediately preceding the end of the period referred to in (i) above (or, if that has not been published by the close of business on the Trigger Date, then the RPI for the latest month for which the RPI has been published) (rounded to one decimal place).

“**t**” is the number of months between the two months used to determine RPI<sub>1</sub> and RPI<sub>2</sub> (and for the avoidance of doubt, there are 12 months between the same months in consecutive years).

“**RPI**” means the UK Retail Prices Index (all items) published by the Office for National Statistics (or any successor Government department) (January 1987 = 100) or any index which may replace the RPI, as selected by the Remuneration Committee.

References to a month are to a calendar month.

For the avoidance of doubt, where “**IC**” is a negative number, the formula in this paragraph 4.4.3 shall continue to be applicable.

In the event that the calculation in this paragraph 4.4.3 results in a Conversion Number being less than one, the Conversion Number for the purposes of these paragraphs shall be one.

4.4.4 In this paragraph 4.4, the “**Trigger Date**” is (except where paragraph 4.4.13 or paragraph 4.4.14 applies) the date specified as such for the relevant Incentive Shares in a resolution of the Company to authorise an issue of Incentive Shares. If, however, the Company annual accounts for its preceding financial period (or where applicable a summary financial statement derived from the annual accounts) have (or has) not been published by the last day of the month falling two months before the Trigger Date, the Trigger Date is two months after the date on which the annual accounts (or where applicable the summary financial statement) are (or is) so published. If the Company shall change its accounting reference date from 31 December, there shall be substituted for the specified Trigger Date, the date falling five months after the new accounting date. Other than pursuant to paragraph 4.4.13 and paragraph 4.4.14, the Trigger Date as calculated in accordance with this paragraph 4.4.4 cannot be changed. In this paragraph 4.4, the “**Commencement Date**” is the date specified as such for the relevant Incentive Shares in a resolution of the Company to authorise an issue of Incentive Shares.

4.4.5 The Ordinary Shares to which a holder is entitled on conversion shall not rank for any dividends or other distributions paid or made on Ordinary Shares prior to the relevant Trigger Date but shall rank for any paid or made thereafter, and subject thereto they shall rank *pari passu* in all respects and form one class with the Ordinary Shares then in issue.

4.4.6 If a conversion notice is served in accordance with paragraph 4.4.1(b), on or within 20 Business Days after the Trigger Date (the “**conversion date**”), the Melrose Board shall convert the Incentive Shares into the Ordinary Shares and deferred shares (if any) arising on conversion and, as soon as reasonably practicable thereafter, shall issue to the holders of such ordinary shares without charge certificates for the Ordinary Shares and deferred shares (if any). In the meantime, transfers of ordinary shares shall be certified against the register.

- 4.4.7 Except for the purposes of paragraph 4.4.1(a), where the Conversion Number is a fraction, the Conversion Number shall be rounded up to the nearest whole number provided that where a holder of Incentive Shares converts more than one Incentive Share at the same time, then for the purposes of determining the number of ordinary shares to which a holder is entitled and whether a (and if so what) fraction of an ordinary share arises, the number of ordinary shares arising on the conversion of Incentive Shares by any one holder shall first be aggregated.
- 4.4.8 Where a block admission arrangement is in place with a relevant investment exchange, the Company will use its best endeavours to procure that the aggregate Conversion Number of Ordinary Shares shall, upon conversion, be admitted to the relevant investment exchange. Where a block admission arrangement is not in place or is insufficient to deal with the aggregate Conversion Number, the Company will apply for admission to the relevant investment exchange for that number of Ordinary Shares for which there are insufficient Ordinary Shares available under a block admission arrangement to satisfy the aggregate Conversion Number. The Company shall prepare and use its best endeavours to issue any listing particulars and other documents that may be required to be issued in respect of any Ordinary Shares arising on conversion pursuant to the rules of any relevant investment exchange.
- 4.4.9 The Melrose Board may in its absolute discretion from time to time decide the manner in which Incentive Shares are to be converted, subject to the provisions of the Articles and the Companies Act, and for the avoidance of doubt may decide to effect conversion of Incentive Shares partly in one manner and partly in another.
- 4.4.10 Without prejudice to paragraph 4.4.9, the Melrose Board may, pursuant to the authority given by the adoption of the Articles and without the requirement for any further resolution of the Company or of the holders of any class of shares, elect to effect conversion, in whole or in part, by sub-division, in which case each Incentive Share to be converted shall, pursuant to the authority granted by the adoption of the Articles, be sub-divided and re-designated into:
- (i) such number of ordinary shares of the same nominal amount as the ordinary shares of the Company at such time as the Melrose Board determines (subject to the limitation on timing set out in paragraph 4.4.6), equal to (or no greater than) the Conversion Number; and
  - (ii) a non-voting Deferred Share with a nominal value equal to the balance of such share, having the rights set out in paragraph 4.4.11 (a “**Deferred Share**” and, together, the “**Deferred Shares**”).
- 4.4.11 The Deferred Shares shall not confer the right to be paid a dividend or to receive notice of or to attend or vote at a general meeting. On a winding-up, after the distribution of the first £10 billion of the assets in accordance with paragraph 4.3.2, the holders of the Deferred Shares (if any) shall be entitled to receive an amount equal to the nominal value of such Deferred Shares pro rata to their respective holdings. The Deferred Shares shall not, save as referred to in this paragraph 4.4.11, be transferable. Conversion of an Incentive Share is deemed to confer irrevocable authority on the Melrose Board at any time to do all or any of the following without obtaining the sanction of the holder of any or all of the Deferred Shares:
- (i) to appoint a person to execute on behalf of each holder of Deferred Shares an instrument of transfer for or an agreement to transfer (or both) all or some of the Deferred Shares, without making a payment to the holder, to such person as the Melrose Board may decide, as custodian;
  - (ii) to purchase all or some of the Deferred Shares (subject to the provisions of the Companies Act) for a price of one penny for all the Deferred Shares purchased, without obtaining the sanction of the holder;
  - (iii) for the purposes of any such purchase, to appoint any person to execute on behalf of the holder of Deferred Shares a contract for the sale to the Company of any such Deferred Shares by him or her; and
  - (iv) to cancel all or any of the same so purchased in accordance with the Companies Act.
- Pending the transfer or purchase the Company may retain the certificates for the Deferred Shares.

- 4.4.12 Without prejudice to paragraph 4.4.9, and notwithstanding the provisions of the Articles, the Melrose Board may, without the requirement for any further resolution of the Company or of the holders of any class of shares, (I) elect to effect conversion, in whole or in part, by way of the capitalisation of profits or reserves (including a share premium account, capital redemption reserve, merger reserve and profit and loss account), whether or not available for distribution, and/or (II) appropriate the sum to be capitalised to any one or more holders of Incentive Shares and whether or not in proportion to the nominal amounts of shares held by them, and apply that sum on such holders' behalf in or towards paying up in full unissued ordinary shares of a nominal amount equal to that sum, and to allot the shares to such holders or as they may direct. Immediately upon such allotment, the Incentive Shares to be converted at any one time and held by such holder shall, if conversion is effected in whole pursuant to this paragraph 4.4.12, pursuant to the authority given by the adoption of the Articles and without the requirement for any further resolution of the Company, be re-designated as non-voting Deferred Shares having the rights set out in paragraph 4.4.11.
- 4.4.13 If, prior to the payment of the dividend provided for in paragraph 4.4.1(a) and paragraph 4.4.1(b), the conversion of the Incentive Shares into ordinary shares pursuant to paragraph 4.4.1(b) or the purchase of the Incentive Shares pursuant to paragraph 4.4.1(c), as the case may be, the Company becomes aware that, as a result of an offer made to all holders of ordinary shares (or all holders of ordinary shares other than the offeror and any associates of the offeror, as defined in section 988 of the Companies Act) to acquire all or some of the ordinary shares (including any such offer implemented by way of a court approved scheme of arrangement under Part 26 of the Companies Act) the right to cast more than 50 per cent of the votes that may ordinarily be cast on a poll at a general meeting has or will become vested in the offeror and those associates, the Company shall give notice to all holders of Incentive Shares forthwith upon it becoming so aware and such notice shall also state that the Dividend Amount shall be reduced in whole and that a conversion shall occur in accordance with paragraph 4.4.1(b). Subject to paragraph 4.6.3, the Incentive Shares shall convert in accordance with paragraph 4.4.1(b) and such number of ordinary shares as is equal to the whole of the Conversion Number shall be allotted pursuant to paragraph 4.4.12, without having regard to the limitation on the Conversion Number multiplied by NBS, which is imposed pursuant to paragraph 4.4.2, and such ordinary shares shall be entitled to participate in the offer resulting in the change of control of the Company (the "**Change of Control**"), alongside the existing ordinary shares. Such conversion shall occur upon the Change of Control or as soon thereafter as the board becomes aware of the Change of Control having occurred, in accordance with the provisions of this paragraph 4.4, except that for such purposes the "Trigger Date" shall be the date of, but immediately prior to, the Change of Control and "SP" shall be the offer price per ordinary share as calculated on the date of the Change of Control. In the event that part or all of the offer price is not in cash, the Remuneration Committee shall determine the value of the non-cash element, having been advised by an investment bank of repute that such valuation is fair and reasonable. For the avoidance of doubt, any offer so made (including any offer implemented by way of a court approved scheme of arrangement under Part 26 of the Act) which results in the Company being controlled by a new company ("**New Company**") in which at least 90 per cent. of the shares in the New Company are held by substantially the same persons who immediately before the offer was made were shareholders in the Company shall not constitute a Change of Control of the Company and no "Trigger Date" shall be deemed to have occurred provided that the Incentive Shares have been exchanged or are exchangeable for new incentive shares in the New Company on substantially the same terms as the Incentive Shares.
- 4.4.14 If, prior to the payment of the dividend provided for in paragraph 4.4.1(a) and paragraph 4.4.1(b), the conversion of the Incentive Shares into ordinary shares pursuant to paragraph 4.4.1(b) or the purchase or redemption of the Incentive Shares pursuant to paragraph 4.4.1(c), as the case may be, either (I) a resolution for voluntary winding-up of the Company is passed or (II) a winding-up order is made by the court in relation to the Company, subject to paragraph 4.6.3, the Incentive Shares shall be treated as if they had converted in accordance with this paragraph 4.4, without having regard to the limitation on the Conversion Number multiplied by NBS, which is imposed pursuant to paragraph 4.4.2, on the date of, and with effect immediately prior to, the resolution for the voluntary winding-up of the Company being passed or the date of the winding-up order being made, as the case may be (in either case, the "**operative date**") except that for such purposes the "Trigger Date" shall be the operative

date. In that event, the holder thereof shall be entitled to be paid, in satisfaction of the amount due in respect of his Incentive Shares, a sum equal to the amount to which he would have been entitled on a return of capital on a winding-up if he had been the holder of the ordinary shares to which he would have become entitled on such conversion.

- 4.4.15 If a doubt or dispute arises concerning the calculation of the Conversion Number or any component part of the formulae for calculating the Conversion Number, the Melrose Board shall refer the matter to the auditors and their certificate as to such calculation shall be conclusive and binding on all concerned.
- 4.4.16 In the event that any provision (or combination of provisions) in this paragraph 4.4 or any future change to the capital structure of the Company produces, or is likely to produce, a Conversion Number which appears to the Remuneration Committee to be an anomalous result or there shall be quantified material information known to the Remuneration Committee in relation to the current financial position of the Company that is not in the public domain that would, in the reasonable opinion of the Remuneration Committee, produce an anomalous result if such information were in the public domain, the Remuneration Committee may make such adjustments to the method of calculating the Conversion Number as it considers appropriate to ensure that conversion is fair and reasonable, and as an investment bank of repute shall have confirmed in writing to be fair and reasonable so far as the Melrose Shareholders are concerned.

