Melrose

AEROSPACE EXPERTISE

MELROSE INDUSTRIES PLC ANNUAL REPORT 2023

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A WORLD-LEADING AEROSPACE BUSINESS WITH EXCEPTIONAL POTENTIAL.

Melrose is moving forward as a world-class pureplay Aerospace business, building on a 20-year history of outstanding value creation.

"Melrose Aerospace has delivered record results in 2023, ahead of upgraded guidance driven by strong operating margin progression in both divisions. The Group is well positioned to deliver continued growth and margin improvement supported by positive end markets and excellent operational momentum. We have upgraded guidance for 2024 and are confident about unlocking significant further potential of the business going forward."

Peter Dilnot
Chief Executive Officer

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RESULTS 2023

£3,350m
Revenue

£390m
Adjusted operating profit

£57m
Statutory operating profit

5.0 pence
Full year dividend

A TRANSFORMATIONAL YEAR

"Our strategy remains focused on value creation, driven by operational and financial improvement over the longer term, now as a pureplay, UK-listed aerospace business."

Justin Dowley
Non-executive Chairman

Calendar year 2023

The Group had a transformational year in 2023 and delivered financial results ahead of expectations. We achieved statutory revenue for the Melrose Group of £3,350 million (2022: £2,954 million), with an adjusted operating profit (post-PLC costs) of £390 million (2022: £147 million) based on a statutory operating profit of £57 million (2022: loss of £270 million).

Following completion of the Dowlais Group plc demerger (the "Demerger") in the first half of the year, Melrose's strategy shifted from its previous "Buy, Improve, Sell" model to becoming a premium-listed aerospace business for the long-term. Your Board is confident that Melrose is now well positioned for strong future performance. This will be driven by our two industry leading aerospace divisions which have been restructured and repositioned, coupled with strong market growth and a disciplined approach to capital allocation. The positive trajectory is clearly demonstrated within these results.

Further details of these results are contained in the CEO's review and Finance Director's review, and I would like to thank all employees for their efforts this year.

Purpose, strategy & sustainability

Melrose was founded to empower its businesses to unlock their full potential for the collective benefit of stakeholders, whilst providing shareholders with a superior return on their investment. Our strategy remains focused on value creation, driven by operational and financial improvement over the longer term, now as a pureplay, UK-listed aerospace business. Our positive trajectory is underpinned by leading positions across the world's major aircraft platforms, strong organic growth prospects within the aerospace sector, and attractive opportunities to differentiate our business further through cutting-edge proprietary technology that is already shaping the future of flight.

Melrose sees the decarbonisation of the aerospace sector as a priority, and this presents great opportunities to deploy our innovation and technology leadership to create and commercialise world-leading solutions for cleaner air travel, and to generate superior financial returns for our shareholders. We are pleased that our sustainability performance continues to be recognised by several key benchmarking agencies, including Sustainalytics which ranks Melrose in the top decile of our industrial peers, MSCI which continues to rank us in the "A" category, and our recent elevation to a "B" rating by CDP Climate Change.

This current set of results illustrates our strategy in action, and our continued shareholder value creation is reflected in Melrose being one of the strongest performers in the FTSE 100 in 2023.

Dividend

In line with our progressive dividend policy, the Board proposes to pay a final dividend of 3.5 pence per share for 2023, making a total dividend for the year of 5.0 pence per share. The final dividend will be paid on 8 May 2024 to those shareholders on the register at 2 April 2024.

Board matters

Given the evolution of Melrose from the "Buy, Improve, Sell" model into a focused aerospace business, Victoria Jarman has decided not to stand for re-election at the 2024 Annual General Meeting ("AGM"). We thank her very much for her contributions over the last three years.

As announced last year, Christopher Miller, Simon Peckham and Geoffrey Martin will not stand for re-election at the Company's AGM on 2 May 2024. Their periods of service as Directors in a variety of leadership roles have been filled with great success for Melrose and its shareholders.

With Melrose's transformation into a pureplay aerospace business complete, your Board is confident that the time is right for the new management team to take the Company forward, led by Peter Dilnot and Matthew Gregory. To that end, on 6 March 2024 Mr Peckham stepped down as Chief Executive, and on 7 March 2024 Mr Martin stepped down as Group Finance Director and Mr Peckham, Mr Martin and Mr Miller resigned from their positions as Directors. During their tenure, the business has grown from a start-up in 2003, to a well-positioned FTSE 100 enterprise, having delivered total returns of capital of over £8 billion to shareholders, and an average return of 2.5x shareholders' equity for the businesses sold under the previous business model. We wish them well for the future.

We are pleased to confirm Mr Dilnot's appointment as CEO of Melrose effective 6 March 2024. Peter has been at Melrose for nearly 5 years, serving as COO and as an executive Director, and CEO of GKN Aerospace during this time. He has many years of public company experience, including as CEO of Renewi PLC and as a senior executive at Danaher Corporation. He has an engineering and aviation background, and started his career as a helicopter pilot in the British Armed Forces.

We also welcome Mr Gregory to the Board as an executive Director, and are pleased to confirm his appointment as CFO of Melrose effective 7 March 2024. Matthew was previously CFO of GKN Aerospace, and is a seasoned public company CFO with executive leadership experience across several complex, UK-listed manufacturing and transportation businesses, including as CFO of Essentra plc, and as CFO then CEO of FirstGroup plc.

J. Dowley

Justin Dowley
Non-executive Chairman

7 March 2024

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RECOGNITION

Our recent ESG scores

A

MSCI ESG Rating of A[1] (2022: A)

B

CDP Climate Change score 2023 improved to B (2022: C)

27.8

Sustainalytics ESG rating[1] improved to 27.8 (medium) (2022: 28.3)

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(1) As of 2023.

EVOLVING INTO A FOCUSED AEROSPACE TECHNOLOGY BUSINESS

Our new "Design, Deliver, Improve" business model reflects how value will be created by Melrose going forward based on differentiated technology leadership, consistent delivery of commitments to our stakeholders, and ongoing improvement in all areas – including progressive financial results."

Peter Dilnot
Chief Executive Officer

It has been a transformational year for Melrose. During 2023 we successfully evolved into a focused aerospace technology business while delivering results well ahead of expectations. Our end markets continued to recover strongly and we generated significant margin expansion from our extensive improvement actions, including restructuring, operational gains and repositioning our portfolio to improve the quality of our earnings. We have built positive momentum and have a very clear path to deliver further profitable growth and shareholder value in the years ahead.

Melrose has an extensive range of proprietary "Tier One" technology that is in strong demand from Aerospace OEMs. This technology is already embedded into the world's leading commercial and defence aircraft platforms – both in aerospace engines and in structures. We are reinforcing these established positions with ongoing business improvements, targeted investments in organic growth and a disciplined approach to capital allocation. This includes making an important contribution to the future of sustainable flight with breakthrough technologies such as additive fabrication now and, in the longer term, developing new forms of propulsion. We have significant opportunities to create value for all stakeholders going forward and we are confident about our exciting trajectory from here.

2023 results

In 2023, overall Group revenues grew by 17%(1) with Engines growth of 16%(1), driven by RRSP strength despite ongoing industry supply chain challenges, and Structures growth of 18%(1) largely from OEM deliveries ramping-up. There was a 124%(1) increase in adjusted operating profit to £420 million, with margins doubling from 6.3% to a record 12.5% (pre-PLC costs). The Group statutory operating profit was £57 million compared to a loss of £270 million in the prior year. Our leverage reduced to 1.1x, including £93 million of share buyback cost in the period, and net debt was better than expectations. Going forward, we are guiding to continued profit expansion to £560 million (pre-PLC costs) in 2024, at the midpoint of the range, and £700 million in 2025 as the benefits of market growth and the full impact of our improvement plans read through. Our confidence in these targets is underpinned by robust commercial and operational progress.

(1) Like-for-like growth is calculated at constant currency against 2022 results and excludes businesses being exited.

On the commercial front, we secured a flagship new Engines agreement with GE which is estimated to deliver US$5 billion in incremental revenue over the contract lifetime, including an expansion of RRSP participation on the GEnx programme. In Civil Structures we agreed a five-year extension with Airbus for the sole-source production of A220 wiring, and a new multi-year contract covering design and build of flight control surfaces for the new urban air mobility player, Joby. In Defence Structures, an agreement has been signed with the Netherlands MoD and Airbus for new helicopter developments, and we have secured favourable positioning for design and build content on the Global Combat Air Programme, Future Vertical Lift Programme and European Next Generation Rotorcraft Programme. In addition, Defence repricing is proceeding ahead of plan, with 42% of core defence work now being sustainably priced. Our leadership in next generation technologies was cemented through a new partnership with Embraer to explore the implementation of hydrogen technologies in aviation.

We made further progress with operational gains in 2023, with safety and quality always being our top priorities. During the year we reduced total reportable safety incidents by 19%, and the number of quality escapes (issues reaching our customers) was 44% lower than prior year. Our performance on customer deliveries improved with a reduction in arrears of £40 million, despite the significant ongoing industry supply chain issues. Productivity was impacted by these supply chain shortages, however underlying gains are being made through focused Lean implementation, automation and digitalisation. The plan to rationalise our footprint from 12 sites to nine in Engines, and 40 sites to 22 in Structures has continued to progress well. All business improvement initiatives remain firmly on, or ahead of, plan and we expect further gains to read through as we deliver revenue growth from a more focused and productive operational base.

Strategy

Following completion of the Demerger, Melrose has now changed strategy to being purely an aerospace business, and is reporting publicly as two divisions, Engines and Structures. The previous Melrose business model of "Buy, Improve, Sell", has been replaced by "Design, Deliver, Improve". This new business model reflects how value will be created by Melrose going forward based on differentiated technology leadership, consistent delivery of commitments to our stakeholders, and ongoing improvement in all areas – including progressive financial results.

MELROSE HAS AN EXTENSIVE RANGE OF PROPRIETARY "TIER ONE" TECHNOLOGY THAT IS IN STRONG DEMAND FROM AEROSPACE OEMS. THIS TECHNOLOGY IS ALREADY EMBEDDED INTO THE WORLD'S LEADING COMMERCIAL AND DEFENCE AIRCRAFT PLATFORMS – BOTH IN AEROSPACE ENGINES AND IN STRUCTURES.

While our strategy has changed, the Group will retain the most important elements of what made Melrose successful: rapid decision making; empowering management teams; and accountability for results. Our determination and focus on improving businesses at pace will also always remain at the heart of what we do. This coupled with GKN Aerospace's technology leadership and engineering excellence will be a powerful and competitive combination.

Our plan is to deliver strong profitable growth driven in particular by our exceptional Engines division. By 2025, Engines is forecast to contribute over 70% of Melrose profit with over 85% of this being from the accretive and structurally growing aftermarket. Within this aftermarket business, our unique RRSP portfolio – which includes leading engines from all major OEMs – is expected to generate £22 billion of future cash flows (using a rate of USD$1.25). The positive momentum in Engines is demonstrated by our guidance that its 2025 margin target of 28% will be achieved a year early in 2024.

Our Structures division also has a positive profitable growth trajectory and is well on track to deliver its 9% margin target in 2025. This represents significant gains from the modestly above breakeven result in 2022 (immediately post COVID-19) and the 5% margin that was delivered ahead of expectations in 2023. The ongoing Structures margin expansion will continue to come from civil volumes ramping-up, our Defence portfolio repositioning and repricing, and ongoing wider business improvements.

Our immediate focus will remain on delivering organic growth with an increasing number of exciting technology-led opportunities emerging for the future, particularly in Engines where returns are highly attractive and accretive. The Board has confirmed that no material acquisitions will be made in the near-term.

READ MORE ABOUT OUR TWO OPERATING DIVISIONS

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OUR BUSINESS

OUR TWO DIVISIONS

GKN ENGINES

GKN STRUCTURES

Melrose and GKN

Within the markets in which it operates, the GKN Aerospace brand conveys quality, reliability and deep technical expertise. This is both a function of its position as a long-term trusted partner to all major airframe and engine OEMs, and its pioneering approach to the delivery of next generation solutions.

Within financial markets, since its formation in 2003, Melrose has established itself as an excellent steward of capital, empowering businesses to unlock their full potential for the collective benefit of stakeholders. As a focused aerospace group, the Melrose strategy may have changed but the unstinting focus on value creation remains.

WHAT MADE MELROSE SUCCESSFUL: RAPID DECISION MAKING; EMPOWERING MANAGEMENT; AND ACCOUNTABILITY FOR RESULTS, COUPLED WITH GKN AEROSPACE'S TECHNOLOGY LEADERSHIP AND ENGINEERING EXCELLENCE WILL BE A POWERFUL COMBINATION.

We have therefore chosen to preserve both brands given their inherent value and reputation to different stakeholders. Going forward, the Group will operate with one brand for its customers, GKN Aerospace, and one brand for financial markets, Melrose Industries PLC. Internally we have created one unified and efficient organisation but with an emphasis on decentralisation that empowers customer-facing leaders and local operating teams.

Market update and portfolio position

Our end markets continue to recover strongly and look set for sustained structural growth in the years ahead. The demand is compounded by the fact that over the last four years there was a significant reduction in aerospace deliveries due to COVID-19 and the well-publicised issues with the Boeing 737 MAX. In addition, the industry supply chain is currently pacing deliveries due to capacity and raw material shortages. This dynamic continues to create a mismatch between supply and demand, and backlogs have increased in 2023 in our key markets. Given our embedded position on all major civil and defence aircraft, these large backlogs underpin our expected future business growth.

In 2023, global revenue passenger kilometres closed to within 1% of pre-COVID-19 levels and many domestic markets were ahead of previous peak levels. With strong order intake and constrained supply, the total civil aircraft order backlog has reached a record of over 14,000 aircraft.[1] Defence demand has also increased significantly due to geo-political tensions. The book-to-bill ratio for leading global defence businesses is expected to remain above 1x in the near-term.

Our positions on all leading commercial narrowbody and widebody aircraft are well established with a stronger weighting towards Airbus over Boeing. Our positions are largely design to build and sole source, including metallic and composite aerostructures, wiring, transparencies and anti-ice systems. Within Defence we have a similar technology portfolio with extensive content on the leading global F-35 fighter jet, plus positions on leading military helicopters and cargo aircraft. Our Engine portfolio is unique in terms of its breadth and coverage of global flying hours. Our deep design expertise has been embedded in leading engines from all major engine OEMs with RRSP positions on 19 engines, including 100% coverage of legacy narrowbody engines (CFM56 and V2500). In total, our technology supports more than 100,000 flights per day and our business is therefore directly linked to global market growth.

→ **Market trends**
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(1) Source: Boeing and Airbus websites.

Sustainability

We are well positioned to play an important role in the development of sustainable flight and see this as key to our future success. We are investing selectively in developing new technologies, independently or in conjunction with customers and governments, that we believe will further enhance our market position. This includes developing new manufacturing methods to make established components more sustainably today – such as additive fabrication and thermoplastics. Our partners continue to embed technological improvements to make current aircraft more fuel efficient, with Pratt & Whitney's Geared Turbofan now certified on 50% Sustainable Aviation Fuel ("SAF") and successfully tested on 100% SAF. In parallel, we are working on longer-term developments such as our pioneering work on Hydrogen aircraft propulsion and storage, plus associated electrical distribution systems. For example, GKN Aerospace is part of the Hydrogen in Aviation Alliance, established in September 2023 to accelerate the delivery of zero carbon aviation.

We are also taking action to reduce the direct impact of our business on the environment. This year has seen continued momentum, with a number of our environmental targets being achieved early. New 2025 targets have therefore been set, including a reduction in Scope 1 & 2 emission intensity by 50%, and a 40% reduction in water intensity by 2025. To enable aviation's route to Net Zero by 2050, we have set 2025 targets for the percentage of sustainable R&D at 80%.

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Guidance for 2024 and 2025

Income Statement	2024 (Targets)	2025 (Targets)
Revenue:		
Engines	£1.45bn – £1.50bn	£1.8bn
Structures	£2.15bn – £2.25bn	£2.2bn
Aerospace	**£3.60bn – £3.75bn**	**£4.0bn**
Adjusted operating profit (pre-PLC costs):		
Engines	£410m – £420m	£500m
Structures	£140m – £150m	£200m
Aerospace	**£550m – £570m**	**£700m**
Adjusted operating profit margin (pre-PLC costs)	**>15%**	**17% – 18%**
Adjusted EBITDA (pre-PLC costs):		
Engines	£480m – £490m	£580m
Structures	£230m – £240m	£290m
Aerospace	**£710m – £730m**	**£870m**
PLC costs	c£30m	c£30m

OUR POSITIVE MOMENTUM GIVES US CONFIDENCE TO RAISE OUR OPERATING PROFIT GUIDANCE BY £30 MILLION FOR 2024 (6%)

Capital allocation

The Group commenced a £500 million share buyback programme in October 2023 with £93 million paid within the year. The programme is anticipated to complete by the end of September 2024. We will maintain a disciplined approach to capital allocation going forward with a singular focus on generating the most attractive returns for shareholders. This includes investing in an increasingly promising range of organic growth opportunities, particularly in Engines given its very accretive economics. We will pursue these opportunities while keeping leverage comfortably within the previous guidance.

We also remain committed to paying a progressive annual dividend. For 2023 the Board has recommended a final dividend of 3.5 pence per share, which will be paid on 8 May 2024 to shareholders on the register at the close of business on 2 April 2024. This makes the total dividend for 2023 5.0 pence per share.

Group outlook

The Group is well positioned to deliver further significant progress in 2024 and beyond. Our positive momentum gives us confidence to raise our adjusted operating profit guidance (pre-PLC costs) by £30 million for 2024 (6%), driven primarily by Engines revenue growth and adjusted operating margins. Notwithstanding the upgraded operating profit guidance, there remain revenue headwinds from industry-wide supply chain issues, short-term destocking due to the phasing of commercial aircraft build rates, and the impact of planned exits and disposals in our Structures division.