#### 4.5 *Permitted transfer of Incentive Shares*

- 4.5.1 Subject to paragraph 4.5.2, the holders of Incentive Shares may not transfer, charge, encumber, grant any option over or otherwise dispose of any Incentive Share or any interest therein.
- 4.5.2 A holder of an Incentive Share may at any time transfer an Incentive Share:
- (a) with the prior written consent of the Melrose Board (and where such consent is given in relation to a transfer to: (a) the trustees of a trust of which the only beneficiaries (and the only people capable of being beneficiaries) are the holder of the Incentive Shares who established the trust and who is transferring the relevant shares, the holder's spouse and/or the holder's lineal descendants by blood or adoption; and/or (b) a company whose voting control is and will remain until the Trigger Date under the control of the holder, the holder's spouse and/or the holder's lineal descendant(s) by blood or adoption; and/or (c) his spouse; and/or (d) his lineal descendants by blood or adoption, such transferees being "**permitted transferees**"); or
  - (b) when required by paragraph 4.5.3 or paragraph 4.6.2.
- 4.5.3 If a transferee of any shares under paragraph 4.5.2 shall at any time cease to be a permitted transferee in relation to the original holder of the relevant Incentive Shares (the "**relevant shares**"), it shall be the duty of the trustees and/or the person holding the relevant shares to notify the Melrose Board in writing that such event has occurred and the trustees and/or the person shall be bound to execute a stock transfer form and to do such other things as may be necessary to transfer the relevant shares at the price per relevant share (if any) for which they were acquired, to the original holder (who shall be bound to acquire the relevant shares) and, if they or he fails to do so, the Directors may authorise any Director to execute any stock transfer form and to do such other things as may be necessary or desirable to transfer the relevant shares on behalf of the trustees and/or the person holding the relevant shares pursuant to this paragraph 4.5.3.
- 4.5.4 The Melrose Board may require from any person lodging a share transfer such information and evidence as the Melrose Board thinks fit regarding any matter which they may reasonably deem relevant for the purposes of paragraph 4.5.2 and may refuse to register the relevant transfer until they have received information and evidence satisfactory to them.

#### 4.6 *Compulsory transfer or conversion of Incentive Shares*

- 4.6.1 If the holder of any Incentive Shares or the original holder of any Incentive Shares transferred pursuant to paragraph 4.5, if an employee of the Company or any of its subsidiary undertakings, ceases to be an employee, if a Melrose Director ceases to be a director, and if an employee and director ceases to be both, in each case other than by reason of death, permanent ill health, permanent disability, his resignation in connection with a Change of Control, retirement at or



above 65 years of age, or the termination of his employment or directorship without cause, he shall be deemed to be a “**bad leaver**”.

- 4.6.2 If the holder of any Incentive Shares or the original holder of any Incentive Shares transferred pursuant to paragraph 4.5, if an employee of the Company or any of its subsidiary undertakings, ceases to be an employee, if a Melrose Director ceases to be a director, and if an employee and director ceases to be both, and such person is not a bad leaver, he shall be deemed to be a “**good leaver**”.
- 4.6.3 Unless the Remuneration Committee shall in its absolute discretion determine otherwise, if the holder of any Incentive Shares or the original holder of any Incentive Shares transferred pursuant to paragraph 4.5 becomes a bad leaver then the provisions of paragraph 4.6.1 to paragraph 4.6.2 shall apply in respect of:
- (a) the bad leaver; and
  - (b) any permitted transferee of such bad leaver and any subsequent transferee of such shares (together the “**compulsory transferors**”).
- 4.6.4 Each Incentive Share held by the compulsory transferors shall within the period of 20 Business Days following the bad leaver ceasing to be an employee or Director, be transferred to the trustees of an employee share ownership plan trust, or such person as the Melrose Board may direct, at a price per share equal to the lower of the nominal value per Incentive Share and the closing middle market quotation of an ordinary share in the capital of the Company as derived from the Daily Official List on the Business Day prior to the transfer, and the compulsory transferors shall be bound to execute a stock transfer form and to do such other things as may be necessary to transfer the relevant shares and if they fail to do so, the Directors may authorise any Director to execute any stock transfer form and to do such other things as may be necessary or desirable to transfer the relevant shares on behalf of the compulsory transferors.
- 4.6.5 Following a cessation of employment or directorship causing this paragraph 4.6 to apply to particular Incentive Shares, those Incentive Shares may not be transferred pursuant to paragraph 4.5.2(a). In the event of a Change of Control between the date of cessation of employment or directorship and the relevant transfer date in paragraph 4.6.2, those Incentive Shares shall convert in accordance with paragraph 4.4.13 except that each such Incentive Share shall convert into one fully paid ordinary share and one fully paid deferred share with a nominal value equal to the balance of the nominal value of the Incentive Share (the “**bad leaver conversion rate**”). In the event of either (I) a resolution for a voluntary winding-up of the Company being passed or (II) a winding-up order being made by the court in relation to the Company, in either case between the date of cessation of employment or directorship and the relevant transfer date in paragraph 4.6.2, those Incentive Shares shall convert in accordance with paragraph 4.4.14 except that each such Incentive Share will convert in accordance with the bad leaver conversion rate.
- 4.6.6 Save in circumstances where a holder of Incentive Shares becomes a good leaver as a result of his resignation in connection with a Change of Control, the Remuneration Committee may, in its absolute discretion, require that a good leaver and any person to whom such good leaver has transferred Incentive Shares pursuant to paragraph 4.5 and any subsequent transferee of such shares shall be deemed to be a compulsory transferor and that the provisions of paragraph 4.6.2 shall apply to such good leaver or transferee as the case may be, in respect of some or all of the Unvested Portion of the Incentive Shares held by such good leaver, as they apply to a bad leaver.
- 4.6.7 Any determination by the Remuneration Committee in accordance with paragraph 4.6.4 shall be notified to such good leaver within three months of such person becoming a good leaver.
- 4.6.8 For the purposes of this paragraph 4.6, “**Unvested Portion**” shall mean any Incentive Shares for which the holder was granted an option to subscribe within less than one year prior to the date on which that holder becomes a good leaver.

#### **4.7 Restrictions on Incentive Shares**

If Incentive Shares remain capable of being converted into ordinary shares, the Company shall not, except with the consent in writing of the holders of at least three-fourths of the nominal amount of the Incentive Shares then in issue or with the sanction of a special resolution passed at a separate meeting of the holders of Incentive

Shares then in issue validly held in accordance with the provisions of the Articles (i) create, allot or issue any further Incentive Shares in the capital of the Company; or (ii) pass a resolution varying any of the special rights attached to the Incentive Shares.

#### **4.8 *Transfer of shares***

4.8.1 Shares issued by the Company in certificated form may be transferred by an instrument of transfer in writing in any usual form, or in such other form as the Melrose Board may approve. The instrument of transfer shall be executed by or on behalf of the transferor and, in the case of a transfer of a share that is not fully paid, by or on behalf of the transferee.

4.8.2 In exceptional circumstances, approved by any relevant investment exchange, the Melrose Board may refuse to register the transfer of certificated shares provided that such refusal would not disturb the market in those shares. Subject to the requirements of any relevant investment exchange, the Melrose Board may, in its absolute discretion refuse to register any transfer of a certificated share which is not fully paid or the transfer of a certificated share on which the Company has a lien. Subject to the requirements of any relevant investment exchange, the Melrose Board may also, in its absolute discretion, refuse to register the transfer of a certificated share or a renunciation of a renounceable letter of allotment unless:

- (a) it is only in respect of one class of shares;
- (b) it is in favour of a single transferee or renounee or not more than four joint transferees or renounees;
- (c) it is duly stamped (if required); and
- (d) it is delivered for registration to the registered office or such other place as the Melrose Board may decide, accompanied by the certificate for the shares to which it relates (except where the shares are transferred by a recognised financial institution and no certificates have been issued for them or in the case of a renunciation) and such other evidence as the Melrose Board may reasonably require to prove title of the transferor or the person renouncing and due execution by him of the transfer or renunciation.

If the Melrose Board refuses to register the transfer of a certificated share it shall, as soon as reasonably practicable, send notice of such refusal to the transferee together with its reasons for the refusal.

4.8.3 Shares issued by the Company in uncertificated form may be transferred in accordance with the CREST Regulations. The Melrose Board may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse (or is expected from the requirement) under the CREST Regulations to register the transfer.

#### **4.9 *Changes in capital and purchase of own shares***

4.9.1 The Company may at any time by way of ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount;
- (b) subject to the Companies Act, subdivide all or part of its share capital into shares of a smaller amount and may determine that the shares resulting from the sub-division have among themselves such preferred, deferred or other special rights or advantages or be subject to any such restrictions as the Company has power to attach to unissued or new shares;
- (c) cancel any shares which, at the date of the ordinary resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (d) increase its share capital.

4.9.2 Subject to the Companies Act and to the rights attached to existing shares, the Company may:

- (a) subject to the requirements of any relevant investment exchange, purchase, or agree to purchase in the future, its own shares; and

- (b) by special resolution, reduce its share capital, capital redemption reserve, share premium account or other undistributable reserve in any way.

#### **4.10 Variation of rights**

Subject to the Companies Act, all or any of the rights for the time being attached to any class of shares may be varied or abrogated either with the consent in writing of the holders of at least three-fourths in nominal amount of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class validly held in accordance with the Articles. The rights attached to a class of shares are not, unless otherwise expressly provided for in the rights attaching to those shares, deemed to be varied by the creation, allotment or issue of further shares ranking in priority to, *pari passu* with or subsequent to them or by the purchase or redemption by the Company of its own shares in accordance with the Companies Act and the Articles.

#### **4.11 Constitution of the Melrose Board**

There is no age limit for directors. The directors must not, unless otherwise determined by an ordinary resolution of the Company, be less than two. A director need not be a member of the Company.

#### **4.12 Directors' remuneration, pensions and benefits**

- 4.12.1 The directors shall be paid such aggregate amount of fees for their services as directors as the Melrose Board decides (or such other aggregate amount as the Company may by ordinary resolution decide). The aggregate fees shall be divided among the directors in such proportions as the Melrose Board decides or, if no decision is made, equally. Subject to the Companies Act, the requirements of any relevant investment exchange and the Articles, the Melrose Board may arrange for part of a fee payable to a director to be provided in the form of fully-paid shares in the capital of the Company.
- 4.12.2 The directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in the performance of their duties as directors including expenses incurred in attending meetings of the Melrose Board or of Committees of the Melrose Board or general meetings or separate meetings of the holders of a class of shares of the Company.
- 4.12.3 In addition, the Melrose Board may decide to pay a director who, at the request of the Melrose Board, goes or resides abroad, makes a special journey or performs a special service on behalf of the Company, such reasonable additional remuneration (whether by way of salary or otherwise) and expenses as the Melrose Board may decide.
- 4.12.4 The salary or other remuneration of a director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the Melrose Board, and may be in addition to or instead of a fee payable to him for his services as director pursuant to the Articles.
- 4.12.5 The Melrose Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities to a person who is or has at any time been a director of:
  - (a) Melrose or any company which is or was a subsidiary undertaking of the Company;
  - (b) any company allied to or associated with the Company or a subsidiary undertaking of the Company; or
  - (c) a predecessor in business of the Company or of a subsidiary undertaking of the Company, or any member of his family or his dependants. For this purpose the Melrose Board may establish, maintain, subscribe and contribute to any scheme, trust or fund and pay premiums.

#### **4.13 Directors' retirement**

At each annual general meeting of the Company each director then in office shall retire from office with effect from the conclusion of the meeting. A retiring director shall be eligible for re-election, and a director who is re-elected will be treated as continuing in office without a break. A retiring director who is not re-elected shall retain office until the close of the meeting at which he retires.

#### **4.14 *Directors' interests in contracts***

Subject to the Companies Act and provided he has disclosed to the Melrose Board the nature and extent of any direct or indirect interest of his, a director, notwithstanding his office:

- 4.14.1 may enter into or otherwise be interested in a contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested either in connection with his tenure of an office or place of profit or as seller, buyer or otherwise;
- 4.14.2 may hold another office with the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of director and may act by himself or through his firm in a professional capacity to the Company, and in that case on such terms as to remuneration and otherwise as the Melrose Board may decide either in addition to or instead of the remuneration described in paragraph 4.9 above;
- 4.14.3 may be a director or other officer of, or employed by, or a party to a contract, transaction, arrangement or proposal with or otherwise interested in, a company promoted by Melrose or in which the Company is otherwise interested or as regards which the Company has a power of appointment; and
- 4.14.4 is not liable to account to the Company for a profit, remuneration or other benefit realised by such contract, arrangement, transaction, proposal, office or employment and no such contract, arrangement, transaction or proposal is avoided on the grounds of any such interest or benefit.