The progress we expect in 2024 will further narrow the gap to our 2025 targets. These are increasingly underpinned by the Engines outlook and mix, Civil ramp up, Defence portfolio improvements and ongoing business improvements throughout the Group.

Peter Dilnot
Chief Executive Officer

7 March 2024

ENGINES

The Engines division made strong financial, operational and strategic progress during 2023. Divisional growth was supported by strong end markets with increasing flying hours leading to an acceleration in shop visits and spare parts demand. Our unique RRSP portfolio further matured during the year, providing good momentum and visibility to divisional margins exceeding 30% beyond 2025.

INDUSTRY-LEADING ENGINES DIVISION POSITIONED TO ACHIEVE EXCEPTIONAL GROWTH

£1,193m
Revenue
(2022: £1,035m)

£360m
Adjusted EBITDA
(2022: £215m)

£310m
Adjusted operating profit
(2022: £162m)

30.2%
Adjusted EBITDA margin
(2022: 20.8%)

26.0%
Adjusted operating profit margin
(2022: 15.7%)

(1) Like-for-like growth is calculated at constant currency against 2022 results and excludes businesses being exited.

During the year, revenue was up 16%[1] versus 2022. OE revenue grew 3%, constrained by ongoing industry supply chain issues. Underlying demand is therefore higher than the reported level of growth indicates. Aftermarket revenue was up 34%, led by 40% growth in the civil engines aftermarket from a combination of volume increases, wider shop visit scope and positive pricing. Adjusted operating margins improved 10.3 percentage points to 26%. Encouragingly, the second half margin was ahead of our initial and most recent guidance at 27.5%.

Over the course of 2023, commercial highlights include the signing of a major new agreement with GE Aerospace. This agreement expands RRSP participation on the GEnx programme, the fastest-selling high-thrust engine, and also covers new technology insertion. The agreement also enables GKN Aerospace to join GE Aerospace's global aftermarket repair network as well as securing life-of-programme contracts to deliver 100% of GEnx, CF6 and GE90 fan cases, and 50% of GE9X fan case assembly. Other commercial highlights include a new contract with Safran to supply shafts for the LEAP engine family, plus a ten-year extension of an OEM supply agreement with Pratt & Whitney for their military engine programme family of cases such as F135, F100 and F119. Our Engines division also continues to support the Swedish Air Force with complete engine production and maintenance for their fighter fleet and this extends to wider international military customers who also fly the Gripen jet. The demand for this support continues to be elevated due to higher defence flying hours, most notably due to the ongoing war in Ukraine.

We continue to work closely with Pratt & Whitney and other partners to manage the well-publicised issues from powder metal manufacturing on some variants of the GTF. The associated inspection programme is now well underway with global airlines and is progressing according to plan with increasing clarity on the execution schedule and regulatory framework. Our previous financial guidance is unchanged with no profit impact expected from this issue and with a total cash cost of around £200 million over the next few years if it is assumed that this is all a programme cost. More broadly, we remain confident that the GTF will be a robust and attractive narrowbody engine in the decades ahead. Beyond the GTF, we have 17 other RRSP life-of-programme contracts and these generated a positive contribution in 2023.

Most notably, we have 100% coverage of legacy narrowbody engines through our CFM56 and V2500 positions and these performed strongly with flying hours returning towards pre-COVID-19 levels. The returns from our widebody engines, GEnx and XWB, are also continuing to grow with recovering long-haul travel.

Our strategically important repair business grew by 23% in 2023 as demand continued to increase strongly and our new capacity came online. Further growth will be driven by our Malaysian fan blade repair centre which gained its Civil Aviation Administration of China (CAAC) certification in 2023, opening up the rapidly expanding China and Asia markets. The development of our new state-of-the-art dedicated engine component repair centre in El Cajon, California (US), is progressing well and remains on target to open in 2024.

It was also a positive year operationally for Engines. A breakthrough quality target of "zero escapes" (issues reaching our customers from our sites) in the core Engines business was successfully achieved throughout 2023. The division also stayed ahead of OEM production with reliable customer deliveries, despite supply chain issues that impacted our own production flows and productivity. Further progress continued during the year with our digital initiatives, including our internally developed machine and factory connectivity programme called CO-PILOT. These initiatives, coupled with ongoing Lean implementation across the global site footprint, will deliver further quality, delivery and productivity gains going forward. In addition, the US East Coast sites consolidation and Nordics restructuring programmes have progressed well, providing greater financial benefits than originally envisaged.

The development of our unique additive fabrication business, using laser wire deposition in conjunction with other technologies, has accelerated significantly. This innovative and proprietary new manufacturing approach enables complex engine parts to be made with less reliance on complex and large forgings and castings – many of which are currently capacity constrained. Our additive fabrication approach is gaining significant traction with Engine OEMs as they look to alternative manufacturing methods which can provide additional sources of supply with shorter lead times, lower costs and more sustainable processes. Current subtractive manufacturing typically results in around 80% of material being machined away to achieve the final product. By contrast, additive fabrication effectively builds and welds parts in near final form thereby minimising raw material waste, energy use and shipping emissions. Our commitment to this breakthrough proprietary technology is illustrated by a £50 million investment in a low rate production additive fabrication plant in Trollhättan, Sweden, which included £12 million funding support by the Swedish Energy Agency's Industriklivet initiative. Following a successful certification process we are now shipping the initial additive fabrication engine components to customers. The future opportunities are extremely promising and they over time include manufacturing more parts on existing engines, as well as development parts for next generation engines such as CFMI RISE.

Outlook

The Engines division is extremely well placed to drive profitability throughout this decade and beyond. The division has OEM-level capability, strategic partnerships with all major engine OEMs, a lucrative and diverse RRSP portfolio, and GKN proprietary breakthrough technologies that are becoming increasingly valuable to the industry at large.

To unlock the potential of the division we have a clear and well-established path for delivering profitable growth based on: increasing RRSP portfolio contribution; focused Engines growth initiatives including repairs and additive fabrication; and ongoing business improvements. In the context of robust demand, partially tempered by ongoing supply chain issues, we expect to deliver strong revenue progress in 2024, led by aftermarket growth, and our target 2025 adjusted operating margin of 28% to be achieved one year early. We are also increasingly confident that Engines will deliver >30% margins beyond 2025.

→ Structures Divisional Review page 10

STRUCTURES

Structures had a strong year delivering adjusted operating margins of 5.1%, well ahead of our original plan of 3%. This performance was driven by expected volume growth as civil production ramped up, as well as the positive impact of our extensive business improvement actions reading through strongly, especially in the second half.

STRONG GROWTH TRAJECTORY, EXCEEDING PRE-PANDEMIC PROFITABILITY

£2,157m
Revenue
(2022: £1,919m)

£201m
Adjusted EBITDA
(2022: £115m)

£110m
Adjusted operating profit
(2022: £24m)

9.3%
Adjusted EBITDA margin
(2022: 6.0%)

5.1%
Adjusted operating profit margin
(2022: 1.3%)

(1) Like-for-like growth is calculated at constant currency against 2022 results and excludes businesses being exited.

These business improvements include good progress on rationalising our global site footprint, commercial renegotiations and operational gains. The division is increasingly design led with excellent customer positions, and benefits from technological expertise well suited for next generation aircraft, expected to drive long-term growth. The division remains firmly on track to achieve its 9% adjusted operating margin target by 2025.

The positive trajectory for Structures is underpinned by strong demand. In civil, order backlogs are at record levels with A320 order slots now being booked in 2030 and beyond. The rate of production ramp-up is currently being constrained by ongoing industry wide supply chain issues, and volumes are set to increase structurally as capacity expands in the years ahead. The narrowbody ramp-up is evident and is extending to widebody production rates as long-haul travel recovers. In defence, global spending continued its rapid expansion in 2023 due to geo-political tensions and as budgetary plans announced in the wake of Russia's 2022 Ukraine invasion started to positively impact. Total global defence spending has risen to US$2.2 trillion in 2023, an increase of 9% on the prior year (source: IISS). Sustained growth is set to continue with positive book-to-bill ratios expected for all the leading Defence primes. We have an established technology position on all major civil and defence platforms, so are well placed to capture market growth in the years ahead.

In 2023 Structures revenue grew 18%[(1)] versus prior year. Civil growth of 28%[(1)] reflected higher OEM production rates and Defence was flat[(1)] due to increased demand and shipments offset by strategic exit of business. Divisional adjusted operating margins improved by 3.8 percentage points to 5.1% driven by volume increases, improved pricing and operational improvements, plus portfolio moves in Defence. Our focused work on improving the quality of our Defence portfolio through renegotiation or exit continues at pace and we are now ahead of plan. In total 42% of core contracts are now sustainably priced, more than double the proportion at the end of 2022. We are increasingly confident of achieving the target 85% of the portfolio being sustainably priced by 2025.

Over the course of 2023 we achieved a number of significant commercial milestones within our Structures division. This included successes with Airbus on establishing electrical wiring interconnectivity systems ('EWIS') capability in Mexico for the A220, as well as delivering the final trailing edge in the Wing of Tomorrow development programme. The division also delivered its 1000th Honeywell HTF Nacelle and its 600th Gulfstream G650 Empennage with production rates reaching an all-time high. Our position at the forefront of the next generation Air Mobility Market was reinforced through partnerships with the leading players Joby, Archer and Supernal. This is a market in its early stage but one where we are making good progress and see multiple opportunities while limiting our financial risk.

Operationally, Structures made good progress and has momentum to deliver further gains. Our top priority is always safety and quality, and during 2023 the Civil business achieved a landmark of zero lost time accidents and the wider Structures division delivered a 43% reduction in quality 'escapes' (issues reaching the customer) versus prior year. Our deliveries also ramped-up strongly despite the ongoing industry supply chain challenges with arrears in the division 34% lower than 2022. The extensive restructuring programme within Structures is nearing completion with the successful consolidation and restructuring of the Netherlands' footprint down from six sites to two multiple technology campuses in Hoogeveen and Papendrecht. In the US and Mexico the site footprint has been rationalised to create three centres of excellence at Chihuahua, Orangeburg and Wellington. Going forward, we expect to deliver further quality, productivity and cost improvements as volumes increase within our restructured and leaner operating base.

More broadly, our new COMAC and AVIC joint venture ("JV") site in Jingjiang, China remains under construction with production expected from Q2 2024 and with the first work packages already agreed. China is set to become the largest aviation market by 2040, opening 150 new airports by 2035, and this JV unlocks the path to this promising and important indigenous market. Our work on focusing the Defence portfolio has continued and we divested the non-core Fuel Systems business on 1 March 2024.

We are also positioning Structures to play a valuable and profitable role in future aircraft developments. This is built upon GKN Aerospace's expertise in thermoplastics, EWIS and lightweight aerostructures, as well as breakthrough additive manufacturing methods that can accelerate product development. During 2023 our technological leadership was evidenced through our collaboration with Embraer to explore a hydrogen flight demonstrator, with Pratt & Whitney Canada for a hybrid electric flight demonstrator, and by completing the first high voltage electrical harness for the Lilium jet. Our Defence business is well positioned for design and build content on the Global Combat Air Programme with the UK, Italy and Japan, and with two leading OEMs for uncrewed systems. We also remain well placed on future rotorcraft programmes in the US (Future Vertical Lift) and EU (European Next Generation Rotorcraft).

To further support the Structures positioning in next generation technology, and the pursuit of Net Zero, a new Global Technology Centre ("GTC") opened in Hoogeveen, Netherlands, with a particular focus on lightweight thermoplastics and high voltage wiring systems. This new centre complements our established GTCs across the wider Group in Bristol (UK), Trollhättan (Sweden) and Fort Worth, Texas (US).

Outlook

Structures has an embedded position as a Super Tier One partner to the world's leading aircraft OEMs, coupled with unrivalled technical expertise. The division is therefore well placed to benefit from civil ramp-up, defence spending and new platforms, and the shift to sustainable aviation over time. Our design to build business model and increasingly focused portfolio is set to deliver high quality earnings.

For 2024 we expect to make revenue progress reflecting market growth. However, reported revenue is likely to be flat versus prior year due to short-term destocking at some Civil customers (caused by their supply chain challenges), the planned exit of non-core work previously outlined, and the disposal of the Fuel Systems business. For the full year the division is expected to make further progress in expanding adjusted operating margins and we expect the year to have second half seasonal weighting as usual. Looking forward, we are increasingly confident of achieving our 2025 adjusted operating margin target of 9%.

MARKET TRENDS

CIVIL RECOVERY

Global flight hours continued to recover and finished 2023 within 1% of pre-COVID-19 levels. The US led the way, with traveller numbers well above pre-pandemic figures, while Europe and China are set to overtake 2019 levels in 2024. Demand for new aircraft grew, led once again by the single aisle market, as airlines look to replace ageing fleets with newer, more efficient aircraft. Deliveries continue to be paced by the complex supply chain and operating environment.

DEFENCE GROWTH

Geo-political instability and conflicts have driven up defence budgets and the demand for key military platforms. 2023 also saw investment in Trans-Atlantic industrial bases to increase resilience and address supply chain challenges. These trends are set to enable future business growth through increased orders for F-35s and the rapid adoption of uncrewed systems.

SUSTAINABILITY FOCUS

Tackling climate change continued as a priority for policy makers, investors and the aerospace industry, with renewed focus on how to reach net zero emissions by 2050.

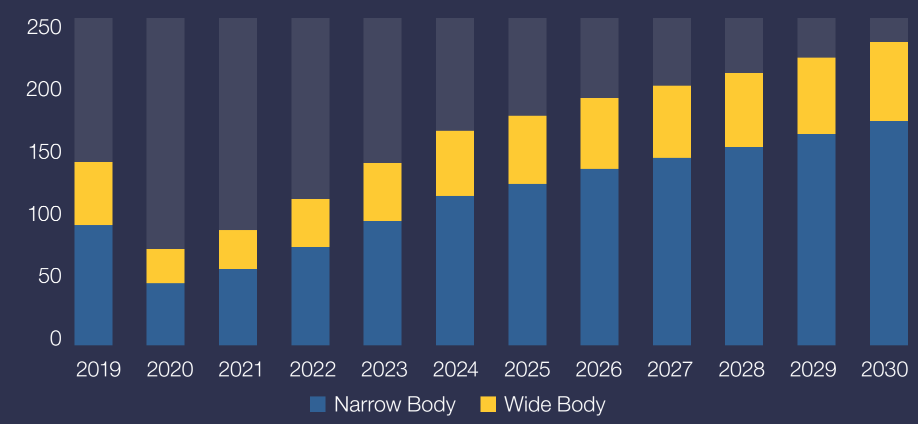
The Group has responded to these trends, by:

Evolving into a focused Aerospace technology business, with a new business model of “Design, Deliver, Improve”. Following this strategy, Melrose will create value through differentiated technology leadership, consistent delivery for our stakeholders, and ongoing improvement in all areas. This will enable the business to meet growing customer demand in both the civil and defence markets, from a more balanced and customer-focused global footprint.

Strengthening the Defence business to take advantage of future growth, from operational performance and technology leadership to refocusing on higher quality “design-to-build” contracts and repricing activities. In total 42% of core defence work is now sustainably priced, well ahead of target. The Defence team will continue to strengthen its position on key programmes in 2024, such as the F-35, while positioning itself to support the next generation platforms in Europe and the US.

Launching new, more ambitious 2025 Group sustainability targets, including a reduction in Scope 1 & 2 emission intensity by 50%, and a 40% reduction in water intensity. Alongside its own operations, the Group has continued to push the boundaries of more sustainable technology for our customers. These include ground-breaking additive fabrication progress within our Engines division, and pioneering zero-emissions solutions in electric flight and hydrogen propulsion development.

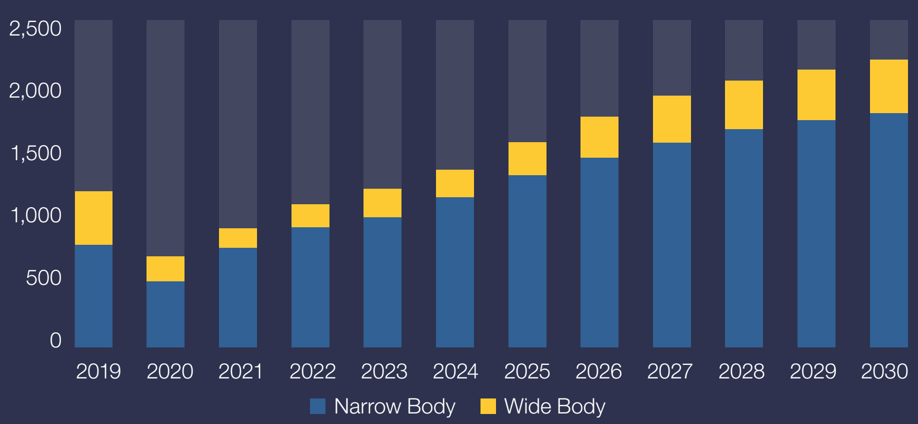
Engine Flight Hour Forecast (millions)



Source: AWIN

- Strong recovery in passenger demand continued, with 2023 ending at almost 2019 levels
- Passenger load factors remained high, above 80%
- Holiday traffic drove a strong finish to 2023, with high demand across the US and Europe
- Global air cargo saw 8.3% year-on-year growth, the highest for two years

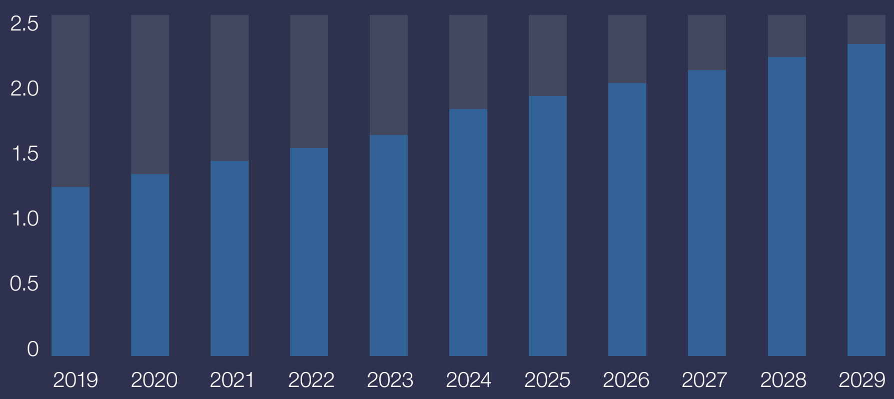
OEM deliveries chart



Source: Teal

- Airbus booked a record number of gross aircraft orders (2,319) in the year
- Airbus and Boeing's combined backlog now stands at more than 14,000 aircraft, stretching well into the 2030s
- The number of aircraft in service in 2023 increased significantly year-on-year for both single aisle (8.1%) and widebodies (7.6%)
- Complex supply chain environment continued to suppress output, but will ease over time

Allied defence spend ($ trillions)



Source: AeroDynamic Advisory
Chart relates to spending from NATO, India, Sweden, Finland, Saudi Arabia, Australia, Japan, Israel and South Korea.