#### **4.15 *Restrictions on voting by directors***

- 4.15.1 A director may not vote or be counted in the quorum in respect of any contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he has an interest which is, to his knowledge, a material interest (otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company). Notwithstanding the above, a director shall be entitled to vote on:
  - (a) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
  - (b) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility under a guarantee or indemnity or by the giving of security;
  - (c) any contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase in respect of which he is or may be entitled to participate as a holder of any such securities or in the underwriting or sub-underwriting of which he is to participate;
  - (d) any contract, an arrangement, transaction or proposal to which the Company is or is to be a party concerning another company (including a subsidiary undertaking of the Company) in which he is interested (directly or indirectly) if he does not to his knowledge hold an interest in shares (within the meaning of sections 820 to 825 of the Companies Act) representing 1 per cent or more of any class of the equity share capital of such company or of the voting rights of that company;
  - (e) any contract, arrangement, transaction or proposal for the benefit of employees of the Company or any of its subsidiary undertakings which does not award him a privilege or benefit not generally awarded to the employees to whom it relates; and
  - (f) any contract, arrangement, transaction or proposal concerning the purchase or maintenance of an insurance policy under which he may benefit.
- 4.15.2 A director shall not vote or be counted in the quorum at a meeting of the directors or Committee meeting in respect of any resolution concerning his own appointment (including fixing and varying the terms of his appointment or its termination), as the holder of any office or place of profit with the Company or any other company in which Melrose is interested.

#### 4.16 *Borrowing powers*

The Melrose Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or part of the undertaking, property and assets (present or future) and uncalled capital of the Company and, subject to the Companies Act and all other relevant legislation, to issue debentures and other securities whether outright or as collateral security for a debt, liability or obligation of the Company or a third party. There is no limit on the amount of borrowings.

#### 4.17 *Disclosure*

Where there is a default in supplying information required by a notice served under section 793 of the Companies Act, the Articles provide for voting and related rights to be restricted in relation to the relevant shares and, where the relevant shares represent 0.25 per cent or more in nominal value of the issued shares of the relevant class, the right to receive dividends to be withheld.

#### 4.18 *General Meetings*

- 4.18.1 The Melrose Board may call general meetings whenever it thinks fit and upon receipt of a requisition of members pursuant to the Companies Act, within 21 days from the date on which the Melrose Board becomes subject to the requirement.
- 4.18.2 Unless consent to short notice is obtained in accordance with the provisions of the Companies Act, an annual general meeting shall be called by at least 21 clear days' notice. All other general meetings shall be called by at least 14 clear days' notice. A notice of meeting shall be given to each member of the Company (other than any who, under the Articles or the terms of an allotment or issue of shares, is not entitled to receive notice), to the directors and to Melrose's auditors.
- 4.18.3 Holders of Incentive Shares shall have a right to receive notice of, and to attend, general meetings of the Company, but shall have no right to vote thereat.
- 4.18.4 No business shall be transacted at any general meeting unless a quorum is present. Two "qualifying persons" present and entitled to vote shall be a quorum, where "qualifying persons" includes proxies and corporate representatives. The absence of a quorum does not prevent appointment of a chairman in accordance with the Articles, which shall not be treated as part of the business of the meeting.
- 4.18.5 The Melrose Board may make any arrangement and impose any restriction it considers appropriate to ensure the security of a meeting of the Company including, without limitation, the searching of a person attending the meeting and the restriction of the items of personal property that may be taken into a meeting. A director or the secretary of the Company may refuse entry to a meeting to any person who refuses to comply with any such arrangements and eject from a meeting any person who causes the proceedings to become disorderly.
- 4.18.6 Each director shall be entitled to attend and speak at a general meeting and at a separate meeting of the holders of a class of shares or debentures in the Company, whether or not he is a member. The chairman may invite any person to attend and speak at any general meeting of the Company where he considers that this will assist in the deliberations of the meeting.
- 4.18.7 The directors may decide in advance of any general meeting that some or all of the resolutions to be put to the vote at a general meeting will be decided on a poll.
- 4.18.8 At a general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands), a poll is demanded by the chairman of the meeting; or not less than five members present in person or by proxy and entitled to vote at the meeting; or a member or members present in person or by proxy and representing in aggregate not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or a member or members present in person or by proxy holding shares conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. Members present by proxy shall have the right to speak and to vote on a show of hands.
- 4.18.9 On a poll votes may be given in person or by proxy and a member entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way. A

person appointed to act as a proxy need not be a member of the Company. Members may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares.

4.18.10 A company which is a member of Melrose may, by resolution of its directors or other governing body, authorise one or more persons to act as its representative at a meeting of the Company or at a separate meeting of the holders of a class of shares. The person so authorised is entitled to exercise on behalf of the company which he represents (in respect of that part of the company's holding of shares to which the authorisation relates) those powers that the company could exercise if it were an individual member. The company is for the purposes of the Articles deemed to be present in person at a meeting if a representative is present. Such representative may be required to produce a certified copy of the resolution of authorisation before permitting him to exercise his powers.

4.19 The above is a summary only of certain provisions of the Articles. Copies of the Articles are available for inspection in the manner specified in paragraph 18 (*Documents available for inspection*) of this Part XV below.

## **5. Terms of the 2017 Incentive Plan and 2017 Incentive Options**

5.1 With effect from 31 May 2017, the Melrose Board granted 16,542 2017 Incentive Options to subscribe for 2017 Incentive Shares to executive Directors and certain Melrose employees (including 10,832 to Directors as set out in paragraph 1.2 of Part XIII (*Directors, Corporate Governance and Employees*) of this document) with a "Commencement Date" of 31 May 2017 and a "Trigger Date" of 31 May 2020 (the "**2017 Incentive Plan**"). Pursuant to a resolution passed by shareholders of the Company on 11 May 2017, the directors of the Company are authorised to grant an aggregate of up to 50,000 2017 Incentive Options and to allot 2017 Incentive Shares in the Company up to an aggregate nominal amount of £50,000.

5.2 On 29 June 2017, 12,831 2017 Incentive Shares were issued by the Company to certain Directors and Melrose employees.

5.3 Further details of the 2017 Incentive Options and the 2017 Incentive Plan are set out below. 2017 Incentive Shares have the rights set out in the Articles for Incentive Shares (see paragraph 4 (*Articles of Association*) of this Part XV (*Additional Information*)).

5.4 Each 2017 Incentive Option entitles its holder to subscribe for one 2017 Incentive Share at a nominal value of £1 per share.

5.5 If a 2017 Incentive Option lapses the Melrose Board may, on the recommendation of the Remuneration Committee, grant further 2017 Incentive Options provided that the aggregate number of 2017 Incentive Options when added to the number of 2017 Incentive Shares in issue does not exceed 50,000. If, immediately prior to the Trigger Date, the full exercise of 2017 Incentive Options would result in there being fewer than 50,000 2017 Incentive Shares (less the number of 2017 Incentive Options cancelled in accordance with paragraph 5.6) in issue, the Melrose Board shall grant (prior to any automatic exercise of the 2017 Incentive Options pursuant to paragraph 5.6) additional 2017 Incentive Options to an employee share ownership trust such that the full exercise of 2017 Incentive Options would result in 50,000 2017 Incentive Shares (less the number of 2017 Incentive Options cancelled in accordance with paragraph 5.6) being in issue immediately prior to the Trigger Date.

5.6 2017 Incentive Options may be exercised at any time up to and including the Trigger Date and, if not exercised within such time, will be automatically exercised immediately prior to the Trigger Date. Following exercise and if requested by the holder, an Incentive Share certificate will be issued to each holder of 2017 Incentive Shares. Alternatively, the Remuneration Committee may determine to cancel all or any of the 2017 Incentive Options immediately prior to the Trigger Date and prior to the automatic exercise of such 2017 Incentive Options, in exchange for a cash payment to the holder(s) of such 2017 Incentive Options on the Trigger Date of an amount equivalent to the dividend that would be payable on the corresponding 2017 Incentive Shares pursuant to the Articles if such Options were exercised and the decision was taken by the Remuneration Committee not to convert such 2017 Incentive Shares into ordinary shares, less the exercise price of £1 per 2017 Incentive Option.

5.7 A 2017 Incentive Option may be exercised by notification in writing (which may include email) to the secretary to the Remuneration Committee by the holder of such 2017 Incentive Option of such holder's exercise of the 2017 Incentive Option and delivery by such holder of payment in full for the share to be subscribed and, if available, the holder's 2017 Incentive Option certificate, provided that the provisions in

paragraph 5.10 and 5.11 shall survive, notwithstanding the exercise of any 2017 Incentive Options and/or the return of the 2017 Incentive Option in accordance with this paragraph. If any such exercise is for less than such holder's total holding of 2017 Incentive Options, the Remuneration Committee will determine which 2017 Incentive Options have been exercised and a new 2017 Incentive Option certificate will be issued to reflect the balance of any remaining 2017 Incentive Options held by such holder.

- 5.8 If any 2017 Incentive Option is automatically exercised pursuant to paragraphs 5.6, 5.10 and 5.11, to the extent that the consideration payable on such exercise is not immediately paid and in order to enable the 2017 Incentive Share to be issued fully paid, an amount of £1 will become due to the Company by the holder of such 2017 Incentive Option and it is a term of the grant of each 2017 Incentive Option that each holder undertakes to pay, cash to the Company, in satisfaction of such amount, on demand and in any event within one month of the automatic exercise of the 2017 Incentive Option.
- 5.9 If the Remuneration Committee makes a determination pursuant to article 6(A)(ii) of the Articles (as described in paragraph 4.4.1(b) of this Part XV (*Additional Information*)) of the rights to be attached to the 2017 Incentive Shares, the Company shall serve a notice on the holders of 2017 Incentive Options informing such holders of the determination by the Remuneration Committee and such notice shall be served within five Business Days of such determination.
- 5.10 If the Company becomes aware, in accordance with article 6(M) of the Articles (as described in paragraph 4.4.13 of this Part XV (*Additional Information*)), of a potential Change of Control (as defined in paragraph 4.4.13 in this Part XV (*Additional Information*)) and notwithstanding the requirements in paragraph 5.7 above, it will:
- (a) as soon as possible on becoming so aware, provide notice thereof to holders of 2017 Incentive Options; and
  - (b) at the same time as such notice is required to be given to holders of 2017 Incentive Shares, provide to all holders of 2017 Incentive Options a copy of the notice required to be given to holders of 2017 Incentive Shares in accordance with such article 6(M) of the Articles, whether or not any 2017 Incentive Shares are in issue at that time.

If, for any reason, the Company is not able to or does not comply with sub-paragraphs (a) and (b) of this paragraph, the 2017 Incentive Options will be automatically exercised immediately prior to the Trigger Date in accordance with paragraph 5.6, save that in such case "Trigger Date" shall have the meaning given to it in article 6(M) of the Articles. To the extent that the number of 2017 Incentive Options which have been granted together with the number of 2017 Incentive Shares in issue is less than 50,000 immediately prior to the Trigger Date (as defined in article 6(M)), additional 2017 Incentive Options shall be granted automatically, in accordance with the allocation schedule that has been approved by the Remuneration Committee and is in place at that time, such that the full exercise of 2017 Incentive Options would result in 50,000 2017 Incentive Shares (less the number of 2017 Incentive Options cancelled pursuant to paragraph 5.6) being in issue, with effect immediately prior to the automatic exercise of 2017 Incentive Options pursuant to this paragraph, but conditional upon the Change of Control occurring. These 2017 Incentive Options shall be deemed to have vested immediately upon being granted, notwithstanding paragraph 5.16, and shall be exercised immediately prior to the Trigger Date, in accordance with this paragraph. The provisions in this paragraph shall survive the exercise of any 2017 Incentive Options and shall continue to apply in the event that there are no 2017 Incentive Options outstanding

- 5.11 If, in accordance with article 6(N) of Articles (as described in paragraph 4.4.14 of this Part XV (*Additional Information*)), a resolution for voluntary winding up of the Company is passed or a winding up order is made by the court, notwithstanding the requirements in paragraph 5.7 above, the 2017 Incentive Options then outstanding will be deemed to have been exercised immediately prior to the conversion of the 2017 Incentive Shares in accordance with such article 6(N). To the extent that the number of 2017 Incentive Options which have been granted together with the number of 2017 Incentive Shares in issue is less than 50,000 immediately prior to the Trigger Date (as defined in article 6(N)), additional 2017 Incentive Options shall be granted automatically, in accordance with the allocation schedule that has been approved by the Remuneration Committee and is in place at that time, such that the full exercise of 2017 Incentive Options would result in 50,000 2017 Incentive Shares (less the number of 2017 Incentive Options cancelled pursuant to paragraph 5.6) being in issue, with effect immediately prior to the exercise of 2017 Incentive Options pursuant to this paragraph, but conditional upon the winding up occurring. These 2017 Incentive Options shall be deemed to have vested immediately upon being granted, notwithstanding paragraph 5.16, and shall be exercised immediately prior to the Trigger Date, in accordance with this paragraph. The provisions in this paragraph shall survive the exercise of any 2017

Incentive Options and shall continue to apply in the event that there are no 2017 Incentive Options outstanding.

5.12 Except as set out in paragraph 5.13, holders of 2017 Incentive Options may not transfer, charge, encumber or grant any options over or otherwise dispose of any 2017 Incentive Options or interest therein.

5.13 A holder of a 2017 Incentive Option may at any time transfer an option:

(a) with the prior written consent of the Melrose Board and where such consent is given in relation to a transfer to: (i) the trustees of a trust of which the only beneficiaries (and the only people capable of being beneficiaries) are the holder of the 2017 Incentive Option who established the trust and who is transferring the relevant 2017 Incentive Options, the holder's spouse and/or his lineal descendant(s) by blood or adoption; and/ or (ii) a company whose voting control is and will remain until 31 May 2020 under the control of the holder, the holder's spouse and/or the holder's lineal descendant(s) by blood or adoption; and/or (iii) his spouse; and/or (iv) his lineal descendants by blood or adoption, such transferees being "**Permitted Option Transferees**"; and

(b) if a transferee ceases to be a Permitted Option Transferee in relation to the original holder of the 2017 Incentive Option, to such original holder of the 2017 Incentive Option.

5.14 If a transferee of any 2017 Incentive Options under paragraph 5.13 shall at any time cease to be a Permitted Option Transferee in relation to the original holder of the relevant 2017 Incentive Options (the "**Relevant Options**"), it shall be the duty of the trustees and/or the person holding the Relevant Options to notify the board in writing that such event has occurred and the trustees and/or the person shall be bound to execute such documents and to do such other things as may be necessary to transfer the Relevant Options at the price (if any) for which they were acquired, to the original holder (who shall be bound to acquire the Relevant Options) and, if they or he or she fails to do so, the Directors may authorise any Director to execute any document and to do such other things as may be necessary or desirable to transfer the Relevant Options on behalf of the trustees and/or the person holding the Relevant Options in accordance with this paragraph 5.14.

5.15 Unless the Remuneration Committee determines otherwise, if a holder of 2017 Incentive Options or an original holder of 2017 Incentive Options transferred pursuant to paragraph 5.13 becomes a "bad leaver" (as described in paragraph 4.6 (*Compulsory transfer or conversion of Incentive Shares*) of this Part XV (*Additional Information*)), any unexercised 2017 Incentive Options shall lapse.

5.16 If a holder of 2017 Incentive Options or an original holder of 2017 Incentive Options transferred pursuant to paragraph 5.13 becomes a "good leaver" (as described in paragraph 4.6 (*Compulsory transfer or conversion of Incentive Shares*) of this Part XV (*Additional Information*)), save in circumstances where such holder becomes a "good leaver" as a result of his resignation in connection with a Change of Control, at the Remuneration Committee's discretion, some or all of such good leaver's unexercised 2017 Incentive Options shall lapse, such number to be no more than that number of 2017 Incentive Options as would be equal to the Unvested Portion (as such term is defined in paragraph 4.6.8 of this Part XV (*Additional Information*)) of 2017 Incentive Shares had such holder's 2017 Incentive Options been exercised in full prior to the holder becoming a "good leaver", and a new certificate will be issued to reflect the balance of 2017 Incentive Options held by such good leaver (if any) following such lapse.

5.17 If any offer is made and is implemented (including any offer implemented by way of a court approved scheme of arrangement under Part 26 of the Companies Act) which results in the Company being controlled by a new company in which at least 90 per cent of the shares in the new company are held by substantially the same persons who immediately before the offer was made were shareholders in the Company, the 2017 Incentive Options will, at the direction of the Remuneration Committee, be automatically exchanged for like options over shares in the new company on substantially the same terms as the 2017 Incentive Options and upon such exchange taking effect the existing 2017 Incentive Options will lapse.

5.18 The Remuneration Committee may amend the terms of the 2017 Incentive Options at any time with the consent of the holders of 2017 Incentive Options holding not less than three-quarters of the 2017 Incentive Options then in issue and, to the extent required by applicable law or regulation, with prior approval of shareholders in a general meeting of the Company. Such prior approvals will not be required for any minor amendment made to benefit the administration of the 2017 Incentive Options or the 2017 Incentive Shares, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for holders of 2017 Incentive Options or 2017 Incentive Shares or for any



company in the Melrose Group provided that an investment bank of repute shall have confirmed in writing that such alterations are fair and reasonable so far as holders of ordinary shares are concerned.

- 5.19 If any amendment is made to the terms of the 2017 Incentive Shares, the terms of the 2017 Incentive Options will be amended in such manner as the Remuneration Committee determines to be fair and reasonable to reflect such amendments.

#### *Holding Period*

- 5.20 A holding period will apply from crystallisation of the 2017 Incentive Shares on 31 May 2020, until 31 May 2022 (inclusive) (the “**Holding Period**”). During this time:

- (a) the executive Directors will be required to retain all of the Ordinary Shares which they will receive as a result of the crystallisation of the 2017 Incentive Shares on 31 May 2020, other than any such Ordinary Shares sold in order to make adequate provision for any tax liability which may arise in connection with such crystallisation; and
- (b) all other participants will be required to retain at least half of the remaining number of new Ordinary Shares which they will receive as a result of the crystallisation of the 2017 Incentive Shares on 31 May 2020, after deducting any Ordinary Shares sold in order to make adequate provision for any tax liability which may arise in connection with such crystallisation,

in each case subject to, and in accordance with, the terms of the Company’s share retention policy, which provides for the number of Ordinary Shares to be adjusted in the event of a bonus issue or any sub-division or consolidation of the Ordinary Shares. If a cash dividend is paid on the 2017 Incentive Shares, rather than a conversion into Ordinary Shares being effected, the clawback provisions (described in paragraph 5.21, below) will apply to the net cash amount received by executive Directors (and payment of tax) and therefore the Holding Period will also effectively apply to such cash amounts.

#### *Malus and Clawback*

- 5.21 The 2017 Incentive Plan includes malus and clawback provisions, pursuant to which the Remuneration Committee may cancel unvested 2017 Incentive Options (and, if relevant, “clawback” unvested 2017 Incentive Shares) held by the executive Directors during the period between the Commencement Date and the Trigger Date (the “**Performance Period**”) or “clawback” certain Ordinary Shares held by the executive Directors during the Holding Period, following the crystallisation of the 2017 Incentive Plan.
- 5.22 The malus and clawback provisions apply in the event that there has been: (i) a material misstatement of financial results that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (ii) material miscalculation of any performance measure on which crystallisation of the 2017 Incentive Plan was calculated (where clawback arises following 31 May 2020); and/or (iii) gross misconduct by the relevant executive Director.
- 5.23 In the event that the malus and clawback provisions are triggered during the Performance Period of the 2017 Incentive Plan, the Remuneration Committee may, at its discretion, cancel such number of the 2017 Incentive Options held by the relevant executive Director as would be equal to the Unvested Portion (as defined in paragraph 4.6.8 of this Part XV (*Additional Information*)), had such holder’s 2017 Incentive Options been exercised in full, for nil consideration and/or the relevant executive Director may be required to transfer to an employee share ownership trust or to the Company (or as the Remuneration Committee may otherwise direct) his unvested 2017 Incentive Shares at nominal value.
- 5.24 In the event that the clawback provisions are triggered during the Holding Period, the Remuneration Committee may, at its discretion, require that the relevant executive Director: (i) pay to the Company an amount no greater than any dividend received on crystallisation of the 2017 Incentive Shares, less the amount of any tax paid in relation to that dividend; and/or (ii) transfer to an employee share ownership trust or to the Company (or as the Remuneration Committee may otherwise direct) the number of Ordinary Shares required to be held by the executive Director pursuant to the terms of the Company’s share retention policy in respect of the 2017 Incentive Plan at a price per share equal to the lower of: (x) the nominal value of an Ordinary Share; and (y) the closing middle market quotation of an Ordinary Share as derived from the Daily Official List on the Business Day prior to transfer. This policy requires executive Directors to retain, for the duration of the Holding Period, all Ordinary Shares arising from crystallisation of his 2017 Incentive Shares (less the number of Ordinary Shares sold by that executive Director in order to fund his tax liability arising from crystallisation), taking into account any share capital consolidation (whether resulting from a return of capital or otherwise) undertaken during the Holding Period (as a result

of which the number of Ordinary Shares to which the clawback provisions shall apply shall be reduced *pro rata* accordingly). Malus and clawback provisions shall cease to apply in the event of a Change of Control or winding up of the Company.

5.25 Pursuant to a special resolution passed by shareholders of the Company on 11 May 2017, Melrose is authorised to make one or more off-market purchases (within the meaning of section 693A of the Companies Act) of its own Ordinary Shares and/or Incentive Shares and/or Deferred Shares for the purposes of the malus and clawback provisions under the 2017 Incentive Plan. This authority expires on 10 May 2022. The maximum aggregate number of Ordinary Shares authorised to be purchased pursuant to this authority is 188,674,658 and the maximum aggregate number authorised to be purchased of the Incentive Shares and the Deferred Shares is 50,000 of each. The minimum and maximum price which may be paid for an Ordinary Share purchased pursuant to this authority is the lower of: (i) the nominal value of the Ordinary Share at the time of such purchase; and (ii) the closing middle market quotation of an Ordinary Share as derived from the Daily Official List of the London Stock Exchange on the Business Day prior to the day on which the Ordinary Share is purchased. The minimum and maximum price which may be paid for an Incentive Share purchased pursuant to this authority is the nominal value of the Incentive Share at the time of such purchase. The minimum price which may be paid for a Deferred Share purchased pursuant to this authority is 1/50,000 penny and the maximum price which may be paid is the nominal value of the Deferred Share at the time of such purchase.

## 6. Melrose Interests in Shares

6.1 As at the Latest Practicable Date, the following voting interests in the ordinary share capital of the Company, disclosable under Chapter 5 of the Disclosure Guidance and Transparency Rules, had been notified to the Company:

Shareholder	Interests as notified to the Company as at Latest Practicable Date		Interests immediately following Admission <sup>(1)</sup>	
	Number of Existing Melrose Shares	Percentage of existing issued share capital	Number of Melrose Shares	Percentage of issued share capital
FMR LLC & FIL Limited . . . . .	195,923,042	10.1%	195,923,042	4.3%
BlackRock, Inc. . . . .	172,837,845	8.9%	172,837,845	3.8%
Old Mutual plc . . . . .	145,121,393	7.5%	145,121,393	3.2%
Threadneedle Asset Management Holdings Ltd	119,876,000	6.2%	119,876,000	2.6%
Aviva plc . . . . .	106,240,317	5.5%	106,240,317	2.3%
Schroders plc . . . . .	93,929,069	4.8%	93,929,069	2.1%
Artemis Investment Management LLP . . . . .	78,834,699	4.1%	78,834,699	1.7%
CI Investments Inc. . . . .	75,270,857	3.9%	75,270,857	1.7%
Legal And General Investment Management Ltd. . . . .	73,661,475	3.8%	73,661,475	1.6%
The Vanguard Group, Inc. . . . .	59,064,262	3.0%	59,064,262	1.3%
Dimensional Fund Advisors Ltd. . . . .	58,669,467	3.0%	58,669,467	1.3%

Note:

(1) Assuming Melrose acquires the entire issued and to be issued share capital of GKN and the maximum number of New Melrose Shares are issued.