- Addressable defence market spending set to rise from $1.5 trillion in 2021 to $1.9 trillion in 2024, a CAGR of more than 8%
- Defence industrial base is under significant pressure to meet high rate growth requirements
- Increasing defence budgets in response to heightened geopolitical uncertainty
- F-35 programme ten-year forecast now ~$150 billion, while global military uncrewed and missile markets set to grow significantly

A COMPELLING BUSINESS MODEL DESIGNED TO CREATE CONSISTENT LONG-TERM VALUE

OUR COMPETITIVE STRENGTHS

Aerospace expertise
With our technology leadership, OEM-heritage and global manufacturing capability, we are the world's leading multi-technology Tier 1 business across civil and defence aerospace.

90 yrs

Customer partnerships of up to 90 years

Global partner with market-leading positions
Our differentiated, high-quality products give us established positions on all of today's high-volume aircraft, across all major OEMs, and positions us strongly for future platforms.

100,000

Technology on-board 100,000 flights a day

Investment for growth
We invest in our people, in R&D and in sustainable production to build excellence and generate long-term growth across our businesses.

c.£150m

Investment in climate-related technology since 2020(1)

Financial discipline
We have a clear focus on operating cash generation and profitability. The partnership risk/reward model gives us long-term visibility of strong future cashflows.

£22bn

Future cash flows from engine RRSPs

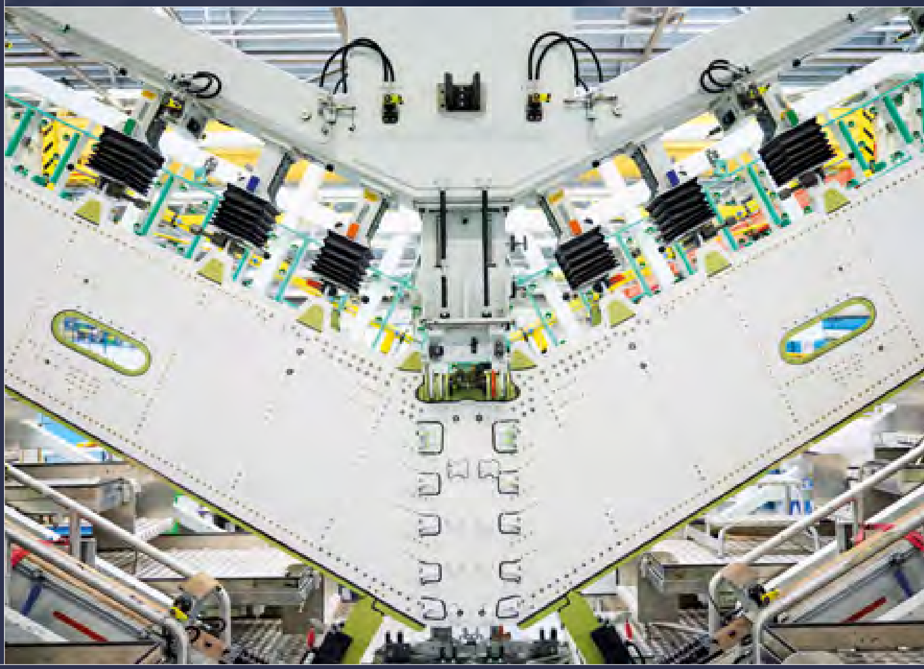
A compelling track record
We have a strong track record of delivering for our customers and shareholders, securing the operational and financial health of our businesses.

>£8.2bn

Total returns to shareholders by Melrose

(1) Excluding investments made into climate-related R&D programmes within businesses that are no longer part of the Group.

OUR VALUE CHAIN/WHAT WE DO



Design
We are a design partner for our customers, anticipating their needs, providing breakthrough technologies and creating highly engineered solutions where quality always comes first. We think like a peer, act like a partner, and deliver like a supplier. We invest in our businesses to drive growth in attractive markets and develop innovative solutions to the most pressing and complex challenges across the aerospace sector.

We are committed to sustainable technology development to accelerate the future of zero emission flight.

Deliver
Delivering on our customer and financial commitments is the foundation of our business. We drive operational excellence to ensure our customers receive high-quality products on time, whilst generating long-term value for our investors. This ensures a vibrant and trusted business for all stakeholders.

We take pride in our work, take ownership of our commitments, and always deliver on our promises.

Improve
Melrose doesn't stand still. Continuous improvement applies throughout all that we do and will always remain central to our success. We are committed to unlocking value through ongoing improvement in customer fulfilment, employee engagement, environmental impact and financial performance.

We maintain a relentless focus on profitable, sustainable and cash generative growth.

DELIVERING VALUE FOR ALL OUR STAKEHOLDERS

We design

Industry-leading solutions

>650

global patents granted

Technology design partner

Only

Tier 1 partner on both RISE and next-generation GTF engine technology programmes

We deliver

Essential products for our customers

c.90%

On board c.90% of major civil aircraft today

Strong financial performance

11.6%(1)

Adjusted operating profit margin in 2023

We improve

Health and safety in the workplace

>19%

reduction in total injury rate in 2023 vs 2022

Protecting the environment through operational and value chain emissions reductions

38%(2)

reduction in Scope 1 and 2 emissions since 2020

(1) Described in the financial statements on page 232, and considered by the Board to be a key measure of performance.
(2) Market-based method has been used for Scope 2 emissions.

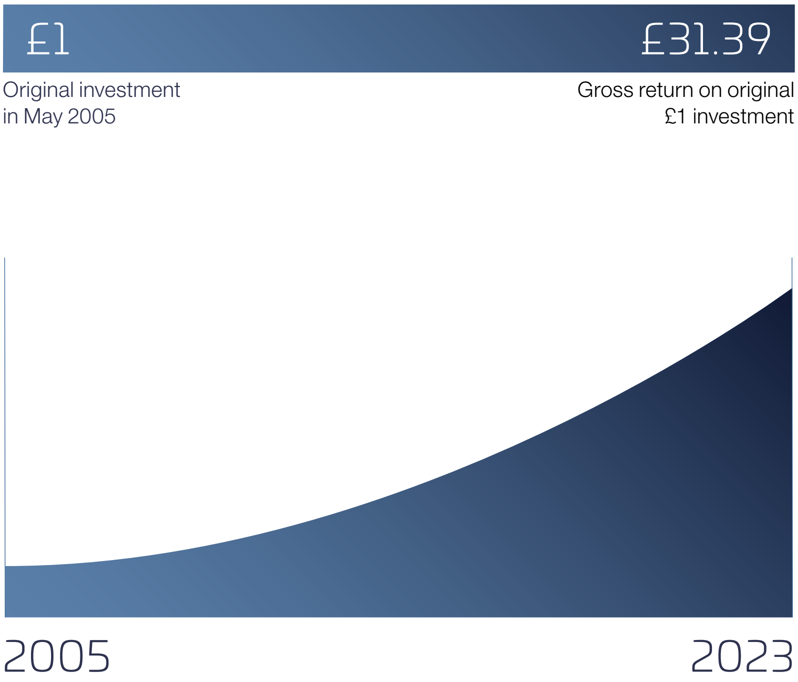
MELROSE – 20 YEARS OF CREATING VALUE FOR BUSINESSES AND FOR OUR SHAREHOLDERS

Over the last 20 years, Melrose has delivered significant value to shareholders under its successful "Buy, Improve, Sell" business model.

By acquiring underperforming manufacturing businesses, applying disciplined long-term operational and financial improvement measures, and with the strong and consistent support of our shareholders, we have created approximately £6 billion in shareholder value, made total returns of over £8 billion to shareholders, and generated an average return of 2.5x shareholders' equity for the businesses we have sold.

Following last year's demerger of Dowlais Group plc, Melrose became a pureplay, listed, aerospace-only business, marking the end of "Buy, Improve, Sell". At its heart, our new strategy remains focused on value creation, founded upon continuous operational and financial improvement over the longer term. Our positive trajectory is underpinned by the strong organic growth prospects within the aerospace sector, alongside attractive opportunities to further differentiate our business through cutting-edge proprietary technology.

Track record for £1 invested in Melrose
Investment in May 2005 with all dividends reinvested since (Total shareholder return)[1]



Shareholder investment and gain
(figures up to 31 December 2023)

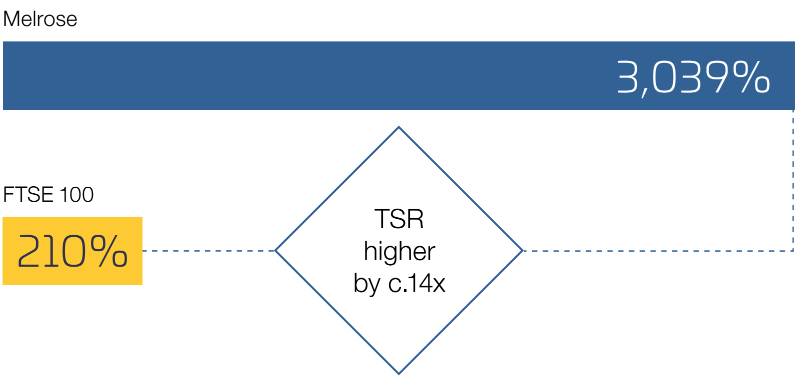
£5.7bn
Shareholder value created since establishment

£8.2bn
Total returns to shareholders

2.5x
Average return on equity across all businesses sold

20%
Average annual return on equity investment since the first acquisition[1][2]

Total shareholder return (TSR)[1][2]



(1) Source: Datastream Total Shareholder Return Index
(2) Since Melrose's first acquisition (May 2005)

WHY AEROSPACE? WHY NOW?

GKN Aerospace is the highest quality business Melrose has ever owned. It has significant positive momentum today and is uniquely positioned for long-term growth. As a pureplay, listed aerospace company, Melrose offers a compelling equity case.

STRONG MARKET GROWTH

- Rapid aerospace market recovery, followed by long term structural growth
- Technology embedded on the world's most successful, highest volume platforms

30%
Higher global air traffic in 2023 vs 2022

>70%
revenue from sole source positions

HUGE ENGINES AFTERMARKET

- RRSP work largely done on engine build, but with entitlement to lifetime share of aftermarket profits
- £22 billion of lifetime net cash inflow (£5.7 billion NPV) coming increasingly from Engines aftermarket

100%
of all legacy narrowbody flying hours covered by an RRSP

>85%
of all future Engines profit from aftermarket

ATTRACTIVE PROFIT GROWTH

- Increasingly higher profit drop through from strong Engines aftermarket growth
- Profit underpinned by restructuring and further operational improvements, plus better pricing

x2
Profit more than doubled in 2023

£700m
Adjusted operating profit guidance for 2025

STRONG BALANCE SHEET

- Well placed to invest in organic growth, alongside delivering on its ongoing share buyback commitment
- Balance sheet underpinned by Engines' aftermarket cashflows and improved underlying Group profitability

£500m
Share buyback scheme underway

Progressive
Annual dividend to be paid

MEASURING OUR PERFORMANCE

In order to support the Group's strategy and to monitor performance, the Board uses a number of financial and non-financial key performance indicators ("KPIs").

Additional business-level KPIs are also used, which are relevant to their particular circumstances. Further detail on these KPIs is disclosed in the glossary to the financial statements and further information regarding the performance of the Group against its financial KPIs is included in the Finance Director's review.

FINANCIAL KPIs

KPI	2023	2022	2021		METHOD OF CALCULATION	STRATEGIC OBJECTIVE
Adjusted(1) operating profit margin(2)	11.6%	5.0%	2.4%	11.6%	Adjusted(1) operating profit as a percentage of revenue, for the continuing businesses in existence during the year ended 31 December 2023.	To improve profitability of Group operations.
Net debt to adjusted(1) EBITDA(3)	1.1x	1.4x	1.3x	1.1x	Net debt to adjusted(1) EBITDA(3) – net debt at average exchange rates divided by adjusted(1) EBITDA(3) further adjusted to reflect covenant requirements, for continuing businesses at each year end. Comparative information remains aligned to the original calculations supporting the Group's bank debt compliance certificate and has not been restated for discontinued operations.	To ensure the Group has suitable amounts of debt and remains within its banking covenants.
Final dividend per share(4)(5)	3.5p	4.5p	3.0p	3.5p	Amount declared as payable by way of dividends in terms of pence per share.	To operate a progressive dividend policy whenever the financial position of the Company, in the opinion of the Board, justifies the payment. For discussions on the dividend, please refer to the Chairman's statement on pages 2 to 3.
Adjusted(1) diluted earnings per share(2)	18.7p	4.1p	(2.6)p	18.7p	Group adjusted(1) profit after tax of continuing businesses, attributable to owners of the parent, for the year ended 31 December 2023, divided by the weighted average number of diluted ordinary shares in issue. Comparative information includes the effects of the one for three share consolidation.	To create consistent and long-term value for shareholders.
Adjusted(1) free cash generation(2)	£113m	£(35)m	£1m	£113m	Total cash generated from trading after all costs, excluding restructuring and one-off payments to defined benefit pension schemes.	To ensure subsidiary businesses are suitably cash-generative in order to have adequate cash reserves for the effective running of the Group and for significant capital investment where required.
Free cash flow pre-interest and tax margin(1)(2)	2.1%	0.0%	3.0%	2.1%	Free cash flow pre-interest and tax margin(1) represents free cash flow(1) adjusted for interest and tax and excluding finance costs on demerger settled net debt divided by revenue.	To ensure subsidiary businesses are suitably cash generative in order to have adequate cash reserves for the effective running of the Group and for significant capital investment where required.
Adjusted(1) operating profit(2)	£390m	£147m	£61m	£390m	Adjusted(1) operating profit for the continuing businesses during the year ended 31 December 2023.	To improve profitability of Group operations.

(1) Described in the glossary to the financial statements on pages 232 to 239.
(2) Data has been restated for discontinued operations in 2022 and 2021.
(3) Operating profit before depreciation of property, plant and equipment and amortisation of computer software and development costs.
(4) A final dividend for 2023 of 3.5 pence per share will be paid on 8 May 2024. For 2022, a second interim dividend of 4.5 pence per share(5) was paid on 11 April 2023 in place of the final dividend.
(5) Dividends per share have been adjusted for 2022 and 2021 to include the effects of the one for three share consolidation that took place on 19 April 2023.

NON-FINANCIAL KPIs

HEALTH AND SAFETY

Each business line within the Group is responsible for implementing and maintaining health and safety excellence across their respective operations. To provide visibility and oversight for the Board, information is collated and presented on a quarterly basis on three KPIs – Major Accident Frequency, Lost Time Accident Frequency, and Accident Severity (each as defined below) – for the entire Group and covering all sites. This is supplemented with qualitative analysis of any key incidents or drivers behind performance, and any material improvement programmes that are taking place. A variety of additional health and safety KPIs are used by the Group from time to time, which are specific to the exact nature of operations and associated risks. Although responsibility for health and safety rests with the business units, in the unfortunate circumstance of a very serious incident, the Group's senior management team will engage directly with the executive team of the relevant business line and report any actions taken directly to the Board.

Strategic objective

The Group has an objective to stop all preventable accidents.

Performance(1)

Major Accident Frequency Rate

2023	**0.041**
2022	0.036
2021	0.032

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

Lost Time Accident Frequency Rate

2023	**0.053**
2022	0.036
2021	0.070

Records the number of lost time accidents, both major and minor, per 200,000 hours worked.

Accident Severity Rate

2023	**34.4**
2022	7.83
2021	10.73

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

The Group's health and safety function continues to elevate health and safety awareness and accelerate improvement actions across operations. This is being approached both from the top-down, including via an active rolling programme of in-person executive-led site inspections and integration of health and safety in executive management discussions and enterprise projects, and from the bottom-up with a focus on improving shop floor behaviours, standards, and local management awareness and accountability for health and safety risks.

The Group's Major Accident Frequency Rate was 0.041, and its Lost Time Accident Frequency Rate was 0.053. Specific lost time incidents in the Engines business line drove increases compared to 2022, which has led to significantly increased focus from the business surrounding compliance with the Group's Golden Safety Rules and safety governance in order to drive physical safety improvements on the shop floor, and to redouble communications around safety measures and risk assessments. This resulted in a proactive targeted drive to enhance risk management education throughout the organisation. This has been delivered through in-person and virtual task specific risk management workshops. The Accident Severity Rate has increased year-on-year due to one isolated incident involving minor injury which resulted in an employee taking considerable time off in line with local government policy for injury-related leave.

Each incident is promptly and fully investigated, and responded to through robust measures to increase health and safety awareness within specific and similar areas relevant to those incidents, to reinforce the correct policies and procedures, and to review the relevant working environments to identify continuous improvement actions where necessary.