\* Assuming none of the shareholders set out above is a GKN Shareholder.

6.2 None of the Melrose Shareholders referred to in paragraph 6.1 above has now, or will following Admission have, different voting rights from any other holder of Melrose Shares in respect of any Melrose Shares held by them.

6.3 As at the Latest Practicable Date, the Company is not aware of any person or persons who directly or indirectly, acting jointly with others or acting alone, exercised or could exercise control over the Company.

## 7. Melrose properties

7.1 The following properties are the principal properties occupied by the Melrose Group:

<u>United Kingdom</u>	<u>Division</u>	<u>Tenure</u>	<u>Use</u>
Leconfield House, London . . . . .	Group	Leasehold	Offices
The Colmore Building, Birmingham	Group	Leasehold	Offices
Brierley Hill, West Midlands . . . . .	Air Management	Leasehold	Manufacturing / Warehouse
Falcon Works, Loughborough . . . . .	Energy	Freehold	Manufacturing
Blackwood, Gwent . . . . .	Energy	Leasehold	Manufacturing
<u>Europe</u>	<u>Division</u>	<u>Tenure</u>	<u>Use</u>
Menen, Belgium . . . . .	Air Management	Leasehold	Manufacturing
Amersfoort, The Netherlands . . . . .	Ergonomics	Leasehold	Warehouse / Administrative
Plzen, Czech Republic . . . . .	Energy	Freehold	Manufacturing
<u>Asia</u>	<u>Division</u>	<u>Tenure</u>	<u>Use</u>
Chenjian, Huizhou, China . . . . .	Air Management	Freehold	Manufacturing / Warehouse / Administrative
Xiang, Bao An County, Shenzhen, China . . . . .	Security & Smart Technology	Leasehold	Manufacturing / Warehouse / Administrative
Dongguan City, Guangdong, China	Ergonomics	Leasehold	Manufacturing / Warehouse / Administrative
<u>North America</u>	<u>Division</u>	<u>Tenure</u>	<u>Use</u>
Anjou, QUE, Canada . . . . .	Air Management	Leasehold	Manufacturing / Administrative
Drummondville, QUE, Canada . . . . .	Air Management	Freehold	Manufacturing / Warehouse / Administrative
Drummondville, QUE, Canada . . . . .	Air Management	Leasehold	Manufacturing / Warehouse / Administrative
Dyersburg, Tennessee, US . . . . .	Air Management	Leasehold	Manufacturing / Warehouse
Hartford, Wisconsin, US . . . . .	Air Management	Freehold & Leasehold	Manufacturing / Warehouse / Administrative
Mercer, Pennsylvania, US . . . . .	Air Management	Freehold	Manufacturing / Warehouse / Administrative
O'Fallon, Missouri, US . . . . .	Air Management	Leasehold	Warehouse / Administrative
Okarche, Oklahoma, US . . . . .	Air Management	Freehold	Manufacturing / Warehouse / Administrative
Oklahoma City, Oklahoma, US . . . . .	Air Management	Freehold	Manufacturing / Administrative
Poplar Bluff, Missouri, US . . . . .	Air Management	Leasehold	Warehouse
Saskatoon, Saskatchewan, Canada . . . . .	Air Management	Leasehold	Warehouse / Administrative
St. Leonard d'Aston, QUE, Canada	Air Management	Leasehold	Manufacturing / Administrative
Tualatin, Oregon, US . . . . .	Air Management	Leasehold	Manufacturing / Warehouse / Administrative
Carlsbad, California, US . . . . .	Security & Smart Technology	Leasehold	Warehouse / Administrative
Grand Rapids, Michigan, US . . . . .	Security & Smart Technology	Leasehold	Manufacturing / Warehouse / Administrative
Petaluma, California, US . . . . .	Security & Smart Technology	Leasehold	Warehouse / Administrative
Tallahassee, Florida, US . . . . .	Security & Smart Technology	Freehold	Warehouse / Administrative
St. Paul, Minnesota, US . . . . .	Ergonomics	Freehold	Manufacturing / Warehouse / Administrative
Tualatin, Oregon, US . . . . .	Ergonomics	Leasehold	Manufacturing / Warehouse / Administrative
Turtle Creek, Pennsylvania, USA . . . . .	Energy	Leasehold	Manufacturing
Olive Branch, Mississippi, US . . . . .	Other	Leasehold	Warehouse / Administrative

<u>Central and South America</u>	<u>Division</u>	<u>Tenure</u>	<u>Use</u>
Monterrey, Nuevo Leon, Mexico . . .	Air Management	Leasehold	Manufacturing / Warehouse
Saltillo, Coahuila, Mexico . . . . .	Air Management	Leasehold	Manufacturing / Warehouse
Tecate, Baja California, Mexico . . .	Air Management	Leasehold	Manufacturing / Warehouse / Administrative

7.2 The Company is not aware of any material environmental issues which may affect the Melrose Group's utilisation of its principal properties.

## 8. Plant, property and equipment

A description of the Melrose Group's investments in property, plant and equipment is given on page 123 of the Melrose 2016 annual report and accounts, which is incorporated into this document by reference. The Melrose Group currently has no planned material capital expenditure.

## 9. Subsidiaries

9.1 The Company is the holding company of the Melrose Group. The significant subsidiary undertakings of the Company are set out in the table below. The proportion of share capital indicated in each of these companies is directly or indirectly owned by the Company. The issued share capital of each subsidiary is fully paid.

<u>Name of subsidiary</u>	<u>Incorporated and registered in</u>	<u>Proportion of share capital owned by the Melrose Group (%)</u>
<b>Air Management</b>		
Ambi-Rad Group Limited . . . . .	UK	100
Broan Building Products (Huizhou) Co., Ltd. . . . .	China	100
Broan Building Products-Mexico, S. de R.L. de C.V. . . . .	Mexico	100
Broan-NuTone (HK) Limited . . . . .	Hong Kong	100
Broan-NuTone Canada, ULC . . . . .	Alberta, Canada	100
Broan-NuTone LLC . . . . .	Delaware, US	100
Innergy Tech Inc. . . . .	Quebec, Canada	100
Nordyne Argentina SRL . . . . .	Argentina	100
Nordyne do Brasil Distribuidora de Ar Condicionado Ltda. . . . .	Brazil	100
Nortek Air Solutions Canada, LLC . . . . .	Saskatchewan, Canada	100
Nortek Air Solutions Quebec, Inc. . . . .	Quebec, Canada	100
Nortek Air Solutions, LLC . . . . .	Delaware, US	100
Nortek Global HVAC (UK) Limited . . . . .	UK	100
Nortek Global HVAC Belgium NV . . . . .	Belgium	100
Nortek Global HVAC France S.A.S. . . . .	France	100
Nortek Global HVAC Mexico S.A. de R.L. de C.V. . . . .	Mexico	100
Nortek Global HVAC, LLC . . . . .	Delaware, US	100
Pacific Zephyr Range Hood, Inc. . . . .	California, US	100
Venmar Ventilation ULC . . . . .	Alberta, Canada	100
<b>Security &amp; Smart Technology</b>		
Core Brands, LLC . . . . .	California, US	100
GTO Access Systems, LLC . . . . .	Florida, US	100
Linear Electronics (Shenzhen) Co., Ltd. . . . .	China	100
Nortek Security & Control LLC . . . . .	California, US	100
Operator Specialty Company, Inc. . . . .	Michigan, US	100
<b>Ergonomics</b>		
Dongguan Ergotron Precision Technology Co. Ltd. . . . .	China	100
Ergotron Nederland B.V. . . . .	The Netherlands	100
Ergotron, Inc. . . . .	Minnesota, US	100
<b>Energy</b>		
Brush Electrical Machines Limited . . . . .	England and Wales	100
Brush HMA B.V. . . . .	Netherlands	100
Brush Holdings Limited . . . . .	England and Wales	100
Brush Properties Limited . . . . .	England and Wales	100

<u>Name of subsidiary</u>	<u>Incorporated and registered in</u>	<u>Proportion of share capital owned by the Melrose Group (%)</u>
Brush SEM s.r.o. . . . . .	Czech Republic	100
Brush Transformers Limited . . . . .	England and Wales	100
Harrington Generators International Limited . . . . .	England and Wales	100
Hawker Siddeley Switchgear Limited . . . . .	England and Wales	100
Generator & Motor Services of Pennsylvania LLC . . . . .	USA	100
<b>Other</b>		
Nortek (Shanghai) Trading Co., Ltd. . . . . .	China	100
Nortek International Holdings, B.V. . . . . .	The Netherlands	100
<b>Group</b>		
Melrose PLC . . . . .	England and Wales	100
Melrose North America, Inc . . . . .	USA	100
Melrose Holdings Limited . . . . .	England and Wales	100
Nortek Inc . . . . .	USA	100
Sageford UK Limited . . . . .	England and Wales	100
Melrose Intermediate Limited . . . . .	England and Wales	100

## 10. Takeover Bids

The City Code is issued and administered by the Panel. The Company is subject to the City Code and therefore the Melrose Shareholders are entitled to the protections afforded by the City Code.

### 10.1 *Mandatory bids*

Rule 9 of the City Code provides that, except with the consent of the Panel, when: (a) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which persons acting in concert with him are interested) carry 30 per cent or more of the voting rights of a company; or (b) any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent of the voting rights of a company but does not hold shares carrying more than 50 per cent of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares of that company which increases the percentage of shares carrying voting rights in which he is interested, then, in either case, that person (and possibly each of the principal members of a group of persons acting in concert with him) is normally required to extend offers in cash, or accompanied by a cash alternative, at the highest price paid by him (or any persons acting in concert with him) for shares of that company within the preceding 12 months, to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights.

If any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry more than 50 per cent of the voting rights of a company, such person, or any person acting in concert with him, may acquire further interests in shares of that company without incurring any obligation under Rule 9 of the City Code to extend any offers.

### 10.2 *Squeeze out*

Under the Companies Act, if a “takeover offer” (as defined in section 974 of the Companies Act) is made for the Melrose Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent in value of the shares to which the takeover offer relates (the “**Takeover Offer Shares**”) and not less than 90 per cent of the voting rights attached to the Takeover Offer Shares within three months of the last day on which its offer can be accepted, it could acquire compulsorily the remaining 10 per cent. It would do so by sending a notice to outstanding shareholders telling them that it will acquire compulsorily their Takeover Offer Shares and then, six weeks later, it would execute a transfer of the outstanding Takeover Offer Shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose Takeover Offer Shares are acquired compulsorily under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

### 10.3 *Sell out*

The Companies Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Melrose Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent of the Melrose Shares to which the offer relates, any holder of Melrose Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Melrose Shares. The offeror is required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his or her rights, the offeror is bound to acquire those Melrose Shares on the terms of the offer or on such other terms as may be agreed.

## 11. Working Capital

Melrose is of the opinion that the Melrose Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this document.

Melrose is unable to undertake appropriate procedures to support a statement on the sufficiency of its working capital when taking into account the Acquisition because the Company does not have access to non-public information on GKN that would allow those procedures to be undertaken. If the Company is granted access by GKN before the Effective Date and access is sufficient for the purpose of making an Enlarged Group working capital statement on the basis of the Enlarged Group, Melrose will produce an updated Enlarged Group working capital statement which will be published via the Regulatory News Service of the London Stock Exchange and as may otherwise be required by law.

## 12. Significant Change

### *The Melrose Group*

Save for the developments in the Brush Turbogenerator business, including the reduction in carrying value and associated restructuring costs, as described in the 1 February 2018 trading update at Paragraph 9 of Part VII, there has been no significant change in the financial or trading position of the Melrose Group since 30 June 2017, the date to which Melrose's last published unaudited consolidated financial interim statements were prepared.

### *The GKN Group*

Save as set out below and so far as Melrose is aware having regard to publicly available information, there has been no significant change in the financial or trading position of the GKN Group since 30 June 2017, the date to which GKN's last published unaudited consolidated financial interim statements were prepared.