The Group's focus on minimising preventable accidents continues, and our business lines continue to uphold and further develop high standards of health and safety performance.

ENVIRONMENT

Method of calculation

Following the shift to becoming an aerospace-only Group, Melrose has refreshed its sustainability targets and KPIs to reflect the new single sector, integrated Melrose/GKN Aerospace organisation. Data is provided for relevant environmental indicators, including energy consumption, CO_2 emissions, water withdrawal, waste disposal, solid waste generation, and recycling. We have used the UK Government Environmental Reporting Guidelines, including the UK's Streamlined Energy and Carbon Reporting requirements and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), and data has been gathered in accordance with our Greenhouse gas reporting procedure. For more information on our environmental KPIs, please see the Sustainability review section on pages 43 to 93.

Strategic objective

Our shift to becoming an aerospace-only business has enabled a refocus of investment and efforts to better align our environmental responsibilities within our operations and the wider sector. We are fully committed to making efficiency improvements where possible and to run our operations with minimum possible adverse effect on the environment.

Performance

Information in relation to the various environmental initiatives undertaken by the Group during 2023 can be found within the Sustainability review on pages 43 to 93. The Group is required to disclose its Greenhouse gas emissions and certain energy use data for the year ended 31 December 2023. Such data can be found within the Sustainability review on page 75.

OTHER NON-FINANCIAL KPIs

Reflective of the new Group structure and GKN Aerospace's progress against existing targets, we have reviewed non-financial KPIs to ensure they are relevant to the business and take into account specific operational and reporting requirements. The KPIs are used to drive business performance and assist in managing risk. Such KPIs cover operational, quality, commercial and human resource measures. Further information regarding some of the Group's recent initiatives in these areas can be found within the Sustainability review on pages 43 to 93.

(1) All ESG data across our selected KPIs, including Health & Safety KPIs, over prior years has been restated to only include Melrose and GKN Aerospace performance.

Revenue

£3,350m

(2022: £2,954m)

Adjusted operating profit

£390m

(2022: £147m)

Full year dividend

5.0p

"The year ended 31 December 2023 has seen a significant transformation for the Melrose Group."

Geoffrey Martin
Group Finance Director

On 20 April 2023 the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen group of businesses ("Dowlais") completed. Dowlais contributed approximately two thirds of the adjusted revenue and adjusted operating profit of the Group in 2022 and therefore the demerger, and necessary treatment of Dowlais as discontinued, has a material impact on the presentation of these Consolidated Financial Statements.

Following the demerger of Dowlais, it was deemed appropriate to announce a change to the Group's strategy from 'Buy, Improve, Sell', which has served shareholders well since the first Melrose acquisition in 2005, to being purely an aerospace business that reports as two separate operating segments, namely Engines and Structures, alongside the corporate cost centre.

MELROSE GROUP RESULTS – CONTINUING OPERATIONS

Statutory results:

The statutory IFRS results for continuing operations are shown on the face of the Income Statement and show revenue of £3,350 million (2022: £2,954 million), an operating profit of £57 million (2022: loss of £270 million) and a loss before tax of £8 million (2022: £328 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the year of 1,405 million (2022: 1,406 million), were 0.1 pence (2022: loss of 16.3 pence).

Adjusted results:

The adjusted results are also shown on the face of the Income Statement. They are adjusted to exclude certain items which are significant in size or volatility or by nature are non-trading or non-recurring, or are items released to the Income Statement that were previously a fair value item booked on an acquisition. It is the Group's accounting policy to exclude these items from the adjusted results, which are used as an Alternative Performance Measure ("APM") as described by the European Securities and Markets Authority ("ESMA"). APMs used by the Group are defined in the glossary to the Consolidated Financial Statements.

The Melrose Board considers the adjusted results to be an important measure used to monitor how the businesses are performing as they achieve consistency and comparability between reporting periods when all businesses are held for the complete reporting period.

The adjusted results for the year ended 31 December 2023 show an operating profit of £390 million (2022: £147 million) and a profit before tax of £331 million (2022: £62 million). Adjusted diluted EPS, calculated using the weighted average number of shares in issue in the year of 1,405 million (2022: 1,406 million), were 18.7 pence (2022: 4.1 pence).

The following table shows the adjusted results for the year ended 31 December 2023 split by reporting segment:

	Engines £m	Structures £m	Aerospace £m	Corporate £m	Total £m
Revenue	1,193	2,157	**3,350**	–	**3,350**
Operating profit/(loss)	310	110	**420**	(30)	**390**
Operating margin	26.0%	5.1%	**12.5%**	n/a	**11.6%**

Revenue for Engines of £1,193 million (2022: £1,035 million) shows constant currency growth of 16% over 2022, with adjusted operating profit of £310 million (2022: £162 million) giving an operating margin of 26.0% (2022: 15.7%), an increase of 10.3 percentage points.

Revenue for Structures of £2,157 million (2022: £1,919 million) shows like-for-like (excluding revenue exited in closing businesses) constant currency growth of 18% over 2022, (12% including revenue exited in closing businesses), with adjusted operating profit of £110 million (2022: £24 million) giving an operating margin of 5.1% (2022: 1.3%), an increase of 3.8 percentage points.

Corporate costs of £30 million (2022: £39 million) included £29 million (2022: £36 million) of operating costs and £1 million (2022: £3 million) of costs relating to a divisional cash-based long-term incentive plan.

The performances of each of the Aerospace reporting segments are discussed in the CEO's Review.

RECONCILIATION OF STATUTORY RESULTS TO ADJUSTED RESULTS

The following table reconciles the Group statutory operating profit/(loss) to adjusted operating profit:

Continuing operations:	2023 £m	2022 £m
Statutory operating profit/(loss)	**57**	**(270)**
Adjusting items:		
Amortisation of intangible assets acquired in business combinations	260	260
Restructuring costs	149	90
Equity-settled compensation scheme charges	38	15
Currency movements in derivatives and movements in associated financial assets and liabilities	(114)	79
Other	–	(27)
Adjustments to statutory operating profit/(loss)	**333**	**417**
Adjusted operating profit	**390**	**147**

Adjusting items to the statutory operating profit/(loss) are consistent with prior years and include:

- The amortisation charge on intangible assets acquired in business combinations of £260 million (2022: £260 million), which is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.
- Costs associated with restructuring projects in the year totalling £149 million (2022: £90 million), including £59 million (2022: £11 million) of losses incurred in closing businesses within the Group. These are shown as adjusting items due to their size and non-trading nature.

  There are three significant ongoing multi-year restructuring programmes, impacting multiple sites across the Engines and Structures divisions, two of which include European footprint consolidations, and one significant multi-site restructuring programme in North America. These programmes incurred a combined charge, excluding losses, of £62 million in the year. Since commencement, the cumulative charges, excluding losses, on these three restructuring programmes to 31 December 2023 has been £217 million (31 December 2022: £155 million), with approximately 35% relating to the two significant European programmes and approximately 65% in North America.

  As at 31 December 2023, actions to complete the European programmes, on average, are approximately 95% complete. During the year, the North America multi-site restructuring programme has been expanded and is now approximately 70% complete. In addition to the remaining charges to be incurred on these projects, £37 million is included in restructuring provisions at 31 December 2023 to be settled in cash over the next two years.

  Restructuring costs during the year also included charges of £12 million (2022: £nil) relating to changes made within the Melrose corporate cost centre following the announced change to the Group's ongoing strategy. These include the costs of merging the Melrose corporate cost function with the previously separate Aerospace division head office team. These restructuring actions reshape the corporate cost centre to serve as an ongoing pureplay aerospace business.

- The charge for the equity-settled compensation schemes of £38 million (2022: £15 million), which includes a charge to the accrual for employer's tax payable of £28 million (2022: credit of £1 million). This is excluded from adjusted results due to its size and volatility. The shares that would be issued, based on the scheme's current valuation at the end of the year, are included in the calculation of the adjusted diluted earnings per share, which the Board considers to be a key measure of performance.
- Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts), where hedge accounting is not applied, along with foreign exchange movements on the associated financial assets and liabilities, entered into within the businesses to mitigate the potential volatility of future cash flows on long-term foreign currency customer and supplier contracts. This totalled a credit of £114 million (2022: charge of £79 million) in the year and is shown as an adjusting item because of its volatility and size.
- Other adjusting items, net to £nil (2022: net credit of £27 million), which included a charge of £3 million in respect of acquisition and disposal costs, net of a credit of £3 million relating to the release of fair value items in the year, where items have been resolved for more favourable amounts than first anticipated at acquisition. The net release of fair value items is shown as an adjusting item, avoiding positively distorting adjusted results from items booked on acquisition. The prior year also includes the profit on disposal of two corporate properties.

The following table shows the allocation of adjusting items, described above, by reporting segment:

	Engines £m	Structures £m	Corporate £m	Total £m
Statutory operating profit/(loss)	147	(130)	40	**57**
Adjusting items	163	240	(70)	**333**
Adjusted operating profit/(loss)	310	110	(30)	**390**

FINANCE COSTS AND INCOME – CONTINUING OPERATIONS

Statutory results:

Total net finance costs in the statutory IFRS results for the year ended 31 December 2023 were £65 million (2022: £58 million).

Adjusted results:

Total net finance costs in the adjusted results in the year ended 31 December 2023 were £59 million (2022: £85 million), which included net interest on external bank loans, bonds, overdrafts and cash balances of £48 million (2022: £72 million).

Net finance costs in adjusted results also included: a £4 million (2022: £10 million) amortisation charge relating to the arrangement costs of raising the Group's current bank facility; an interest charge on net pension liabilities of £1 million (2022: credit of £1 million); a charge on lease liabilities of £5 million (2022: £3 million); and a charge for the unwind of discounting on long-term provisions of £1 million (2022: £1 million).

Adjusting items:

Adjusting items, within finance costs and income, total a net charge of £6 million (2022: net credit of £27 million).

Adjusting items include a £13 million gain (2022: £24 million) following the settlement of a portion of the 2032 bond, acquired with GKN, a £17 million charge (2022: £nil) in respect of the proportion of the Group's net debt strategically allocated to Dowlais at the start of the year and a £2 million charge (2022: £nil) in respect of the write off of unamortised bank fees when the existing bank facilities at the time of the demerger were repaid.

In the prior year, adjusting items within finance costs and income also included a credit of £3 million relating to the fair value changes on cross-currency swaps.

DISCONTINUED OPERATIONS

In accordance with IFRS 5, the results of Dowlais are shown as discontinued for the period up to demerger in 2023 and are restated to be shown as discontinued operations for the prior year.

These businesses contributed £1,582 million to revenue and achieved statutory operating profit of £32 million for the period of the year under ownership in 2023.

SHARE CONSOLIDATION, SHARE BUYBACK AND NUMBER OF SHARES IN ISSUE

A one for three share consolidation was performed by the Group on the eve of the demerger of Dowlais, which resulted in the number of shares in issue reducing from 4,054 million to 1,351 million. Shareholders then received one Dowlais share for every post-consolidation Melrose share they held. In accordance with IAS 33, the one for three consolidation is applied to all periods in these Consolidated Financial Statements.

The Group commenced a share buyback programme on 2 October 2023, and made market purchases of existing ordinary shares in issue in the capital of the Company. At 31 December 2023, 18 million ordinary shares had been purchased at an average price per share of 494 pence. These ordinary shares are being held in treasury and the number of ordinary shares in issue has reduced by 1.3%, from 1,351 million to 1,333 million at 31 December 2023.

The weighted average number of shares used for basic earnings per share calculations in the year ended 31 December 2023 was 1,349 million (2022: 1,406 million), and when including the number of shares expected to be issued from the Melrose equity-settled share plan, the weighted average number of shares used for diluted earnings per share, was 1,405 million (2022: 1,406 million).

TAX – CONTINUING OPERATIONS

The statutory results for continuing operations show a tax credit of £9 million (2022: £99 million) which arises on a statutory loss before tax on continuing operations of £8 million (2022: £328 million), a statutory tax rate of 113% (2022: 30%). The effective rate on the adjusted profit before tax for the year ended 31 December 2023 was 20.5% (2022: 6.5%).

The statutory tax rate is higher than the adjusted tax rate because the intangible asset amortisation and certain other adjusting items generate adjusting tax credits at rates higher than 21%, and these are applied to a small statutory loss before tax in the year.

The Group has £747 million (31 December 2022: £856 million) of deferred tax assets on tax losses, retirement benefit obligations and other temporary differences. These are offset by deferred tax liabilities on intangible assets of £479 million (31 December 2022: £923 million) and £223 million (31 December 2022: £179 million) of other deferred tax liabilities. Where they arise in the same territory, deferred tax assets and liabilities must be offset, resulting in deferred tax assets of £527 million (31 December 2022: £373 million) and deferred tax liabilities of £482 million (31 December 2022: £619 million) being shown on the Balance Sheet at 31 December 2023. Most of the tax losses and other deferred tax assets will generate future cash tax savings, whereas the deferred tax liabilities on intangible assets are not expected to give rise to cash tax payments.

Net cash tax paid in the year ended 31 December 2023 by continuing operations was £17 million (2022: £8 million), 5.1% (2022: 12.9%) of adjusted profit before tax.

CASH GENERATION AND MANAGEMENT

Adjusted free cash flow for the continuing Group in the year ended 31 December 2023 was an inflow of £113 million (2022: outflow of £35 million), after net interest and tax spend of £82 million (2022: £89 million), but before restructuring spend of £125 million (2022: £53 million).

Free cash flow pre-interest and tax was an inflow of £70 million (2022: £1 million), which calculated as a percentage of revenue, gives a free cash flow margin of 2.1% (2022: 0.0%).

An analysis of free cash flow is shown in the table below:

	2023 £m	2022 £m
Continuing operations:		
Adjusted operating profit	390	147
Depreciation and amortisation	142	145
Lease obligation payments	(32)	(29)
Positive non-cash impact from loss-making contracts	(23)	(23)
Working capital movements:		
Inventory	(10)	(88)
Receivables and payables	(136)	(60)
Adjusted operating cash flow (pre-capex)	**331**	**92**
Net capital expenditure	(102)	(72)
Defined benefit pension contributions – ongoing	(22)	(23)
Restructuring	(125)	(53)
Net other	(12)	57
Free cash flow pre-interest and tax	**70**	**1**
Free cash flow pre-interest and tax margin	2.1%	–
Net interest and net tax paid	(82)	(89)
Free cash flow	**(12)**	**(88)**
Adjusted free cash flow	**113**	**(35)**

Working capital movements in the continuing Group totalled an outflow of £146 million for the year ended 31 December 2023, being an outflow of £10 million in inventory and £136 million from receivables and payables combined. The working capital performance in the first half was consistent with revenue growing by 15% in that period, but in the second half the performance was stronger, as expected, with an inventory inflow of £43 million and with combined receivables and payables only growing by £20 million, 4%, despite Group revenue growing by c.12% in the second half of the year.

Capital expenditure in the year ended 31 December 2023 was £102 million (2022: £72 million). Capital expenditure represented 0.9x (2022: 0.6x) depreciation of owned assets.

Restructuring spend in the year was £125 million (2022: £53 million).

In the continuing Group, net interest paid in the year was £65 million (2022: £81 million), net tax payments were £17 million (2022: £8 million) and ongoing contributions to defined benefit pension schemes were £22 million (2022: £23 million).

The movement in net debt (as defined in the glossary to the Consolidated Financial Statements) is summarised as follows:

	£m
Opening net debt	**(1,139)**
Net cash outflow from Dowlais businesses to date of demerger	(54)
Reduction in net debt following the demerger of Dowlais	885
2022 second interim dividend paid to shareholders	(61)
Demerger related costs and pension buy-in	(118)
Proforma opening net debt	**(487)**
Free cash flow of the continuing Group	(12)
2023 interim dividend paid to shareholders	(20)
Buyback of own shares	(93)
FX and other non-cash movements	40
Net debt at 31 December 2023 at closing exchange rates	**(572)**

Proforma opening net debt of £487 million for the continuing Melrose Group is calculated after adjusting the closing net debt at 31 December 2022, of £1,139 million, for: the payment of demerger related costs of £62 million; bank facility arrangement fees of £11 million; the cost of fully securing the benefits of all members of the GKN UK Pension Scheme Number 4 in advance of an expected buy-out process, of £45 million; the second interim dividend for the year ended 31 December 2022 of £61 million; and the net debt that Dowlais inherited on inception.

Group net debt at 31 December 2023, translated at closing exchange rates (being US$1.28 and €1.15), was £572 million (31 December 2022: £1,139 million), after a free cash outflow from the continuing Group of £12 million, described above. Movements in Group net debt also included the payment of the 2023 interim dividend to shareholders of £20 million, £93 million spent buying back shares in the market, net favourable foreign exchange movements of £24 million and other non-cash movements of £16 million.

For bank covenant purposes the Group's net debt is calculated at average exchange rates for the previous twelve months, to better align the calculation with the currency rates used to calculate profits, and was £584 million.

The Group net debt leverage on this basis at 31 December 2023 was 1.1x EBITDA compared to a proforma opening leverage of 1.8x EBITDA when using proforma net debt at demerger of £487 million, described above (31 December 2022: reported 1.4x EBITDA).

ASSETS AND LIABILITIES AND IMPAIRMENT REVIEW

The summarised Melrose Group assets and liabilities are shown below:

	2023 £m	2022 £m
Goodwill and intangible assets acquired with business combinations	3,106	6,508
Tangible fixed assets, computer software and development costs	1,022	2,937
Equity accounted investments	7	435
Net working capital	475	343
Net retirement benefit obligations	(99)	(488)
Provisions	(286)	(611)
Deferred tax and current tax	31	(358)
Lease obligations	(192)	(366)
Net other	75	(93)
Total	**4,139**	**8,307**

The significant reduction in the Group's net assets in the year relates primarily to the assets and liabilities demerged with Dowlais.

The Group's goodwill has been tested for impairment, and in accordance with IAS 36 "Impairment of assets" the recoverable amount has been assessed as being the higher of the fair value less costs to sell and the value in use.

The Board is comfortable that no impairment is required in respect of the valuation of goodwill in its businesses as at 31 December 2023.

The assets and liabilities shown above are funded by:

	2023 £m	2022 £m
Net debt	(572)	(1,139)
Equity	(3,567)	(7,168)
Total	**(4,139)**	**(8,307)**

Net debt shown in the table above is defined in the glossary to the Consolidated Financial Statements.

PROVISIONS

Total provisions at 31 December 2023 were £286 million (31 December 2022: £611 million).

The following table details the movement in provisions in the year:

	Total £m
Provisions at 1 January 2023	**611**
Continuing businesses:	
Net charge in the year	137
Spend against provisions	(107)
Utilisation of loss-making contract provision	(23)
Other	(12)
Discontinued businesses:	
Movement in provisions in Dowlais in the period to demerger	24
Demerger of Dowlais	(344)
Provisions at 31 December 2023	**286**

The net charge to the Income Statement in the year for continuing operations was £137 million, and included £78 million relating to restructuring activities and a £20 million loss making contract provision charge at a closing site as operations wind down. In addition, the net charge includes a £28 million charge relating to employer's tax payable on equity-settled compensation schemes. These sizeable items are shown as adjusting items and are included in the adjusting items section discussed earlier in this review.

During the year, £23 million was utilised against loss-making contract provisions in Aerospace and £107 million of cash was spent against provisions with £79 million relating to restructuring activities.

Net provision movements relating to property, environmental & litigation and warranty in Aerospace were not material in the year.

Other movements in provisions, in continuing operations, included £4 million of provisions classified as held for sale as at 31 December 2023, relating to the contractually agreed sale of a non-core business in the Structures segment that completed on 1 March 2024 and £8 million relating to foreign exchange movements.

The net movement on provisions within Dowlais in the period up to demerger was £24 million, with £344 million of provisions leaving the Group at the date of demerger.

PENSIONS AND POST-EMPLOYMENT OBLIGATIONS

Melrose operates a number of defined benefit pension schemes and retiree medical plans across the Group, accounted for using IAS 19 Revised: "Employee Benefits".

The values of the Group plans were updated at 31 December 2023 by independent actuaries to reflect the latest key assumptions and are summarised as follows:

	Assets £m	Liabilities £m	Accounting deficit £m
GKN UK Group pension scheme – Number 1	632	(692)	**(60)**
GKN UK Group pension scheme – Number 4	438	(438)	**–**
Other Group pension schemes	48	(87)	**(39)**
Total Group pension schemes	1,118	(1,217)	**(99)**

At 31 December 2023, following the demerger of Dowlais, the total plan assets of Melrose Group's defined benefit pension plans has reduced to £1,118 million (31 December 2022: £1,941 million) and total plan liabilities to £1,217 million (31 December 2022: £2,429 million), a net deficit of £99 million (31 December 2022: £488 million).

The GKN UK Group Pension Schemes (Numbers 1 and 4) are the most significant pension plans remaining in the Group, and are closed to new members and to the accrual of future benefits for current members.

At 31 December 2023, the GKN UK Group Pension Scheme Number 1 had gross assets of £632 million (31 December 2022: £628 million), gross liabilities of £692 million (31 December 2022: £667 million) and a net deficit of £60 million (31 December 2022: £39 million).

During the year ended 31 December 2023, the Group commenced a process to buy-out the GKN UK Group Pension Scheme Number 4. The first stage of the process, purchasing a buy-in policy which fully secures all members' benefits, was completed in the year, resulting in assets and liabilities of £438 million being recorded equally at 31 December 2023. The buy-out process is expected to complete in the first half of 2024, when assets and liabilities will leave the Group and cease being shown in the Balance Sheet.

Other pension schemes in the Group include US pension plans which are generally funded schemes and closed to new members. At 31 December 2023, these US pension plans had a net deficit of £25 million.

In total, ongoing contributions to the Group defined benefit pension plans and post-employment medical plans in the year ended 31 December 2023 were £22 million and are expected to be a similar amount in 2024.

A summary of the assumptions used are shown in note 24 to the Consolidated financial statements.

FINANCIAL RISK MANAGEMENT

The financial risks the Group faces continue to be considered and policies are implemented to appropriately deal with each risk. The most significant financial risks are considered to be liquidity risk, finance cost risk, exchange rate risk, contract and warranty risk and commodity cost risk.

These are discussed in turn below.

Liquidity risk management

The Group's net debt position at 31 December 2023 was £572 million (31 December 2022: £1,139 million).

The Group's committed bank facilities were refinanced during the year. The new facilities consist of a multi-currency term loan denominated US$300 million and €100 million, and a US$250 million revolving credit facility, both of which mature in April 2026. In addition, the Group also entered into multi-currency revolving credit facilities totalling US$690 million, £300 million and €300 million that initially mature in April 2026, but with the potential to be extended for two additional one-year periods at the Company's option. Details of the new facilities and amounts borrowed as at 31 December 2023 are shown below:

	Local currency			£m
	Size	Drawn	Headroom	Headroom
Term loan:				
USD	300	300	–	–
EUR	100	100	–	–
Revolving credit facility:				
USD	940	298	642	503
GBP	300	1	299	299
EUR	300	22	278	241
Total headroom				**1,043**

At 31 December 2023, the term loan was fully drawn and there were drawings of US$298 million, £1 million and €22 million on the revolving credit facilities. Applying the exchange rates at 31 December 2023, the headroom equated to £1,043 million. There are also a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Group.

In addition to the headroom on the multi-currency committed revolving credit facility, cash, deposits and marketable securities, net of overdrafts, in the Group amounted to £57 million at 31 December 2023 (31 December 2022: £292 million).

At the start of the year the Group held capital market borrowings with an outstanding notional value of £130 million from an original £300 million bond, issued in May 2017 and due to mature in May 2032. In December 2023, an agreement was reached with certain remaining bondholders that resulted in £120 million of the outstanding nominal value being bought back and cancelled for a total cost of £109 million (excluding accrued interest). This represented a gain of £13 million after associated costs and the release of a fair value adjustment of £2 million on the bond, recognised on acquisition of GKN. This gain has been recognised as an adjusting item within finance income in the Consolidated Income Statement.

As at 31 December 2023, the capital market borrowings held by the Group consisted of £10 million of the original £300 million bond due to mature in May 2032, with a current coupon of 4.625%.

The committed bank funding has two financial covenants, being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half-yearly in June and December, with the exception that the first testing date for the interest cover covenant will be 30 June 2024.

The net debt to adjusted EBITDA covenant test level is set at 3.5x and, as at 31 December 2023, the Group net debt leverage was 1.1x, affording comfortable headroom.

The interest cover test is set at 4.0x for the remaining term of the bank facility.

A limited number of Group trade receivables are subject to non-recourse factoring and customer supply chain finance arrangements. As at 31 December 2023, these amounted to £268 million (31 December 2022: £325 million).

In addition, some suppliers have access to utilise the Group's supplier finance programmes, which are provided by a number of the Group's banks. As at 31 December 2023 there were drawings on these facilities of £86 million (31 December 2022: £200 million). There is no cost to the Group for providing these programmes as the cost is borne by the suppliers. These programmes allow suppliers to choose whether they want to accelerate the payment of their invoices by the financing banks, at a low interest cost, based on the credit rating of the Group as determined by the financing banks. If the Group exited these arrangements or the banks ceased to fund the programmes there could be a potential impact of up to £42 million (31 December 2022: £94 million) on the Group's cash flows. The risk of this happening is considered remote as the Group has extended the number of banks that provide this type of financing to ensure there is not a significant exposure to any one bank.

Finance cost risk management

In addition to the fixed coupon payable under the remaining £10 million bond discussed above, the Group uses financial derivatives to fix a portion of the interest cost on its committed bank facilities.

The policy of the Board is to fix approximately 70% of the interest rate exposure on the Group's committed bank borrowings to align with the maturity of its debt facilities. Following the demerger, the Group fixed an appropriate amount of debt by currency up to the initial maturity date of the Group's new bank facilities. The maximum weighted average rates, excluding the bank margin, the Group will pay on the fixed portions of its US Dollar and Euro bank debt are 3.6% and 3.0% respectively.

The bank margin on the bank facilities depends on Group leverage and were as follows:

	31 Dec 2023		31 Dec 2022	
Facility:	Margin	Range	Margin	Range
Term Loan	1.30%	0.9% – 2.2%	0.75%	0.75% – 2.0%
Revolving Credit Facilities	1.30% – 1.55%	0.9% – 2.4%	0.75%	0.75% – 2.0%

The Group's cost of drawn debt for the next 12 months is currently expected to be approximately 5.4%.

Exchange rate risk management

The Group trades in various countries around the world and is exposed to movements in a number of foreign currencies. Following the demerger and subsequent update to the Group's strategy to be a pureplay aerospace business going forward, the exposure to foreign exchange movements related to a disposal now no longer represents a material risk for the Group.

The Group therefore carries exchange rate risk that can be categorised into two types: transaction and translation risk, as described in the paragraphs below. The Group's policy is designed to protect against the majority of the cash risks but not the non-cash risks.

The most common exchange rate risk is the transaction risk the Group takes when it invoices a customer or purchases from suppliers in a different currency to the underlying functional currency of the relevant business. The Group's policy is to review transactional foreign exchange exposures, and place necessary hedging contracts, quarterly on a rolling basis. To the extent the cash flows associated with a transactional foreign exchange risk are committed, the Group will hedge 100% at the time the cash flow becomes committed. For forecast and variable cash flows, the Group hedges a proportion of the expected cash flows, with the percentage being hedged lowering as the time horizon lengthens. The Group hedges on a sliding scale, typically hedging around 90% of foreign exchange exposures expected over the next twelve months, with the percentage decreasing by approximately 10 percentage points for each subsequent year. This policy does not eliminate the cash risk but does bring some certainty to it.

The translation rate risk is the effect on the Group results in the period due to the movement of exchange rates used to translate foreign results into Sterling from one period to the next. No specific exchange instruments are used to protect against the translation risk because it is a non-cash risk to the Group, until foreign currency is subsequently converted to Sterling. However, the Group utilises its multi-currency banking facilities and cross-currency swaps, where relevant, to maintain an appropriate mix of debt in each currency. The hedge of having debt drawn in these currencies funding the trading units with US Dollars or Euro functional currencies protects against some of the Balance Sheet and banking covenant translation risk.

Exchange rates for currencies most relevant to the Group in the year were:

	Average rate	Closing rate
US Dollar		
2023	1.24	1.28
2022	1.24	1.21
Euro		
2023	1.15	1.15
2022	1.17	1.13

A 10 percent strengthening of the major currencies within the Group, if this were to happen in isolation against all other currencies, would have the following impact on the re-translation of adjusted operating profit into Sterling:

	USD	EUR
Increase in adjusted operating profit – £ million	38	9
% impact on adjusted operating profit	7%	2%

The impact from transactional foreign exchange exposures is not material in the short term due to hedge coverage being approximately 90%.

A 10 percent strengthening in either the US Dollar or Euro would have the following impact on debt as at 31 December 2023:

	USD	EUR
Increase in debt – £ million	50	12
Increase in debt	8%	2%

Contract and warranty risk management

Under Melrose management a suitable bid and contract management process exists in the businesses, which includes thorough reviews of contract terms and conditions, contract-specific risk assessments and clear delegation of authority for approvals. These processes aim to ensure effective management of risks associated with complex contracts. The financial risks connected with contracts and warranties include the consideration of commercial, legal and warranty terms and their duration, which are all considered carefully by the businesses and Melrose centrally before being entered into.

Commodity cost risk management

The cumulative expenditure on commodities is important to the Group and the risk of base commodity costs increasing is mitigated, wherever possible, by passing on the cost increases to customers or by having suitable purchase agreements with suppliers which fix the price over a certain period. These risks are also managed through sourcing policies, including the use of multiple suppliers, where possible, and procurement contracts where prices are agreed in advance to limit exposure to price volatility.

GOING CONCERN

As part of their consideration of going concern, the Directors have reviewed the Group's future cash forecasts and projections, which are based on both market and internal data and recent past experience.

The Directors recognise the challenges in the current economic environment, including challenges in supply chains and geopolitical risks. The Group is actively managing the associated impacts on trading through a sharp focus on pricing, productivity and costs. In addition, the Group's cash flow forecasts consider any impacts from further economic factors such as high interest rates.

The Group has modelled a reasonably possible downside scenario against these future cash forecasts and throughout this scenario the Group would not breach any of the revised financial covenants and would not require any additional sources of financing.

The macroeconomic environment remains uncertain and volatile and the impacts of the economic factors such as inflation, high interest rates, geopolitical conflict and challenges in supply chains could be more prolonged or severe than that which the Directors have considered in the Group's reasonably possible downside scenario.

Considering the Group's current committed bank facility headroom, its access to liquidity, and the sensible level of bank covenants in place with lending banks, the Directors consider it appropriate that the Group can manage its business risks successfully and adopt a going concern basis in preparing these Consolidated Financial Statements.

Geoffrey Martin
Group Finance Director

7 March 2024

LONGER-TERM VIABILITY STATEMENT

In accordance the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the "Going Concern" provision.

A period of three years is believed to continue to be appropriate for this assessment since this is consistent with the Group's financing cycle, whereby on average the Group has refinanced debt in line with this timescale, usually as a result of acquisition or disposal activity. The current debt facilities consist of a multi-currency denominated term loan and multi-currency denominated revolving credit facilities that mature in April 2026 subject to (in the case of the revolving credit facilities) an option for the Group to extend for up to two one-year periods, at slightly reduced levels. The Group uses a period of five years for impairment testing of its two groups of cash generating units due to the long-term nature of cash flows within the aerospace industry, but this is not necessarily reflective of financing arrangements offered by banks.

The Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities, as they fall due, up to December 2026.

The Directors' assessment has been made by reference to the Group's financial position as at 31 December 2023, its prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and their management, all of which are described in the Strategic Report.

The Directors' assessment of the Group's viability is underpinned by a paper prepared by management. The paper is supported by comprehensive and detailed analysis and modelling. The model underpinning this statement is stress-tested, proven and is frequently used by management when determining working capital requirements for contractual obligations, transactions and corporate restructuring. The main assumptions included in the model relate to forecast revenue, operating margin and cash generation taking into account the Group's share buyback programme. The model includes three years of forecast data from the Group's business assets and incorporates agreed sensitivities for economic risk (impacting revenue and margins to reduce the rate of growth currently being forecast), foreign exchange risk (impacting net debt and assuming adverse movements in foreign exchange rates) and liquidity risk (impacting net debt and assuming a deterioration in working capital), each of which have been considered both individually and in combination by the Board, together with expected achievable mitigating actions from the working capital model to create severe, but plausible, scenarios. These scenarios sensitise the main assumptions noted above, considering a medium-term impact of continued supply chain disruptions and ongoing inflationary pressures on input costs.

In preparing this statement, the following qualifications and assumptions are made:

(i) the viability model is based on the Group as at the date of this statement, 7 March 2024, with no consideration of any further acquisitions or future disposals of continuing businesses. We note future acquisitions would be based on the same proven business model applied previously, with related bank debt and equity raised to support the acquisition with sufficient headroom to cover business risks; and

(ii) financing arrangements, which became effective during 2023, and bank covenant testing, are committed for much of the period under review and have sufficient headroom for liquidity and covenant compliance to continue in operation.

RISK MANAGEMENT

The Board recognises that operating in a dynamic and rapidly evolving commercial environment requires a pragmatic, robust and responsive risk management framework comprising policies, visibility and controls that evolve with the business and provide management with a comprehensive view of the Group's risk profile at any given time, enabling risk to be identified, assessed and managed.

RISK MANAGEMENT RESPONSIBILITIES

The Board, having overall responsibility for risk management, has approved a formalised but pragmatic Group risk management framework.

Body	Responsibilities
BOARD Overall responsibility for risk management	• Agrees the Group's risk management strategy and defines its risk appetite • Reviews reports and recommendations from the Melrose senior management team and the Audit Committee on risk governance and risk processes and controls • Determines the nature and extent of the Group's principal risks and regularly discusses and assesses them throughout the year with the Melrose senior management team to determine the likelihood of those risks materialising and how they should be managed or mitigated • Maintains oversight of principal risks, emerging risks and mitigation plans including cyber security and fraud risk • Promotes an appropriate risk management culture and rewards system within the Group in order to maintain sound risk management and internal control systems
AUDIT COMMITTEE Monitors the Group's internal financial control processes	• Monitors the Group's internal financial control processes • Monitors, oversees and reviews the effectiveness of the Group's internal controls and risk management systems and processes • Supports the Board in monitoring risk exposure against risk appetite
SENIOR MANAGEMENT	• Sets the risk management processes and controls • Agrees how the principal risks should be managed or mitigated to reduce the likelihood of their incidence or impact • Considers actual and emerging risks • Oversees and challenges risk mitigation plans and supports the legal and compliance teams within the business
OPERATIONAL MANAGERS AND SITE CONTROLLERS	• Risk identification, assessment and monitoring at a local level • Implementing, reviewing and continually monitoring compliance with risk mitigation plans and controls • Embedding risk awareness and culture throughout the business

TOP-DOWN
At the Group level, risk oversight and assessment

BOTTOM-UP
Risk exposure identification and assessment at the business unit level

→ **The Board's view of the Group's principal risks and uncertainties** is detailed in the table on page 31.

Risk management strategy and framework

The objectives of the Board and Melrose senior management include safeguarding and increasing the value of the business and assets of the Group for stakeholders as a whole. Achievement of these objectives requires the development of policies and appropriate internal control frameworks to ensure the Group's resources are managed properly, and for key risks to be identified and mitigated where possible.