On 13 October 2017, GKN released a trading update which contained the following disclosure:

*“GKN plc, the global engineering business that serves the aerospace and automotive markets, today issues a trading update for the period since the half year results announcement on 26 July 2017, brought forward as a result of two significant external claims. As a result of these, together with continuing operational challenges in GKN Aerospace North America, the Group now expects management profit before tax<sup>(1)</sup> for 2017 to be slightly above 2016.*

### *GKN Aerospace*

*Following a detailed review, GKN Aerospace North America will incur a £15 million non-cash charge at its Alabama, USA facility relating to revised assumptions on programme inventory and receivables balances.*

*Given the issues above, the review of the carrying value of goodwill and other assets at the year-end is expected to produce a significant non-cash impairment charge, relating to the North American business, which will be disclosed outside management profit before tax.*

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<sup>(1)</sup> Financial information set out in this announcement, unless otherwise stated, is presented on a management basis which aggregates the sales and trading profit of subsidiaries with the Group's share of the sales and trading profit of equity accounted investments. References to trading margins are to trading profit expressed as a percentage of sales. Where appropriate, reference is made to organic results which exclude the impact of acquisitions/divestments as well as currency translation on the results of overseas operations.”

On 16 November 2017, GKN released further guidance, an extract of which is set out below:

*“In light of the issues communicated earlier in relation to Alabama, a review of working capital has been initiated across other Aerospace plants in North America. While this review is not yet complete it is likely to result in a further write-off estimated to be between £80 million and £130 million, much of which built up before 2017.*

*With the exception of the working capital write-off referred to above, all other guidance for the full year remains unchanged”.*

On 12 January 2018, GKN published a further announcement, an extract of which is set out below:

#### **“Trading update**

*Q4 2017 trading was in line with expectations and the Group therefore continues to expect 2017 management profit before tax<sup>(1)</sup> to be slightly ahead of 2016 (which was £678 million) before the additional working capital write-off in North American Aerospace announced on 16 November 2017. The balance sheet review in North America has progressed significantly and the one time write-off and associated costs are still estimated to be between £80 million and £130 million, albeit nearer the upper end of that range. These balance sheet write-offs will be included within management profit before tax.*

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<sup>(1)</sup> Financial information set out in this announcement, unless otherwise stated, is presented on a management basis which aggregates the sales and trading profit of subsidiaries with the Group’s share of the sales and trading profit of equity accounted investments.

*As previously announced, the review of the carrying value of goodwill and other fixed assets at the year-end will produce a significant non-cash impairment charge relating to the North American Aerospace business, which, in line with our accounting policy, will be disclosed outside of management profit before tax.*

#### **Transformation programme**

*GKN commenced a wide-ranging review in 2017. This was necessary because, while sales have been growing, both profit margins and cash generation have been below expectations. A new strategy has been developed to improve significantly performance in all of GKN’s businesses. This will continue to leverage GKN’s in-depth global knowledge of the automotive and aerospace industries to drive leadership in its chosen markets.*

*GKN is now creating differentiated product segments that will be classified as either core or non-core. There will be three different strategies for the core product segments—improve (e.g. Constant Velocity Joints), grow (e.g. Aero Engines) and develop (e.g. eDrive and Additive Manufacturing). Each strategy will have different capital expenditure targets and different expectations for growth, margin improvement, cash generation and return on investment. However, all will have stretching targets to be achieved through a transformation programme (“Project Boost”). Furthermore, to ensure that the strategy is delivered and that shareholder value is realised, a much stronger performance and accountability culture will be instilled throughout the business, supported by changes to incentives to align with the new strategy.*

*Project Boost is a two year programme to improve cash and profit that will incorporate all areas of the business operating system including culture. This includes optimising direct and indirect procurement, process and productivity, and capital allocation. Portfolio rationalisation of our non-core product segments will also be a priority. The development of this programme has been ongoing for a number of months. The Board is confident Project Boost will deliver a step change in profit margin and cash generation, and expects to deliver a significant increase in annual cash flow with the full run rate achieved during 2020 through a combination of cost and capital expenditure reduction and pricing discipline.*

...

#### **Profit forecast regarding the financial year to 31 December 2017**

*The paragraph above entitled “Trading update” states that “the Group therefore continues to expect 2017 management profit before tax to be slightly ahead of 2016 (which was £678 million) before the additional working capital write-off in North American Aerospace announced on 16 November 2017.” In the announcement entitled “Trading update—brought forward by two probable significant external claims” dated 13 October 2017, GKN announced that “the Group now expects management profit before tax for 2017 to be slightly above 2016” (the “2017 Profit Forecast”). The 2017 Profit Forecast was reconfirmed in the announcement entitled “Board Change and Guidance Update” dated 16 November 2017, before the working capital write-off referred to above and as further described in that announcement (the “Working Capital Write-Off”). The 2017 Profit Forecast was published before Melrose made an approach with regard to a*

possible offer for GKN and therefore the requirements of Rule 28.1(c) of the Code apply to the 2017 Profit Forecast. In accordance with Rule 28.1(c) of the Code, the GKN Directors confirm that the 2017 Profit Forecast, before the Working Capital Write-Off, remains valid and confirm that the 2017 Profit Forecast has been properly compiled and that the basis of accounting used is consistent with GKN's accounting policies.”

On 22 January 2018, GKN released an announcement relating to eDrive, an extract of which is set out below:

“GKN Driveline today announces that its order book for electric driveline (eDrive) technologies hit a record £2 billion<sup>(1)</sup> by the end of last year following a series of significant programme wins with major global automakers. The order book growth underpins and extends GKN's market-leading position in eDrive systems.

GKN's success is accelerating its annual eDrive sales growth. Sales, which were previously forecast to rise from £33m in 2017 to £200m in 2020, are now expected to increase over eight-fold to £275m. In 2022, GKN forecasts that eDrive sales will reach £500m.

GKN's success has been achieved through a long term commitment to Research and Development. In 2017, the Research and Development expense charged to the income statement was £36m, with total investment of over £123m over the past six years. Whilst impacting near-term financial performance, this investment is now delivering strong sales and order book growth. Through the R&D programme, GKN is rapidly bringing full systems capability to the market and is able to offer a range of solutions to meet customer demands. GKN is delivering components, sub-systems and full-systems in response to a variety of OEM needs. Building on systems integration leadership recognised by recent Automotive News PACE Awards, GKN will be adding GKN eMotors to their gear and torque management technology portfolio.

As at 31 December 2017, GKN's order book relating to eDrive was £2 billion following a number of major programme wins. Amongst these are:

- GKN's Multimode eTransmission system is due to launch on a Chinese OEM's platform across a number of vehicle models from 2018
- GKN is due to supply a semi-integrated electric driveline unit from 2019 for a new vehicle launched by a premium European automaker
- GKN has developed an integrated electric driveline system for a European OEM's global programme that is expected to be first launched in China from next year”

<sup>(1)</sup> Order book corresponds to cumulative business awarded by customers (including share of joint ventures) less orders fulfilled and cancellations, based on GKN's best reasonable estimates in terms of volumes, selling prices and project lifespans.

### **13. Litigation**

#### *The Melrose Group*

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is the Company aware of any such proceedings which are pending or threatened) during the last twelve months prior to the date of this document which may have, or during the recent past have had, a significant effect on the Company's and/or the Melrose Group's financial position or profitability.

#### *The GKN Group*

Save as set out below and so far Melrose is aware having regard to publicly available information, there are no, nor have there been any, governmental, legal or arbitration proceedings (nor is the Company aware of any such proceedings which are pending or threatened) during the last twelve months which may have, or have had in the recent past, a significant effect on GKN's and/or the GKN Group's financial position or profitability.

On 26 July 2017, GKN released its interim results for the six months ended 30 June 2017 which contained the following disclosure:

#### *“Franked investment income—litigation*

*Since 2003, the Group has been involved in litigation with HMRC in respect of various advance corporate tax payments and corporate tax on foreign dividends which, in its view, were levied by HMRC in breach of the Group's EU community law rights. The most recent judgement in the main case was published in November 2016. This judgement was broadly positive, but HMRC have sought leave to appeal.*

*The continuing complexity of the case and uncertainty over the remaining issues means that it is not possible to predict the final outcome with any reasonable degree of certainty. A successful outcome could result in the*



*Group being able to recognise additional deferred tax assets in the UK and receiving cash payments from HMRC.”*

Melrose is not able to determine or comment on the amount of this claim.

On 13 October 2017, GKN released a trading update setting out brief details of two significant external claims. The trading update contained the following statement in respect of these two claims:

*“GKN has been made aware of two probable claims which are expected to result in a charge of around £40 million in the fourth quarter of 2017. One relates to GKN Aerospace and the other GKN Driveline. Both claims are commercially sensitive with no additional information disclosable at this time.”*

#### **14. Material Contracts**

##### *The Melrose Group*

No contracts have been entered into (other than contracts entered into in the ordinary course of business) by the Company and/or any member of Melrose Group either (i) within the period of two years immediately preceding the date of this document which are or may be material to the Company and/or any member of the Melrose Group; or (ii) which, regardless of when entered into, contain any provisions under which the Company and/or any member of the Melrose Group has any obligation or entitlement which is, or may be, material to Melrose and/or the Melrose Group as at the date of this document, save as disclosed below:

##### *14.1.1 Existing Facilities Agreement*

For details of the terms of the Existing Facilities Agreement, see paragraph 8 (*Borrowings and funding*) of Part VIII (*Information on Melrose*) of this document.

##### *14.1.2 New Facilities Agreement*

For details of the terms of the New Facilities Agreement, see paragraph 8 (*Borrowings and funding*) of Part VIII (*Information on Melrose*) of this document.

##### *14.1.3 Nortek Merger Agreement*

On 6 July 2016, Melrose and Nortek, among others, entered into a merger agreement which set out the terms and conditions for the tender offer to acquire all of outstanding shares of common stock of Nortek at a price of US\$86.00 per share. The acquisition completed on 31 August 2016.

##### *The GKN Group*

Save as set out below and so far as Melrose is aware having regard to publicly available information, Melrose is not aware of any material contracts which may have been entered into (other than contracts entered into in the ordinary course of business) by GKN and/or any member of the GKN Group either (i) within the period of two years immediately preceding the date of this document which are or may be material to the GKN and/or any member of the GKN Group; or (ii) which, regardless of when entered into, contain any provisions under which the GKN and/or any member of the GKN Group has any obligation or entitlement which is, or may be, material to GKN and/or the GKN Group as at the date of this document.

##### *14.1.4 Acquisition of Fokker*

On 28 July 2015, GKN announced that it had agreed to acquire Fokker Technologies Group B.V. from Arle Capital for an enterprise value of £499 million. Fokker Technologies Group B.V. is a specialist tier one aerospace supplier in aero structures, electrical wiring systems, landing gear and associated services across commercial, military and business jet end markets. The acquisition of Fokker Technologies Group B.V. was funded through a £200 million equity placing (which represented approximately 4% of GKN's market capitalisation on the day prior to announcement) and GKN's existing debt facilities.

#### **15. Related Party Transactions**

Save as disclosed in note 28 to each of the financial statements of Melrose for the financial years ended 31 December 2016 and 31 December 2015 and Old Melrose for the financial year ended 31 December 2014, each of which are incorporated by reference into this document, Melrose has not entered into any related party transactions (which for these purposes are those set out in the standards adopted according to the Regulation

(EC) No 1606/2002) during the period covered by the historical financial information and up to the date of this document.

## **16. Consents**

Each of Rothschild, Investec Bank plc and RBC Europe Limited have given and have not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.

Deloitte LLP, whose registered address is at 2 New Street Square, London, EC4A 3BZ, has given and has not withdrawn its written consent to the inclusion of its report on the Melrose Profit Estimate set out in Part XIV (Profit Estimate) in the form and context in which it is included and has authorised the contents of its report for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules.

## **17. General**

17.1 As at the close of business on the Latest Practicable Date, the Company had in issue 1,941,200,503 ordinary shares of  $\frac{48}{7}$  pence each. The ISIN for Melrose Shares is GB00BZ1G4322.

17.2 The total costs, charges and expenses payable by the Company in connection with the Acquisition are estimated to be approximately £139.5 million (exclusive of VAT and assuming that the Acquisition completes).