The Board recognises that it is ultimately responsible for determining the nature and extent of the principal risks it is willing to take in the pursuit of its strategic objectives. It also recognises the need to define a risk appetite for the Group, to maintain sound risk management and internal control systems, and to monitor its risk exposures and mitigation measures to ensure that the nature and extent of risks taken by the Group are aligned with, and proportionate to, its strategic objectives.

The Board has established an organisational structure with clear reporting procedures, lines of responsibility and delegated authority, with risk management responsibilities as depicted in the diagram above. Consistent with this, the Group operates a top-down, bottom-up approach to risk management, comprising Board and Melrose senior management oversight coupled with bottom-up risk management embedded in the day-to-day activities of the business.

RISK MANAGEMENT FRAMEWORK

IDENTIFICATION
Financial and non-financial risks recorded in controlled risk registers

EVALUATION
Risk exposure reviewed and risks prioritised

MITIGATION
Risk owners identified and action plans implemented

ANALYSIS
Risks analysed for impact and probability to determine gross exposure

REVIEW AND MONITORING
Robust mitigation strategy subject to regular and rigorous review

The Board confirms that there is an ongoing process for identifying, evaluating, tracking and managing the principal risks faced by the Group and that these systems, which are subject to regular monitoring and review, have been in place for the year under review up to the date of approval of this Annual Report and financial statements. The Board further confirms that the systems, processes and controls that are in place accord with the guidance contained in the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" and the UK Corporate Governance Code (the "Code").

The Audit Committee monitors, oversees and reviews the effectiveness of the risk management and internal control processes implemented across the Group, through regular updates and discussions with management and a review of the key findings presented by the external and internal auditors. The Board is responsible for considering the Audit Committee's recommendations and ensuring implementation by senior management of those recommendations it deems appropriate for the business. A description of the Audit Committee's activities during the year on risk management can be found on page 121.

The divisional management teams are responsible for monitoring business-level risk and implementing and maintaining an effective risk and control environment as part of day-to-day operations, in line with the Group risk management framework and internal control systems determined by the Board. They are also responsible for specific and ongoing risks related to the business, which are reported into senior management and in turn formally to the Audit Committee on an interim and annual basis. The Audit Committee receives a formal risk management report on a biannual basis, in addition to their regular receipt of updates from the senior management team on material items that arise relating to principal Group risks.

Management, with support from Ernst & Young, continued to utilise a third-party hosted interactive dashboard which has been tailored to the requirements of the Group in order to consolidate the Group's risk reporting. The dashboard includes data from GKN Aerospace's risk register, which was reviewed and approved during 2023 by GKN Aerospace's senior management key risk owners. The dashboard has supported the continued enhancement of the Group's risk management processes, with in-depth reporting and data collection. This has bolstered the Audit Committee's oversight of risk areas, mitigations, controls and trends.

The risk management process also involved objective trend analysis and independent insight from Ernst & Young, and this year included an analysis of the Group's principal risk profile against other aerospace and defence companies based on public disclosures.

The Audit Committee reviewed and challenged the Group's risk management process, and also reviewed and challenged the interim and annual reports prepared by Melrose senior management relating to the Group's principal risk profile. These reports guided the Board and Audit Committee on relevant updates to the Group's principal risks (including the identification of new principal Group risks and emerging risks), as reported in the Risks and uncertainties section on pages 31 to 36. They also aided the Audit Committee's discussions with the Board on risk appetite, as detailed further below. During the year under review, in accordance with provisions 28 and 29 of the Code, the Board continued to monitor the effectiveness of the Group's risk management and internal control systems. The Board concluded that the Group's risk management and internal control systems and processes were operating effectively. Follow-up actions in respect of progress and improvement in relation to financial controls are further discussed in the Audit Committee report on pages 116 to 123.

Risk appetite

The Board has undertaken an exercise to consider its risk appetite across a number of key business risk areas by assessing their current and optimal level of risk appetite for each of the Group's principal risks. The results of this review indicate the relative appetite of the Board across the Group's principal risk areas at a specific point in time. Any material changes in risk factors will impact the Board's assessment of its risk appetite.

The results of the risk appetite review demonstrated that the Board has an open risk appetite towards operational and commercial risk, with a cautious appetite towards economic and political, loss of key management and capabilities, legal and regulatory, climate change and treasury risks. The Board seeks to minimise all health and safety and information security and cyber threats risks.

The results of the risk appetite review will support the Board's decision-making processes during 2024. The Board undertakes a review of its risk appetite at least annually.

Risk management actions

During 2023, the Board continued to deliver on the key management priorities identified in the 2022 review across the Group. Risk owners continued to take steps to mitigate the risk exposures across the Group, supported by specific actions undertaken to improve enterprise risk management across the Group during the year, as follows:

- reviewing and recalibrating the Group's principal risks based on Melrose's change in business strategy to operating as a long-term aerospace group, in order to identify any potential gaps in the Group's defined risk profile as compared to other aerospace and defence companies;
- reviewing and reaffirming the Board's risk appetite based on the optimal and current risk appetite of the Board for each principal Group risk;
- monitoring the implementation of risk management governance within the business, including the identification, evaluation, prioritisation, recording, review and reporting of risks and their management or mitigation throughout the Group;
- continuing to enhance Melrose risk register methods, dashboard reporting outputs, and risk profile mapping application throughout the Group. These provide the Board with detail and visibility on the risk management systems and processes in place, and illustrate each principal risk facing the Group from both a gross risk (pre-mitigation) and net risk (post-mitigation) position. The risk mapping application provides the Directors with a clear risk profile for the Group and enables the Board to determine the degree to which its profile is aligned with its risk appetite;
- reviewing and improving the Group's processes, data extraction and consolidation, and trend analysis around the assessment of principal risks and the ongoing monitoring and reporting of the Group's risk management performance; and
- resetting the Group sustainability strategy, material topics and targets to reflect the Group's new business strategy, supported by a refreshed sustainability and climate change governance framework. As part of climate strategy and disclosure, a new climate scenario analysis was conducted for the Group to review the specific transition and physical climate risks in preparation for the Group's third Task Force on Climate-related Financial Disclosures ("TCFD") report. A new Transition Plan was also developed to serve as a roadmap for achieving Net Zero, aligned with the Group's new aerospace sector focus. The new material topics, sustainability targets, governance framework, a summary of the Transition Plan and TCFD report are contained in the Sustainability review on pages 43 to 93.

Assessment of principal risks

During the year, the Board undertook a comprehensive assessment of the emerging and principal risks facing the Group and specifically those that might threaten the delivery of its strategic business model, its future performance, solvency or liquidity. As part of the assessment, the Board recalibrated the Group's principal risk categories based on Melrose's change in business strategy to operating as a long-term aerospace group, and identified emerging risks with the support of the Group's senior management team.

As a result of this assessment, health and safety risk has been removed from operations risk and is now a standalone principal Group risk to fully reflect the Group's zero-tolerance approach to preventable accidents. Moreover, liquidity risk, foreign exchange risk and pension risk have been combined into a new treasury principal Group risk. Additionally, mergers and acquisitions ("M&A") risk has been removed as a principal Group risk given the strategic shift away from the previous "Buy, Improve, Sell" model, and on the basis that M&A is no longer a core component of Melrose's new aerospace-only business model. Whilst this is no longer a principal Group risk, it remains a risk that is monitored and managed by the Group's senior management team and, where relevant, the Board and its committees.

A summary of the principal risks and uncertainties that could impact on the Group's performance is shown on pages 31 to 36. Further information detailing the internal control and risk management policies and procedures operated within the Group is shown on pages 109 to 115 of the Corporate Governance report.

Risk management priorities for 2024

Continual improvements were made during 2023 in respect of the Group's risk management processes, and the Board recognises that Melrose cannot be complacent. In 2024, management will continue to focus on refining the risk management framework and ensure that this is further tailored to the Group's change in business strategy to operating as a long-term aerospace group. Management will also further embed a culture of effective risk management across the Group to ensure that risks and opportunities are identified and managed, to support the delivery of long-term value creation and the Group's new strategic focus.

Further resources will continue to be devoted to supporting the implementation of improved controls around Melrose's non-financial reporting together with objective trend analysis on the effectiveness of the Group's risk management governance, processes and controls. Climate change risks, mitigation, adaptation and reporting will continue to be strengthened with the better understanding of risks identified in the Group's new climate scenario analysis, as guided by the roadmap set out in Melrose's new Net Zero Transition Plan and supported by Melrose investment.

RISKS AND UNCERTAINTIES

STRATEGIC RISK PROFILE

A risk management and internal controls framework is in place within the Group, which is continually reviewed and adapted where necessary to reflect the risk profile of the Group and to continue to ensure that such risks and uncertainties can be identified and appropriately managed.

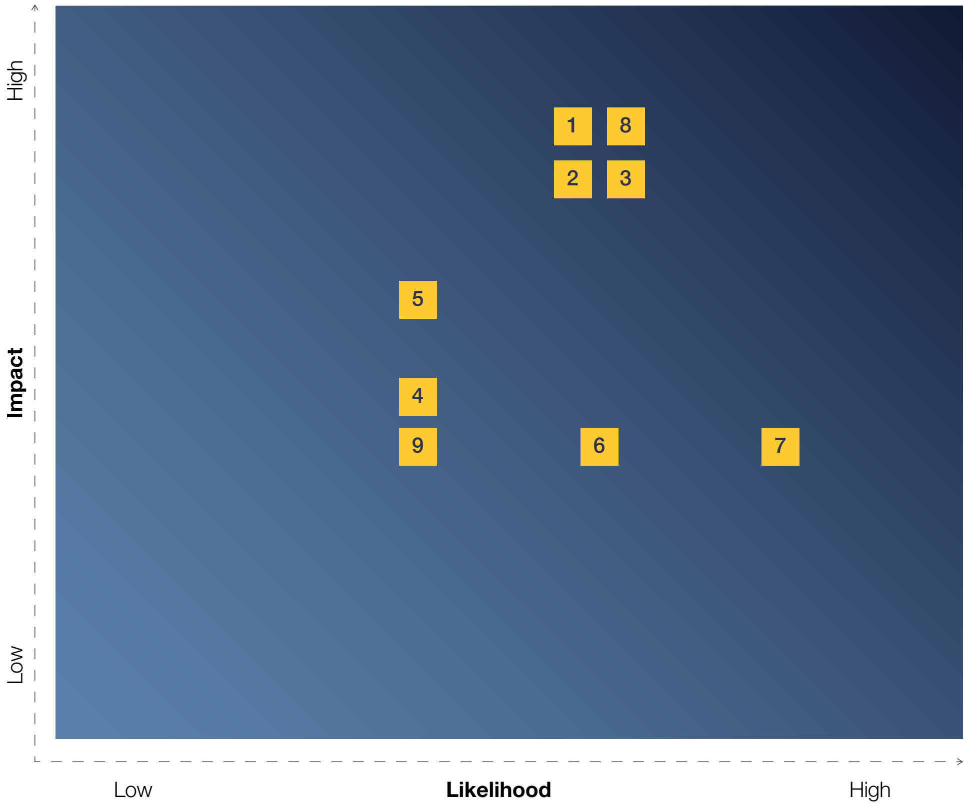
Each business unit maintains a risk register which is aggregated into an interactive data-driven dashboard reporting tool, to facilitate review by the Melrose senior management team, the Audit Committee and the Board.

Strategic risk profile
Our updated view of the Group's strategic risk profile is shown opposite.

The residual risk scores have been calculated on a post-mitigation basis.

Risk trend

↑	Increasing
–	No change
↓	Decreasing
+	Realigned risk



No.	Risk title	Risk trend since last Annual Report		2019	2020	2021	2022	2023
1	Operations	Increase	↑	n/a	n/a	+	↑	↑
2	Commercial	No change	–	–	↑	↑	↑	–
3	Economic and political	Increase	↑	↑	↑	↑	↑	↑
4	Loss of key management and capabilities	No change	–	–	–	↓	–	–
5	Health and safety	Realigned risk	+	n/a	n/a	n/a	n/a	+
6	Legal and regulatory	No change	–	–	–	–	↑	–
7	Climate change	No change	–	n/a	n/a	+	–	–
8	Information security and cyber threats	Increase	↑	↑	↑	–	↑	↑
9	Treasury	Realigned risk	+	n/a	n/a	n/a	n/a	+

Risk trend

- Increasing
- No change
- Decreasing
- Realigned risk

Strategic priorities

- Design
- Deliver
- Improve

Responsibility

The Executive management team (comprising executive Directors and Melrose senior management) are responsible for our principal risks.

OPERATIONAL RISKS

RISK 1 – OPERATIONS

Description and impact

The Group is part of complex global supply chains and major disruption within the Group's operations may adversely affect the financial performance of the Group. In particular, such disruption may result in the Group failing to meet customer commitments, which could result in contractual penalties, as well as reducing the likelihood of the Group winning future orders from such customers. Moreover, the Group is dependent on the prompt delivery of materials and components by suppliers and subcontractors. These third parties may be impacted by their own economic and geographic environments (such as pricing pressures and availability issues), which could impact on the Group's ability to manufacture and supply products, or to deliver them in a timely manner.

The Group seeks to drive operational efficiencies through its planned restructuring projects, including the rationalisation of the Group's operations in the US and Europe. Whilst such restructuring projects have driven, and continue to drive, operational efficiencies, they can also result in higher operational risks relating to closure, workforce morale and productivity, ongoing delivery performance and customer relationships, despite relevant mitigating actions having been taken.

Mitigation

- The Group invests in equipment and capacity within its facilities, as well as identifying dual source suppliers and alternative materials where available.
- Weekly supply reviews are undertaken in order to assess the Group's supplier order book and to confirm commitments over specified timeframes.
- Contingency plans have been developed with respect to potential shortages of key materials or production inputs which may arise as a result of geopolitical events.
- The senior management team has actively engaged with and supported the divisional teams in identifying embedded contractual and business conduct risks relating to key supply chain and production programme partners. Those teams have continued to implement and direct a series of operational change management programmes to mitigate the risks that they have identified.
- Operational management teams are properly incentivised to align with Melrose strategy.

Trend commentary

Melrose's change in business strategy to operating as a long-term aerospace group has made it more sensitive and susceptible to industry specific issues within the aerospace sector that may arise from interdependencies within its complex global supply chains. As a result, the risk trend for operations risk has increased during the year. Geopolitical events naturally had an impact on the Group as well as the aerospace industry as a whole, which in turn increased operational risks. Specifically, the war in Ukraine, increased attacks on merchant ships in the Middle East, and rising tensions between China and Taiwan, resulted in continued supply constraints of raw materials and products needed in the Group's manufacturing processes and supply chains.

Melrose seeks to actively identify and track strategic operational improvements, together with operational risks which may impact on such improvements. Furthermore, Melrose seeks to identify, and take advantage of, benefits from supply chain interdependencies. In particular, supply chain issues may result in legacy engines flying for longer, which is beneficial to the Group's aftermarket business.

RISK 2 – COMMERCIAL

Description and impact

The Group operates in competitive markets throughout the world and is diversified across a variety of production and sales geographies. This provides a degree of Group-level impact mitigation from the potential commercial challenges and market disruptions that face the Group. However, widespread disruption that may be caused by geopolitical events could heighten the Group's exposure to end-market commercial risk.

Product quality also drives certain commercial risks. For example, the supply of non-conforming or defective products by the Group could lead to product recalls, severe financial penalties and reputational damage to the Group.

Other common commercial risk areas that may have an adverse impact on the Group include those related to customer concentration and uncertainties related to future customer demand, onerous customer and supplier contracts, the impact of increased competitive pressures on the maintenance/improvement of market share, technological innovation and market disruption, and the performance and management of programme partners ("Common Commercial Risks").

Mitigation

- The senior management team keeps track of the Group's Common Commercial Risks through a number of mediums including by conducting reviews of the Group's risk register and externally facilitated risk reporting dashboard. The dashboard aggregates and highlights the Common Commercial Risks and relevant trends across the Group.
- The Group actively invests in research and development activities to augment its platforms for future product expansion, quality improvements, customer alignment and achieving further production efficiencies. Details about some of the Group's research and development activities are provided in the Sustainability review on pages 43 to 93.
- Regular reviews of the Group's loss-making contracts take place in order to identify ways, such as through contract renegotiations, to improve the Group's profitability.
- The Group has a diverse portfolio of RRSP contracts across a number of leading, global OEMs, retaining relatively small shares in any single programme. Melrose has mitigated against commercial risks associated with such arrangements by using conservative financial assumptions for all of its RRSP programmes.
- The Group operates robust quality assurance and management procedures.
- To combat against the fluctuations in commodity pricing experienced during the year as well as the high inflation levels, the Group has reviewed and where relevant renegotiated the terms of customer and supplier contracts.

Trend commentary

The risk trend for commercial risk remained the same during the year, with macroeconomic events continuing to cause fluctuations in commodity pricing, in addition to wider inflationary pressures. However, the demerger of Dowlais Group plc (the "Demerger"), coupled with the change in Melrose's business strategy, has reframed the nature of this risk. This is because Melrose no longer owns a diverse range of manufacturing businesses and instead operates as a single sector business. This enhances the Group's exposure to commercial risks that arise within the aerospace industry, including the shift to new technologies and markets, such as electric and hydrogen powered aircraft.

The senior management team actively and regularly tracks, monitors and supports strategic planning activities and impact mitigation assessments in respect of ongoing commercial risks. This has been a particular focus of both the Board and senior management team during the year, with the Group identifying and managing any enhanced or emerging commercial risks resulting from Melrose's change in business strategy.