## **18. Documents available for inspection**

18.1 Copies of the following documents will be available for inspection during normal business hours on any Business Day at: (i) the registered office of the Company (being 11<sup>th</sup> Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT); and (ii) the offices of Simpson Thacher & Bartlett LLP (being CityPoint, One Ropemaker Street, London EC2Y 9HU) from the date of this document and, in respect of the Circular, including the Notice of General Meeting, from the date it is posted, up to and including the date of Admission:

- (a) the Articles;
- (b) the Announcement;
- (c) this document;
- (d) the Offer Document;
- (e) the Form of Acceptance;
- (f) the Circular, including the Notice of General Meeting;
- (g) the Melrose 2016 Annual Report;
- (h) the Melrose 2015 Annual Report;
- (i) the Old Melrose 2014 Annual Report;
- (j) the Melrose 2017 Interim Results;
- (k) the Melrose 2016 Interim Results;
- (l) the GKN 2016 Annual Report;
- (m) the GKN 2015 Annual Report;
- (n) the GKN 2014 Annual Report;
- (o) the GKN 2017 Interim Results;
- (p) the GKN 2016 Interim Results;
- (q) the circular of Melrose dated 6 July 2016 regarding the acquisition of the Nortek Group and the announcement released by Melrose on 24 March 2017, together containing the financial statements of the Nortek Group for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014; and
- (r) the consent letters referred to in paragraph 16 above;

18.2 These documents will also be available for inspection for at least 15 minutes before and during the General Meeting. This document and the information incorporated by reference into this document (as set out on Part XVI (*Documents Incorporated By Reference*)) may also be viewed via the National Storage Mechanism.

**19. Announcement on Effective Date**

On the Effective Date, the Company will make an announcement to a Regulatory Information Service notifying that the Acquisition has become wholly unconditional and that Admission has occurred.

Dated: 1 February 2018

**PART XVI**  
**DOCUMENTS INCORPORATED BY REFERENCE**

The table below sets out the documents which are incorporated by reference into this document, to ensure that Melrose Shareholders, GKN Shareholders and others are aware of all information which, according to the particular nature of the Company, GKN and of the New Melrose Shares, is necessary to enable Melrose Shareholders, GKN Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company, GKN and of the rights attaching to the New Melrose Shares.

<u>Document incorporated by reference</u>	<u>Section of referenced document</u>	<u>Page number(s) in reference document</u>
<b>Melrose 2016 Annual Report . . . .</b>	Chairman's statement	6
	Chief Executive's review	7
	Finance Director's review	30 to 36
	Governance report	54 to 75
	Independent auditor's report	87 to 92
	Consolidated income statement	93
	Consolidated statement of comprehensive income	94
	Consolidated statement of cash flows	95
	Consolidated balance sheet	96
	Consolidated statement of changes in equity	97
	Notes to the consolidated financial statements	98 to 140
<b>Melrose 2015 Annual Report . . . .</b>	Chairman's statement	6
	Chief Executive's review	7
	Finance Director's review	20 to 26
	Independent auditor's report	84 to 89
	Consolidated income statement	90
	Consolidated statement of comprehensive income	91
	Consolidated statement of cash flows	92
	Consolidated balance sheet	93
	Consolidated statement of changes in equity	94
	Notes to the consolidated financial statements	95 to 137
<b>Old Melrose 2014 Annual Report . . . .</b>	Chairman's statement	12 to 13
	Chief Executive's review	14
	Finance Director's review	42 to 49
	Independent auditor's report	98 to 101
	Consolidated income statement	102
	Consolidated statement of comprehensive income	103
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To the extent that any document or information incorporated by reference or attached to this document itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this document for the purposes of the Prospectus Rules, except where such information or documents are stated within this document as specifically being incorporated by reference or where this document is specifically defined as including such information.

Any statement contained in a document which is deemed to be incorporated by reference into this document shall be deemed to be modified or superseded for the purpose of this document to the extent that a statement contained in this document (or in a later document which is incorporated by reference into this document) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this document.

Where certain parts only of a document have been incorporated by reference into this document, the other parts of those documents which have not been expressly stated to be incorporated are either not relevant to investors or are covered elsewhere in this document.

**PART XVII**  
**DEFINITIONS**

The following definitions apply throughout this document unless the context otherwise requires:

<b>2012 Incentive Options</b>	options over the 2012 Incentive Shares
<b>2012 Incentive Plan</b>	the former incentive plan of the Company, which crystallised on 31 May 2017
<b>2012 Incentive Shares</b>	the 50,000 2012 Incentive Shares of £1 each of the Company issued or which were available to be issued pursuant to the 2012 Incentive Plan
<b>2015 Scheme</b>	the scheme of arrangement under section 899 of the Companies Act between Old Melrose, Melrose and holders of ordinary shares in Old Melrose which became effective on 19 November 2015
<b>2016 Rights Issue</b>	the 12 for 1 rights issue of 1,741,612,236 Melrose Shares announced on 6 July 2016, as described in paragraph 3.1.8 of Part XV ( <i>Additional Information</i> ) of this document
<b>2017 AGM</b>	the annual general meeting of the Company held on 11 May 2017
<b>2017 Incentive Options</b>	options over the 2017 Incentive Shares
<b>2017 Incentive Plan</b>	the current incentive plan of Company, as approved by shareholders of the Company on 11 May 2017
<b>2017 Incentive Shares</b>	the series of 2017 Incentive Shares of £1 each of the Company having the rights and restrictions attaching to them as more specifically set out in paragraph 4.4 of Part XV ( <i>Additional Information</i> )
<b>2018 AGM</b>	the annual general meeting of the Company to take place in 2018
<b>Acceptance Condition</b>	the condition set out in Part 3, Section A of the Offer Document
<b>Acquisition</b>	the acquisition of the entire issued and to be issued share capital of GKN by Melrose, to be implemented by way of the Offer as described in this document and to be set out in the Offer Document (or by way of the Scheme, under certain circumstances described in this document)
<b>Admission</b>	the admission of the New Melrose Shares to the Official List with a premium listing and to trading on the main market for listed securities of the London Stock Exchange
<b>AIM</b>	AIM, a market operated by the London Stock Exchange
<b>Announcement</b>	the announcement made by Melrose on 17 January 2018 in relation to the Acquisition pursuant to Rule 2.7 of the City Code
<b>AQH</b>	the Air Quality & Home Solutions of the Melrose Group
<b>Articles</b>	the articles of association of Melrose summarised in paragraph 4 of Part XV ( <i>Additional Information</i> ) as amended from time to time
<b>Audit Committee</b>	the audit committee of the Melrose Board
<b>Bribery Act</b>	has the meaning given to such term in paragraph 5 of Part C of Part II ( <i>Risk Factors</i> ) of this document
<b>Brush or Brush Group</b>	the Brush business which comprises Brush Holdings Limited together with its direct and indirect subsidiaries and subsidiary undertakings
<b>Brush UK Plan</b>	the occupational pension scheme known as the ‘Brush Group (2013) Pension Scheme’, established by a definitive deed dated 4 April 2013
<b>Brush US Plan</b>	the defined benefit plan known as the Brush Aftermarket North America, Inc. Group Pension Plan (formerly known as the FKI US Plan)
<b>Business Day</b>	a day other than a public holiday, Saturday or Sunday, when banks are open for business in London for general banking business;

<b>Canada</b> . . . . .	Canada, its provinces and territories and all areas subject to its jurisdiction or any political subdivision thereof
<b>certificated or in certificated form</b> . . . . .	in relation to a share or other security, a share or other security title to which is recorded in the relevant register of the share or other security as being held in certificated form (that is, not in CREST)
<b>CFIUS</b> . . . . .	the Committee on Foreign Investment in the United States
<b>Circular</b> . . . . .	the circular to be sent to Melrose Shareholders containing details of the Acquisition and the General Meeting, a copy of which will be available to view on <a href="http://www.melroseplc.net">www.melroseplc.net</a>
<b>City Code</b> . . . . .	the City Code on Takeovers and Mergers issued from time to time by or on behalf of the Panel
<b>Closing Price</b> . . . . .	the closing, middle market quotation of a share derived from the daily official list
<b>Committees</b> . . . . .	the Audit, Nomination and Remuneration Committees of the Melrose Board as described in paragraph 3 ( <i>Corporate Governance</i> ) of Part XIII ( <i>Directors, Corporate Governance and Employees</i> ) of this document
<b>Companies Act</b> . . . . .	the Companies Act 2006, as amended, modified or re-enacted from time to time
<b>Company or Melrose</b> . . . . .	Melrose Industries PLC, a public limited company incorporated in England and Wales with registered number 9800044
<b>Conditions</b> . . . . .	the conditions to the Acquisition which are set out in full in the Offer Document
<b>Court</b> . . . . .	the High Court of Justice in England and Wales
<b>CREST</b> . . . . .	the electronic transfer and settlement system for the paperless settlement of trades in listed securities and the holding of uncertificated securities in accordance with the CREST Regulations operated by Euroclear
<b>CREST Regulations</b> . . . . .	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended
<b>Daily Official List</b> . . . . .	the daily official list of the London Stock Exchange
<b>Deferred Shares</b> . . . . .	has the meaning given to such term in paragraph 4.4.10 of Part XV ( <i>Additional Information</i> ) of this document
<b>Director(s) or Melrose Director(s)</b> . . . . .	the director(s) of the Company
<b>Disclosure Guidance and Transparency Rules</b> . . . . .	the rules and regulations made by the FCA under Part VI of FSMA, referred to in section 73A(2) of the same and contained in the FCA's publication of the same name (as amended from time to time)
<b>Dividend Amount</b> . . . . .	has the meaning given to such term in paragraph 4.4.1(a) of Part XV ( <i>Additional Information</i> ) of this document
<b>EBITDA</b> . . . . .	earnings before interest, tax, depreciation and amortisation
<b>EEA</b> . . . . .	the European Economic Area
<b>EEA States</b> . . . . .	the member states of the EEA
<b>Effective Date</b> . . . . .	the date on which: (a) the Offer becomes or is declared wholly unconditional in all respects; or (b) if Melrose elects to implement the Acquisition by way of Scheme, the date such Scheme becomes effective in accordance with its terms



<b>Eligible GKN Shareholders</b>	GKN Shareholders, other than Restricted GKN Shareholders
<b>Eligible US Holders</b> . . . . .	qualified institutional buyers (as defined in Rule 144A under the US Securities Act) or accredited investors (as defined in Rule 501(a) under the US Securities Act)
<b>Elster or Elster Group</b> . . . . .	the Elster business which comprised, prior to its disposal by the Melrose Group, Teaford GmbH, together with its direct and indirect subsidiaries and subsidiary undertakings
<b>Enlarged Group</b> . . . . .	the enlarged group following completion of the Acquisition, comprising the Melrose Group and the GKN Group
<b>Enlarged Share Capital</b> . . . . .	the share capital of Melrose immediately following Admission
<b>EU or European Union</b> . . . . .	an economic and political union of 28 member states which are located primarily in Europe
<b>EUR, € and Euro</b> . . . . .	the lawful currency of the member states of the EU that have adopted the Euro as their common currency and sole legal tender
<b>Euroclear</b> . . . . .	Euroclear UK & Ireland Limited, the operator of CREST
<b>Existing Facilities Agreement</b> . . . . .	the \$1,250m senior term and revolving facilities agreement dated 6 July 2016 entered into between Melrose PLC, among others, as initial borrower, the parties named therein as original lenders and Lloyds Bank plc as agent
<b>Existing Melrose Shareholders</b> . . . . .	those Melrose Shareholders on the Register immediately prior to 8.00 a.m. on the Effective Date
<b>Existing Melrose Shares</b> . . . . .	the Melrose Shares in issue at the Latest Practicable Date, being 1,941,200,503 Melrose Shares and any further Melrose Shares issued prior to 8.00 a.m. on the Effective Date (if any)
<b>FCA</b> . . . . .	the United Kingdom Financial Conduct Authority
<b>FCPA</b> . . . . .	the US Foreign Corrupt Practices Act of 1977
<b>Form of Acceptance</b> . . . . .	the form of acceptance to accept the Offer
<b>FSMA</b> . . . . .	the Financial Services and Markets Act 2000, as amended, modified or re-enacted from time to time
<b>General Meeting</b> . . . . .	the general meeting of the Company to be held at Barber-Surgeons' Hall, Monkswell Square, Wood Street, London EC2Y 5BL, at 11.00 a.m. on 8 March 2018 to consider and vote on the Transaction Resolutions
<b>GKN</b> . . . . .	GKN plc, incorporated in England and Wales, with registered number 04191106
<b>GKN 2014 Annual Report</b>	GKN's annual report and audited accounts for the year ended 31 December 2014 (which includes the GKN Group's audited historical consolidated financial statements for the year ended 31 December 2014)
<b>GKN 2015 Annual Report</b>	GKN's annual report and audited accounts for the year ended 31 December 2015 (which includes the GKN Group's audited historical consolidated financial statements for the year ended 31 December 2015)
<b>GKN 2016 Annual Report</b>	GKN's annual report and audited accounts for the year ended 31 December 2016 (which includes the GKN Group's audited historical consolidated financial statements for the year ended 31 December 2016)
<b>GKN 2016 Interim Results</b>	GKN's interim results announcement for the six months ended 30 June 2016 (which includes the GKN Group's unaudited historical consolidated financial statements for the six months ended 30 June 2016);