RISK 3 – ECONOMIC AND POLITICAL

Description and impact

The Group operates through manufacturing and/or sales facilities in numerous countries and is affected by global economic and political conditions. Geopolitical events may lead to an adverse impact on the Group's operations, particularly those that involve major trading partners or blocs. For example, they may result in explicit trade protectionism, the potential for conflict or broader political issues, as well as the introduction of new tariffs and/or taxes which could adversely affect the financial performance of the Group or the delivery of its global strategy. Moreover, global economic and political events may cause sudden and unanticipated disruption to the Group's operations.

Fluctuation in commodity prices and high inflation may materially and adversely affect the Group's operational performance and financial condition. Further, these factors may materially affect customers, suppliers and other parties with which the Group does business. High inflation levels may result in increased Group costs both in terms of the operation of plants and the manufacturing of products, which in turn may be passed on to customers. More generally, adverse economic and financial market conditions may cause customers to terminate existing orders, to reduce their purchases from the Group, or to be unable to meet their obligations to pay outstanding debts to the Group. These market conditions may also cause suppliers to be unable to meet their commitments to the Group or to change the credit terms they extend to the Group.

Mitigation

- The Group has a diversified global footprint mainly across Europe, the US and Asia, and its commercial split across both the civil and defence markets helps to mitigate against geopolitical shocks.
- Order books, cash performance, cost control and other leading indicators are regularly monitored to ensure that the Group and both of its divisions can respond quickly to adverse trading conditions. This includes the identification of cost reduction and efficiency measures.
- Bank financing is readily available to the Group from its supportive banking syndicate. This support has proven to be available to the Group even during periods of unprecedented turmoil, including during the global pandemic.
- The Group fosters strong customer relationships which are often long-term partnerships, built on technical excellence and quality, and often with plants in close proximity to customers where feasible and commercially necessary.

Trend commentary

Significant geopolitical and economic uncertainty continued during the year, leading to an increased risk trend for economic and political risk. The war in Ukraine and the various sanctions packages imposed upon Russia, increased attacks on merchant ships in the Middle East, and rising tensions between China and Taiwan, were a key factor in such uncertainty. Furthermore, the recent events in Israel and Palestine have further heightened geopolitical tensions. In each case, Melrose promptly assessed the risks associated with these events by conducting an analysis into any direct or indirect trade occurring within the affected regions and the Group. As noted in last year's annual report, trade with Russia was found to be very limited and, in any case, ceased. An impact assessment has also been conducted into the Israel and Palestine conflict, with no material implications on the Group's operations being identified.

GKN Aerospace's diversified global footprint, and its commercial split across both civil and defence markets, provide a degree of natural hedging in the event of regionalised geopolitical shocks. Senior management closely monitors economic and political events alongside its dedicated export control team in order to best react to any associated risks as early as practicable.

RISK 4 – LOSS OF KEY MANAGEMENT AND CAPABILITIES

Description and impact

The success of the Group is built upon a strong management team. The loss of key personnel, or inability to identify, attract and retain key personnel, could impact the ability of the Group to deliver its business strategy. As a result, the loss of key personnel could have a significant impact on the Group's 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 Group or lead to a disruption in the leadership of the business. Competition for personnel is intense and the Group may not be successful in attracting or retaining qualified personnel, particularly engineering professionals.

Mitigation

- Succession planning within the Group is coordinated via the Nomination Committee in conjunction with the Board and includes all Directors and senior Melrose employees. The Chief Executive Officer is responsible for the appointment of executive team members, with disclosure to the Nomination Committee.
- Melrose recognises that, as with most businesses, particularly those operating within a technical field, appointments are dependent on Directors and employees with particular managerial, engineering or technical skills. Appropriate remuneration packages and long-term incentive arrangements are offered in an effort to attract and retain such individuals.

Trend commentary

In light of the change in Melrose's business strategy to operating as a long-term aerospace group, succession planning for the executive Directors was a key focus for the Nomination Committee and the Board in 2023. In particular, the Board, with the support of the Nomination Committee, approved Mr Simon Peckham and Mr Geoffrey Martin stepping down as Melrose Chief Executive and Group Finance Director respectively with effect from 6 and 7 March 2024 respectively, to be replaced by Mr Peter Dilnot and Mr Matthew Gregory (as Chief Executive Officer and Chief Financial Officer respectively). The focus placed on succession planning has combatted against the risks associated with the loss of key management and capabilities, with the changes in key personnel reflecting strong management continuity. Please refer to the Nomination Committee report on pages 124 to 127 for further details.

Risk trend
- Increasing
- No change
- Decreasing
- Realigned risk

Strategic priorities
- Design
- Deliver
- Improve

Responsibility

The Executive management team (comprising executive Directors and Melrose senior management) are responsible for our principal risks.

RISK 5 – HEALTH AND SAFETY

Description and impact

The Group employs over 14,500 people with many operations often involving risks related, but not limited, to heavy duty machinery, chemical use, movement of parts such as lifting or transportation, as well as energy, such as electricity and pressurised systems. A serious accident in the workplace could have a major impact on employees as well as their families, colleagues and communities. Such an incident could also result in legal claims, reputational damage and financial loss.

Mitigation

- The Group has a dedicated health and safety team which has rolled out a comprehensive health and safety programme across all sites, led by business-wide training on risk management for all operational leaders and an awareness campaign around GKN Aerospace's Golden Safety Rules. All sites are required to self-certify compliance with the Golden Safety Rules which is validated through internal independent sampling checks throughout the year.
- Investments have been made into the provision of appropriate safety equipment and employees are provided with the knowledge and skills necessary to perform their roles safely. All employees are required under the Golden Safety Rules to use the equipment provided and adhere to any safety training and instruction given.
- As at 31 December 2023, 30 sites within the Group were certified to the ISO 45001 international standard, with additional relevant sites progressing towards accreditation. Third-party auditing on a three-year certification cycle is required to maintain ISO accreditation, with HSE internal annual surveillance audits taking place in between on a rotation or risk basis to ensure minimum standards are being maintained.
- Through the Leadership Safety Tour Programme, senior management take an active role in physically attending sites and validating the effectiveness of HSE controls by site leadership, and ensuring compliance and continuous improvement. In 2023, particular focus has been placed on strengthening the risk assessments and risk controls of the Golden Safety Rules by conducting on-site Task Specific Risk Assessment Workshops through which over 90% of GKN Aerospace's operational leaders have been trained.
- The Board is provided with visibility and oversight on health and safety risks through the form of quarterly reports, which collates information for all sites based on three key performance indicators – Major Accident Frequency, Lost Time Accident Frequency ("LTA"), and Accident Severity.

Trend commentary

Health and safety is of key importance to Melrose and to reflect this, the Board has elevated it to a standalone principal Group risk, having previously been captured in operations risk. Given the nature of the Group's operations, there will always be an inherent health and safety risk within the Group. However, to combat against this, comprehensive and appropriate mitigations and controls have been put in place.

Furthermore, Melrose has a Group target to achieve and maintain an annual LTA Frequency Rate of below 0.1 per 200,000 hours worked. This underpins our overarching commitment to stop all accidents from occurring, through the promotion of safe behaviours across all locations, and an enhanced focus on hazard identification and awareness. During 2023, we maintained a LTA Frequency Rate of below 0.1, and continued to prioritise continuous health and safety improvements in the push for the LTA Frequency Rate of zero. Please refer to pages 19 and 88 of the Annual Report for further details.

COMPLIANCE AND ETHICAL RISKS

RISK 6 – LEGAL AND REGULATORY

Description and impact

Considering the breadth, scale and complexity of the Group, there is a risk that the Group may not always be in complete compliance with laws, regulations or permits. The Group could be held responsible for liabilities and consequences arising from: (i) restrictions arising from economic sanctions, export controls and customs, which can result in fines, criminal penalties, adverse publicity, payment of back duties and suspension or revocation of the Group's import or export privileges; (ii) product liability claims, which can result in significant total liability or remedial costs, particularly for products supplied to large volume global production programmes spanning multiple years, and (iii) employee matters including liability for employee accidents in the workplace or consequences of environmental liabilities, which may be susceptible to class action law suits, particularly but not exclusively with respect to Group businesses operating in North America.

The Group operates in a highly regulated environment across multiple jurisdictions. The Group's operations are subject to anti-bribery and corruption, anti-money laundering, competition, anti-trust and trade compliance laws and regulations. Failure to comply with certain regulations may result in significant financial penalties, debarment from government contracts and/or reputational damage, and may impact our business strategy.

Mitigation

- Regular monitoring of legal and regulatory matters takes place at both a Group and divisional level. Consultation with external advisors is also undertaken where necessary.
- Group-wide standard and enhanced application to trade authorisation procedures are in place and regularly reviewed against the ever-changing global trade compliance landscape, supported by access to external trade compliance legal and regulatory specialists and electronic counterparty screening systems.
- A robust control framework is in place, underpinned by comprehensive corporate governance and compliance policies and procedures at both Group and divisional level, including utilisation of third-party verification providers, training of applicable employees on policies and procedures, and regular reviews of the Group policies in light of legal and regulatory changes, as well as best practice.
- Melrose operates a Group-wide whistleblowing platform whereby all employees have access to a multi-lingual online portal, together with local hotline numbers that are available 24/7, in order to allow employees to raise concerns on possible wrongdoing in any aspect of the business.

Trend commentary

As a result of the geopolitical uncertainty and increase in national protectionism noted under risk 3, the Group was proactive in monitoring the changing regulations surrounding export controls and sanctions, and ensuring that the Group had the relevant licences that it needed in order to operate. The Group continued to have a fully developed legal function both at a Group and divisional level. The legal function was supported by external advisors where necessary or helpful to ensure ongoing compliance in the jurisdictions in which the businesses operate across the globe.

RISK 7 – CLIMATE CHANGE

Description and impact

Increased frequency in extreme weather and climate-related natural disasters can lead to physical damage at the Group's sites in addition to disruptions in our business lines' supply chain. Additionally, new legislation and regulations may require additional investment, restrict commercial flexibility and business strategies, or introduce additional liabilities for the Group or the Directors. Changing demand patterns influenced by climate change concerns create risks for the sustainability of the Group's products and solutions.

During the year, as part of the Group's new assessment of climate change risks, specific and potentially material transition risks were identified. These risks are related to exposure to carbon pricing mechanisms, raw material availability, replacement of carbon intensive machinery and successful entry of new technologies to the market. The physical risk assessment sought to identify current and potential future physical climate risks facing the Group's global facilities and key suppliers, with consideration of revenue and property value of each facility, to determine the materiality of identified risks, most material of which were found to be related to flooding and storm events, and some potential disruptions to key suppliers caused by extreme weather events.

Mitigation

- We seek to integrate climate considerations, such as energy and climate management efforts in countries where we operate and sell our products, expectations of our value chains, and the various commitments to achieve the goals of the Paris Agreement, into strategic decisions and operational management.
- To understand better and plan for the effects of climate change within the Group, a framework has been developed for identifying, understanding, quantifying, where possible, and, ultimately, managing climate-related challenges and opportunities. This framework covers government and international policy, emissions regulations, energy costs, physical impacts, access to capital, risks relating to permits, product demand and litigation risks.
- During the year, a new sustainability and climate change governance framework was developed by the GKN Aerospace sustainability function, overseen by the Chief Technology Officer. This sets out the responsibilities for delivering the Group's climate strategy and addresses progress against the Group's climate commitments.
- Scope 1, 2 and 3 emissions are monitored and reported on. This data is used to manage operational and supply chain emissions, as well as track the Group's emissions, energy, and other climate-related sustainability targets. Performance is reported annually within Melrose's Annual and Sustainability Reports, Task Force on Climate-related Financial Disclosures ("TCFD") report, and through the CDP Climate Change disclosures.
- During the year Melrose developed a new Transition Plan in order to help the Group deliver its ambition of Net Zero by 2050. The Transition Plan was prepared in line with the TCFD recommendations and the new UK Transition Plan Taskforce's guidance. It is available on Melrose's website at www.melroseplc.net/sustainability.
- As part of the assessment of climate transition risks, mitigation and adaptation opportunities have been identified related to the development of new technologies such as hydrogen, battery electric and sustainable aviation fuels as well as improving inflight efficiencies by lightweighting components and energy efficiency of engines to ensure continued motivation to be the most sustainable partner in the sky. Further details can be found in the Sustainability review on pages 43 to 93.

Trend commentary

Recent years have shown the frequency and severity of climate-related events are increasing and the low-carbon transition is a growing focus area for governments, investors and the entire aerospace sector. As such, climate change was given a greater focus in 2023 and addressed through various strategic and tactical workstreams within the Group. It is an important consideration across the Group's business strategy, including in terms of investment decisions and product development. It is also an increasingly key strategic concern for the Group's stakeholders, who are keen to understand how Melrose is managing climate-related risk.

Going into 2024, the Group will continue to look to balance where possible the risks associated with climate change against potential opportunities for the Group and will report on progress in achieving the Group's net zero ambition as set out in the new Net Zero Transition Plan.

RISK 8 – INFORMATION SECURITY AND CYBER THREATS

Description and impact

Information security and cyber threats to our systems are an increasing priority across all industries and remain a key UK, US and European agenda item across governments. The Group's potential exposure to information security and cyber risks remains at a high status due to its operations within the aerospace industry, together with the scale and public facing nature of the Group. There is an inherent security threat within the Group where data is held in relation to civil aerospace technology and controlled military contracts in airframe and engines.

The risks associated with information security and cyber threats are far reaching and include business disruption resulting from attacks to the Group's information technology and operational technology infrastructure and systems, unlawful attempts to obtain access to proprietary or classified information held by the Group, and the potential for business disruption and compromise of information as a result of such attacks and unlawful access attempts within the Group's wider supply chain.

Mitigation

- Management works closely with the Group's external security consultants, Ernst & Young, to assess the Group's increased exposure to cyber security risk and to ensure appropriate mitigation measures are in place for the Group.
- During the year, management continued to monitor and enhance its information security strategy and risk-based governance framework within the Group. The framework follows both the UK Government's National Cyber Security Centre recommended steps on cyber security and US NIST Cyber Security Framework, as well as incorporating Dutch MIVD and Swedish ISM controls. This strategic management approach has delivered risk profiling capabilities for aerospace and defence, and the enablement of mitigation plans to be developed to reduce the Group's exposure to cyber risk.
- The progress of the Group is measured against its information security strategy and is monitored on a quarterly basis. These results are externally verified on a quarterly basis by Ernst & Young, who also continue to conduct cyber assurance site reviews covering key locations across the Group.
- Education and awareness initiatives are considered vital to the management of information security and cyber threat risks. A number of initiatives are undertaken throughout the year, including phishing exercises, to help drive better awareness and engagement with such risks.

Trend commentary

Information security and cyber threats risk is an increasing priority of, and inherently present within, the aerospace industry. Melrose's change in business strategy to operating as a standalone aerospace group has therefore increased its exposure to such risk. Furthermore, the rising geopolitical tensions noted under risk 3 have heightened information security and cyber threats risk within the aerospace industry, which in turn has resulted in an increase in this risk trend for the Group. To counter this, the Group has worked, and continues to work, with external security companies to monitor, improve and refine its Group-wide strategy to aid the prevention, identification, and mitigation of current and future threats.

Risk trend

- Increasing
- No change
- Decreasing
- Realigned risk

Strategic priorities

- Design
- Deliver
- Improve

Responsibility

The Executive management team (comprising executive Directors and Melrose senior management) are responsible for our principal risks.

FINANCIAL RISKS

RISK 9 – TREASURY

Description and impact

The Group is exposed to a number of treasury-related risks, including those related to liquidity, foreign exchange and pensions. The ability to raise debt or to refinance existing borrowings in the bank or capital markets is dependent on market conditions and the proper functioning of financial markets. As set out in more detail in the Finance Director's review on pages 20 to 27, as at 31 December 2023, the Group had term loans of US$300 million and €100 million, and revolving credit facilities ("RCFs") totalling US$940 million, £300 million and €300 million.

Due to the global nature of the Group's operations, it is susceptible to the volatility inherent in the foreign exchange market in addition to exchange rate fluctuations. The Group is primarily exposed to two types of currency risk: transaction risk and translation risk.

Furthermore, any shortfall in the Group's defined benefit pension schemes may require additional funding. As at 31 December 2023, the Group's pension schemes had an aggregate deficit, on an accounting basis, of £99 million (2022: £488 million). Changes in discount rates, inflation, asset values or mortality assumptions could lead to a materially higher deficit. Further, 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, implied credit rating and potential additional funding requirements at subsequent triennial reviews.

Mitigation

- The Group operates a conservative level of headroom for liquidity purposes and across its financial covenants, conducting regular reviews of its cash forecast, which is designed to avoid the need for any unplanned refinancing.
- The Group operates cash management mechanisms, including cash pooling across the Group and maintenance of RCFs and certain uncommitted facilities to mitigate the risk of any liquidity issues.
- In preparation for the Demerger, the Group successfully refinanced its bank facilities to reflect the new size of the Group. The term loans and US$250 million of the RCFs (noted above) expire in April 2026 and the remainder of the RCFs (noted above) can be extended by two one-year extension periods to April 2028 at Melrose's option.
- The Group's policy is to mitigate transactional foreign exchange risk affecting cash by hedging such risks with financial instruments. The Group utilises its multi-currency banking facilities and cross-currency swaps, where relevant, to maintain an appropriate mix of debt in US Dollars, Euros and Sterling. The hedge of having debt drawn in US Dollars and Euros protects against some of the balance sheet and banking covenant foreign exchange risk.
- The Group is protected against being over-hedged due to short to medium-term reductions in forecasts, as the percentage of hedges compared to forecast foreign exchange exposures tapers over future periods.
- The GKN UK Group Pension Schemes (Numbers 1 and 4) are the most significant pension plans remaining in the Group and are closed to new members and to the accrual of future benefits for current members. During the year, the Group commenced a process to buy-out the GKN UK Group Pension Scheme Number 4, which is expected to complete during 2024.
- Melrose actively engages with the Trustees on pension plan asset allocations and strategies.