<b>GKN 2017 Interim Results</b>	GKN's interim results announcement for the six months ended 30 June 2017 (which includes the GKN Group's unaudited historical consolidated financial statements for the six months ended 30 June 2017)
<b>GKN Board</b> . . . . .	collectively, the directors of GKN as at the date of this document or, where the context so requires, the directors of GKN from time to time
<b>GKN Group</b> . . . . .	GKN and its subsidiaries and subsidiary undertakings from time to time
<b>GKN Shareholders</b> . . . . .	the holders of GKN Shares
<b>GKN Shares</b> . . . . .	the shares of 10 pence each in the capital of GKN and includes: <ul style="list-style-type: none"> <li>a) the existing unconditionally allotted or issued and fully paid (or credited as fully paid) ordinary shares of 10 pence each in the capital of GKN;</li> <li>b) any further ordinary shares of 10 pence each in the capital of GKN which are unconditionally allotted or issued and fully paid (or credited as fully paid) before the date on which the Offer closes (or such earlier date or dates as Melrose may, subject to the City Code, determine); and</li> <li>c) any GKN Shares held as treasury shares that cease to be held as treasury shares before the date on which the Offer closes (or such earlier date or dates as Melrose may, subject to the City Code, determine),</li> </ul> but excludes any shares held as treasury shares on such date as Melrose may determine before the Offer closes (which may be a different date(s) to the date referred to in (b) and (c)), and " <i>GKN Share</i> " means any one of them
<b>headline</b> . . . . .	before exceptional costs, exceptional income and intangible asset amortisation
<b>HMRC</b> . . . . .	HM Revenue & Customs
<b>Honeywell</b> . . . . .	Honeywell International Inc.
<b>HVAC</b> . . . . .	heating, ventilation and air conditioning
<b>IAS</b> . . . . .	International Accounting Standards
<b>IFRS</b> . . . . .	International Financial Reporting Standards, as issued by the International Accounting Standards Board and endorsed by the EU
<b>Incentive Share(s)</b> . . . . .	incentive shares of £1 each in the capital of the Company, including but not limited to the 2017 Incentive Shares
<b>IoT</b> . . . . .	Internet of Things
<b>ISIN</b> . . . . .	the international code for a listed security
<b>Latest Practicable Date</b> . . . . .	31 January 2018 (being the last Business Day prior to the publication of this document)
<b>Listing Rules</b> . . . . .	the rules and regulations made by the UKLA under Part VI of FSMA and contained in the UKLA's publication of the same name (as amended from time to time)
<b>London Stock Exchange or LSE</b> . . . . .	the London Stock Exchange plc
<b>Market Abuse Regulation</b> . . . . .	Market Abuse Regulation (2014/596/EU)
<b>Melrose 2015 Annual Report</b> . . . . .	Melrose's annual report and audited accounts for the year ended 31 December 2015 (which includes the Melrose Group's audited historical consolidated financial statements for the year ended 31 December 2015)
<b>Melrose 2016 Annual Report</b> . . . . .	Melrose's annual report and audited accounts for the year ended 31 December 2016 (which includes the Melrose Group's audited historical consolidated financial statements for the year ended 31 December 2016)

<b>Melrose 2016 Interim Results</b> . . . . .	Melrose’s interim results announcement for the six months ended 30 June 2016 (which includes the Melrose Group’s unaudited historical consolidated financial statements for the six months ended 30 June 2016);
<b>Melrose 2017 Interim Results</b> . . . . .	Melrose’s interim results announcement for the six months ended 30 June 2017 (which includes the Melrose Group’s unaudited historical consolidated financial statements for the six months ended 30 June 2017);
<b>Melrose Board</b> . . . . .	the board of directors of the Company
<b>Melrose Group</b> . . . . .	(i) for the period from and including 19 November 2015, the Company, its subsidiaries and subsidiary undertakings from time to time; or (ii) for the period prior to 19 November 2015, Old Melrose, its subsidiaries and subsidiary undertakings from time to time
<b>Melrose PLC</b> . . . . .	Melrose PLC, a public limited company incorporated in England and Wales, with registered number 04763064
<b>Melrose Shareholder(s)</b> . . . . .	holder(s) of Melrose Shares
<b>Melrose Shares or Ordinary Shares</b> . . . . .	the ordinary shares of $\frac{48}{7}$ pence each in the capital of Melrose from time to time
<b>National Storage Mechanism</b> . . . . .	the document publication facility made available by the FCA at <a href="http://www.morningstar.co.uk/uk/nsm">www.morningstar.co.uk/uk/nsm</a>
<b>New Facilities Agreement</b> . . . . .	the multicurrency senior term and revolving facilities agreement entered into on 17 January 2018 between, among others, Melrose PLC, certain of its subsidiaries as original borrowers and/or original guarantors, Lloyds Bank plc and Royal Bank of Canada as original lenders, Lloyds Bank plc and Royal Bank of Canada as mandated lead arrangers and bookrunners and Lloyds Bank plc as agent  or to be entered into between, among others, Melrose PLC as initial borrower, the parties named therein as original lenders and Lloyds Bank plc as agent
<b>New Melrose Shares</b> . . . . .	the new Melrose Shares proposed to be issued to Eligible GKN Shareholders pursuant to the terms of the Acquisition
<b>Nomination Committee</b> . . . . .	the nomination committee of the Melrose Board
<b>Notice of General Meeting</b> . . . . .	the notice of General Meeting set out in the Circular
<b>Nortek</b> . . . . .	Nortek, Inc
<b>Nortek Group</b> . . . . .	Nortek, together with its subsidiaries and subsidiary undertakings from time to time
<b>Nortek Plans</b> . . . . .	the Nortek, Inc. (Nortek US) Retirement plan, the Eaton-Williams Group Pension and Assurance Scheme in the UK and a number of small funded defined arrangements across Europe, acquired by the Melrose Group as a result of the acquisition of Nortek
<b>Offer</b> . . . . .	the Offer as described in the Offer Document and to be made by Melrose by way of a takeover offer as defined in Chapter 3 of Part 28 of the Act to acquire the entire issued and to be issued share capital of GKN on the terms and subject to the conditions set out in the Offer Document, this document and the Form of Acceptance (and, where the context admits, any subsequent revision, variation, extension or renewal of such offer, including any revision, variation, extension or renewal of such offer including any election or alternative available in connection with it)

<b>Offer Document</b> . . . . .	the document to be despatched to Eligible GKN Shareholders on or around the date hereof containing (among other things) the terms and conditions of the Offer
<b>Official List</b> . . . . .	the official list maintained by the UKLA
<b>Old Melrose</b> . . . . .	Melrose Holdings Limited, a private company limited by shares incorporated in England and Wales, with registered number 08243706
<b>Old Melrose 2014 Annual Report</b> . . . . .	Old Melrose’s annual report and audited accounts for the year ended 31 December 2014 (which includes the Old Melrose Group’s audited historical consolidated financial statements for the year ended 31 December 2014)
<b>Overseas Shareholders</b> . . . . .	Melrose Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom
<b>Panel</b> . . . . .	the Panel on Takeovers and Mergers
<b>pence, £, GBP and pounds sterling</b> . . . . .	the lawful currency of the United Kingdom
<b>PRA</b> . . . . .	the Prudential Regulation Authority;
<b>Prospectus Rules</b> . . . . .	the prospectus rules made by the FCA under section 73A FSMA
<b>RBC Europe Limited</b> . . . . .	RBC Europe Limited (trading as RBC Capital Markets), Riverbank House, 2 Swan Lane, London EC4R 3BF, financial adviser to the Company
<b>Register</b> . . . . .	the Company’s statutory register of members
<b>Regulatory Information Service or RIS</b> . . . . .	one of the regulatory information services authorised by the UKLA to receive, process and disseminate regulatory information from listed companies
<b>Remuneration Committee</b> . . . . .	the remuneration committee of the Melrose Board
<b>Restricted GKN Shareholders</b> . . . . .	those GKN Shareholders who are located in a Restricted Jurisdiction, except for GKN Shareholders located in the United States that Melrose, in its sole judgment, shall have determined to be eligible to participate in the Offer
<b>Restricted Jurisdiction</b> . . . . .	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if this document and/or information concerning the Acquisition is sent or made available to GKN Shareholders in that jurisdiction. “Restricted Jurisdiction” includes the United States and any state or jurisdiction in the United States
<b>Rothschild</b> . . . . .	N M Rothschild & Sons Limited
<b>Scheme</b> . . . . .	should the Acquisition be implemented by way of a scheme of arrangement under Part 26 of the Companies Act, such scheme of arrangement between GKN and the GKN Shareholders to implement the Acquisition with or subject to any modification, addition or condition approved or imposed by the Court
<b>SDRT</b> . . . . .	stamp duty reserve tax
<b>SEC</b> . . . . .	the US Securities and Exchange Commission
<b>SEDOL</b> . . . . .	the London Stock Exchange Daily Official List of share identifiers
<b>Sponsors</b> . . . . .	Rothschild and Investec Bank plc
<b>subsidiary and subsidiary undertaking</b> . . . . .	have the meaning given to them in sections 1159 and 1162 of the Companies Act respectively

<b>Transaction Resolutions</b> . . .	the resolutions to be proposed at the General Meeting to approve the Acquisition and the issue of the New Melrose Shares as set out in the Notice of General Meeting, with any permitted amendments thereto
<b>UK Corporate Governance Code</b> . . . . .	the UK Corporate Governance Code published in April 2016, which is applicable for the current and previous reporting periods and issued by the Financial Reporting Council in the United Kingdom
<b>UK or United Kingdom</b> . . .	the United Kingdom of Great Britain and Northern Ireland
<b>UKLA</b> . . . . .	the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
<b>uncertificated or in uncertificated form</b> . . . . .	a share or other security title to which is recorded in the relevant register of the share or security as being held in uncertificated form, in CREST, and title to which, by virtue of the CREST Regulations may be transferred by means of CREST
<b>Unvested Portion</b> . . . . .	has the meaning given to it in paragraph 4.6.8 of Part XV ( <i>Additional Information</i> ) of this document
<b>US or United States or United States of America</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
<b>US Exchange Act</b> . . . . .	the US Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
<b>US\$, US dollars or USD</b> . . .	the lawful currency of the United States
<b>US Securities Act</b> . . . . .	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
<b>VAT</b> . . . . .	(i) within the EU, any tax imposed by any member state in conformity with the directive of the council of the EU on the common system of value added tax (2006/112/EC), and (ii) outside the EU, any tax corresponding to, or substantially similar to, the common system of value added tax referred to in paragraph (i) of this definition

All times referred to are London times unless otherwise stated.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

All references to “GBP”, “pence”, “sterling” or “£” are to the lawful currency of the United Kingdom.

All references to “relevant securities” are to that term as it is defined in the City Code.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

The *ejusdem generis* principle of construction shall not apply to the terms and conditions of the Offer and/or the Form of Acceptance. Accordingly general words shall not be given a restrictive meaning by reason of their being preceded or followed by words indicating a particular class of acts, matters or things or by examples falling within the general words.