Trend commentary

The Group has maintained its strong cash controls and forecasting processes, and Melrose senior management has maintained its efforts throughout the Group to increase visibility and certainty of cash flow information, robustness of cash controls, and cash-saving initiatives; these have been very successful. Debt reduced within the Group on the Demerger and the refinancing of the Group's banking facilities has ensured that the Group has adequate resources available to meet its liabilities. Moreover, the Demerger has resulted in a significant reduction in the Group's UK defined benefit pensions plans net deficit. The Group also utilised its usual controls to combat against foreign exchange risk during the year and to provide protection for future years, which remains important due to the continuing risk of volatility in the foreign exchange market. Please refer to the Finance Director's review on pages 20 to 27 for further details.

BOARD STAKEHOLDER ENGAGEMENT AND DECISION-MAKING

The Board is responsible for the long-term success of the Company, for setting and overseeing its culture, and for the Company's purpose, strategy and values. The Board's understanding of the Company's stakeholders and their respective interests is central to these responsibilities, and informs key aspects of its decision-making.

Section 172 statement

In accordance with the Companies Act 2006, the Directors provide this statement describing how they have had regard to the matters set out in section 172(1) of the Companies Act 2006 when performing their duty to promote the success of the Company under section 172.

Melrose's purpose, strategy and values

Melrose was founded in 2003 with a strategy to empower businesses to unlock their full potential for the benefit of all stakeholders, whilst providing shareholders with a superior return on their investment. Melrose's strategy has shifted from its previous "Buy, Improve, Sell" model to becoming an aerospace business for the long-term. Our strategy remains focused on value creation driven by operational and financial improvement over the longer-term. Our positive trajectory is underpinned by leading positions on the world's major aircraft platforms, strong organic growth prospects within the aerospace sector, and attractive opportunities to further differentiate our business through cutting-edge proprietary technology that is already shaping the future of flight.

The Company's purpose and strategy remain underpinned by the principles and values on which it was founded. We act with integrity, honesty, transparency and decisiveness, and believe in a lean operating model, high productivity and sustainable business practices. We see the decarbonisation of the aerospace sector as a priority, and indeed a central tenet of GKN Aerospace's mission to be "The Most Trusted and Sustainable Partner in the Sky". Whilst the sector and our customers provide many opportunities for further progress towards cleaner air travel through our innovation and technology leadership, we see no reason why this priority cannot be achieved at the same time as generating superior financial returns for our shareholders.

The Board is ultimately accountable to the Company's shareholders for setting the Group's strategy, for overseeing the Group's financial and operational performance in line with Melrose's strategic objectives, and for taking into account the principal risks facing the Group. Implementation of the Group's strategic objectives, as determined and overseen by the Board, is delegated to the senior management team, with day-to-day operational management delegated to the divisional teams. The Board has established an organisational structure with clear reporting procedures, lines of responsibility and delegated authority, as depicted in the diagram on page 28 and in line with the Group's governance framework, which the Board reviews regularly to ensure it continues to align with applicable legal requirements and corporate governance best practice.

The Board recognises that culture, values and standards are key contributors to how a company creates and sustains value over the long-term. High standards of business conduct guide and assist the Board's decision-making, and in doing so, help promote the Company's success, recognising, amongst other things, the likely consequences of any decision in the long-term and wider stakeholder considerations. The standards set by the Board mandate certain requirements and behaviours with regards to the activities of the Directors, our employees and others associated with the Group.

The Group has a number of compliance policies, including a Code of Ethics, which are implemented across the business. The Board continues to play an active role in overseeing how the business manages compliance, with adherence to the compliance framework being fed back to the Board, to guide and assist in its decision-making, and to ensure that the business practices of the Group remain aligned with Melrose's purpose. The Board considers it to be of the utmost importance that the business continues to uphold high standards of business conduct, and that continuous improvement is strived for in this area. Further detail on the Group's compliance policies and framework, and reporting to the Board, can be found on pages 43 to 93 of the Sustainability review.

KEY STAKEHOLDER ENGAGEMENT IN 2023

The Board cultivates strong relationships with the Group's key stakeholders so that it is well placed and sufficiently informed to take their considerations into account when making decisions, where appropriate, in order to discharge their duties under section 172 and to pursue the Company's strategic objectives. Stakeholder engagement is on the Board's agenda to assess whether the Company's principal stakeholders and their priorities have changed, and whether the Board has sufficient engagement with each key stakeholder group.

Set out below and on the following pages are details of our key stakeholders, how we engaged with them during the year, and the outcomes of these processes.

OUR KEY STAKEHOLDERS

OUR PEOPLE

Our approach

We recognise that a capable, engaged and passionate workforce is central to the Group's performance and ultimately its success. Our people are an important stakeholder group and we foster a culture of effective engagement with employees in order to encourage open dialogue where employees feel confident that their views are taken into consideration.

Engagement activities and consideration

- Melrose operates a Workforce Advisory Panel ("WAP") in order to promote effective engagement with, and encourage participation from, its workforce. The WAP met twice during the year and the outcomes, together with key workforce views, were fed back to the Board accordingly.
- Employees have an opportunity to raise concerns confidentially and anonymously through the Group-wide whistleblowing platform. The platform has a multi-lingual online portal, and local hotline numbers that are available 24/7. The Audit Committee receives reports on whistleblowing activity, and this is ultimately reported to the Board.
- An annual all-employee engagement survey is undertaken across the Group in order to collate the views of employees and identify areas of strength and those in need of development. The Board receives a summary of these results, and is provided with feedback on how employees' views are taken into account in executive decision making.
- The Board receives quarterly health and safety reports and regular updates on the Group's pension arrangements.
- The Nomination Committee, together with the Board, is focused on promoting diversity and inclusion within the Group. The Group's diversity policies are reviewed on an annual basis to ensure that the importance of having a diverse and inclusive culture is understood and embraced throughout the Group.

→ **Sustainability review**
pages 43 to 93

SHAREHOLDERS

Our approach

We provide a consistent and transparent flow of information and management insight to shareholders and to the wider investment community, taking an honest, transparent and open approach to investor relations and communications. We recognise that analysts require robust information in order to inform the research and analysis that they provide to investors, and investors benefit from disclosure in line with regulatory requirements, as well as enhanced disclosure on topics that are material to the Company, to inform their independent investment decisions.

Engagement activities and consideration

- The Board and Melrose senior management team have an annual programme of key information publications and engagement activities including regular trading updates, open agenda meetings for key shareholders attended by the Chairman and/or the Senior Independent Director, where requested, and a Q&A forum for shareholders at Melrose's Annual General Meeting.
- In May 2023, the executive Directors hosted a capital markets event in London to provide further information to, and interact directly with, key shareholders, analysts and their representatives on Melrose's new business strategy. This was subsequently followed in October 2023 by an investor event focusing on our Engines division, which took place at our key site in Trollhättan, Sweden.
- The Group Company Secretariat engaged with, and facilitated discussions involving members of the Board with, the responsible stewardship and sustainability representatives of key investors on a variety of topics including the Demerger and the enclosed Directors' remuneration policy proposal.

→ **Case study**
page 40

→ **Directors' Remuneration report**
page 129

CUSTOMERS AND SUPPLIERS

Our approach

The relationships that we have with our customers and suppliers are key to our success, and we foster positive and open business relationships with them. We continue to work hard to build upon and strengthen these relationships where possible. The Board recognises the importance of these relationships, and encourages regular and meaningful engagement by the divisions with this key stakeholder group.

Engagement activities and consideration

- The Board holds regular business reviews with the Chief Executive Officer, Chief Financial Officer, Group General Counsel and Business Line Presidents and as part of these reviews, management shares feedback on key customer and supplier initiatives and views, as well as supplier performance and supply chain disruption.
- Management attends major aerospace industry events including the Paris Air Show and the Farnborough International Airshow, which promotes an open dialogue with customers, suppliers, and other industry players.
- The Group continues to focus on helping our customers deliver their own sustainability agendas by working with them to find ways to make products more sustainable.
- To further improve our supplier engagement and in order to meet our net zero targets, GKN Aerospace has committed via the Science Based Targets initiative ("SBTi") to reduce absolute Scope 3 emissions (from key Scope 3 categories) by 25% by 2030 from a 2022 base year, as well as committing that 70% of its suppliers by spend will have science-based targets by 2028.
- We continued supply chain engagement through the CDP Supply Chain initiative in order to track and encourage supplier alignment to Net Zero, achieving a response rate of over 70%.

→ **Sustainability review**
pages 43 to 93

ENVIRONMENT AND COMMUNITIES

Our approach

In 2023 we reset the foundations of our sustainability strategy as a pureplay aerospace business in line with GKN Aerospace's mission to be the most trusted and sustainable partner in the sky. We have refreshed our sustainability governance framework enabling the delivery of our new sustainability targets and commitments through an integrated Melrose and GKN Aerospace sustainability function. This cross-functional and multi-disciplinary team is responsible for executing the Board's overall sustainability strategy. The Board as a whole, led by the Chairman, is responsible for all matters concerning sustainability and climate change, and sustainability remains a key Board meeting agenda item, providing a platform for updating the Directors on progress and strategy.

Engagement activities and consideration

- We conducted our first double materiality assessment to identify the topics that are most relevant for our new aerospace focused business and aligned stakeholders. We gained these perspectives through a series of consultations and interviews with internal experts who were able to represent the views and concerns of key stakeholder groups including members of the executive management team, employees, customers, suppliers and shareholders.
- We formalised our strategy to enable transition to a net zero economy. We updated our Net Zero Transition Plan (the "Transition Plan") to provide clarity to our stakeholders around the actions we intend to take to achieve our short- and medium-term emissions reduction targets to reach net zero Greenhouse gas ("GHG") emissions across the value chain by 2050, and how we plan to contribute to reducing the climate impact of aerospace. This has included the submission of Board-approved emissions reduction targets through the SBTi for validation, and progress against these targets will be reported annually.
- We continued to engage with key ESG benchmarking agencies to improve data quality and comprehensiveness of their coverage of our sustainability performance, and to identify and resolve inconsistencies. A key action has been working with the benchmarking agencies to realign the business to be assessed against the aerospace sector.
- The Group submitted its response to the CDP Climate Change and Water Security questionnaires, achieving B (2022: C) and C (2022: C) respectively, which the Board views as encouraging progress.
- We recognise the importance of local communities to the effective operations of our business. The Sustainability review on pages 43 to 93 highlights examples of actions taken during 2023 to engage with communities, including through the Melrose Skills Fund.

→ **Case study**
page 41

→ **Sustainability review**
pages 43 to 93

LENDERS

Our approach

In addition to the long-term funding requirements of the Group, we may need to move quickly to secure the opportunities that we feel will be critical to Melrose's success. As part of this, we regularly engage with our supportive banking syndicate to discuss funding strategy, and maintaining strong banking relationships has proven to be vital at times where we have needed to act quickly and decisively.

Engagement activities and consideration

In connection with the Demerger, we engaged extensively with our banking syndicate in order to refinance our bank facilities to reflect the new size of the Group. As part of this process, a number of improvements were made to the existing Group facilities with the agreement of the syndicate.

→ **Finance Directors' review**
pages 20 to 27

GOVERNMENT BODIES, REGULATORS AND INDEPENDENT BODIES

Our approach

We interact with government bodies and regulators in a number of jurisdictions across the world, many of which are of strategic importance to the Group and our long-term success. It is therefore important that we maintain ordinary course dialogue with such stakeholders to allow our businesses to operate effectively. Furthermore, we invest significant time in speaking regularly to key corporate governance agencies and proxy advisors regarding certain aspects of corporate governance that we and our investors consider to be of long-term strategic importance.

Engagement activities and consideration

- We maintain regular dialogue with government bodies and regulators, including the Department for Business and Trade, the Ministry of Defence and the Investment Security Unit in the UK, as well as the Department of Defense in the US. We also provided our fifth anniversary report to the UK Panel on Takeovers and Mergers in April 2023, which detailed our fulfilment of, and compliance with, those post-offer undertakings given at the time of Melrose's acquisition of GKN plc which had expired during the year.
- We continued to engage with independent reporting bodies supported by the UK Government where relevant, including the FTSE Women Leaders Review and the Parker Review. Significant time and effort was also placed on engaging with various stakeholders on sustainability-related topics, which has included sustainability analysts, reporting organisations and rating agencies such as MSCI, Sustainalytics, V.E., FTSE Russell, S&P CSA and CDP.
- The Company Secretariat interacts on a regular basis with independent reporting bodies and other corporate governance bodies. During 2023, this included participating in round table discussions with the Financial Reporting Council on its proposed changes to the UK Corporate Governance Code, as well discussions with the Investment Association on its Principles of Remuneration.

KEY BOARD DECISIONS AND STAKEHOLDER ENGAGEMENT

AEROSPACE-ONLY BUSINESS STRATEGY

- Our people
- Shareholders
- Customers and suppliers
- Lenders
- Government bodies, regulators and independent bodies

Melrose announced its change in business strategy to operating as a pureplay aerospace business, focused on value creation driven by continuous operational and financial improvement over the longer term.

The change in business strategy is the latest example of the Board's focus on delivering value to shareholders and other stakeholders, and the Board's decision to change the Company's business strategy was based on a fully informed and considered assessment of the performance and trajectory of the business. As announced, the Board considers the GKN Aerospace business to be one of the best businesses that Melrose has ever owned, and remains confident that the Group's new composition of the restructured and refocused high-class Engines and Structures businesses, supported by the recovery and growth prospects of the aerospace sector at large, positions Melrose for a significantly better than expected performance for the future.

We have undertaken a significant engagement exercise with shareholders and other stakeholders in order to provide transparency and clarity on our new business strategy. This has been supported from the outset by regular trading updates and guidance to the market. In May 2023, the executive Directors hosted a capital markets event in London to provide further information to, and interact directly with, key shareholders, analysts and their representatives on our new business strategy. This was subsequently followed in October 2023 by an investor event focusing on our Engines division, which took place at one of our key sites in Trollhättan, Sweden. Both events received positive feedback with strong attendance rates, and attendees were provided with an opportunity to ask questions of those Directors in attendance as well as senior management.

We also recognised the importance of engaging with our employees on the change in business strategy. This has included hosting live and online events with leadership to explain Melrose's new business strategy and to provide transparency on the integration of the Melrose and GKN Aerospace senior management teams. As part of such engagement initiatives, employees have been given a platform to ask questions and have been empowered to consider how their roles interlink with the Company's new business strategy.

FURTHER FOCUS ON THE GROUP'S SUSTAINABILITY PERFORMANCE TO DRIVE IMPROVEMENTS AND VALUE CREATION

- Our people
- Shareholders
- Customers and suppliers
- Environment and communities
- Government bodies, regulators and independent bodies

Sustainability is a key item on the Board's agenda, receiving appropriate consideration throughout the year at its scheduled meetings. The Board has been integral in supporting the Group's sustainability efforts in its shift to becoming an aerospace-only business.

The GKN Aerospace sustainability function, overseen by the Chief Technology Officer, has elevated climate change: mitigation and adaptation; R&D for sustainable aviation; occupational health, safety, and wellbeing; product safety and quality; and business integrity as material topics following its completion of the Group's first double materiality assessment. As we reset our Group strategy to align with these topics, we have committed to new sustainability targets and commitments which have been approved by the Board. These targets exemplify our dedication to reducing the impact of our operations on the planet. In taking its decisions, the Board sought to balance the interests of all relevant stakeholders, to ensure that they are each adequately represented and can hold the Board accountable for the Group's progress in relation to these matters. Detail on some of these key decisions, and how key stakeholders were engaged with and considered, is set out in the Sustainability review on pages 43 to 93.

As part of our third year of reporting against the Task Force on Climate-related Financial Disclosures ("TCFD") framework, we have recalibrated our initial 2021 climate-scenario assessment of climate-related risks and opportunities to focus on the aerospace sector, providing more sector aligned disclosure to shareholders and other stakeholders.

In 2023, the Board approved the updated Transition Plan, which was prepared to provide our stakeholders with clarity around the actions we intend to take to achieve our emissions reduction targets to reach net zero GHG emissions across the value chain by 2050, in light of our new aerospace-only strategy. The Transition Plan outlines our objectives, priorities, detailed plans, and projects to reach our science-based emissions reduction targets. It also sets out how climate considerations are integrated into the Group's strategic thinking and future planning, such as major capital expenditure, acquisitions and disposals. In adopting the Transition Plan, the Board was mindful to ensure that the actions it sets out are necessary to achieve the agreed-upon targets within the envisaged timelines, sufficiently focusing our businesses' executive management teams on the end goals, yet without overly diverting resources away from the businesses' core focuses.

With respect to supply chain, there has been an increased emphasis on businesses to increase their engagement with suppliers, to be able to expand our Scope 3 data coverage. We continued our engagement with the CDP Supply Chain initiative in order to track and encourage supplier alignment to Net Zero, achieving an engagement rate of over 70% for the year. To further improve our supplier engagement and in order to meet our Net Zero targets, GKN Aerospace has committed via the SBTi to reduce absolute Scope 3 emissions (from key Scope 3 categories) by 25% by 2030 from a 2022 base year, as well as committing that 70% of its suppliers by spend will have science-based targets by 2028.

HELPING TO BUILD THE UK'S INDUSTRIAL BASE THROUGH THE MELROSE SKILLS FUND

- Our people
- Customers and suppliers
- Environment and communities

In 2023, we met our commitment given at the time of the acquisition of GKN plc to invest £10 million over five years through the Melrose Skills Fund to build the UK's industrial base. This also included having met our commitment to support the creation of between 100 to 150 new apprenticeships in engineering, technology and science, with the total number of apprenticeships created having exceeded this target. The Melrose Skills Fund was a Board approved initiative and the Directors have not only been kept up to date on the various projects undertaken as part of the fund, but they have also engaged directly with a number of the charities and third parties whom we have partnered with as part of these initiatives.

The Melrose Skills Fund has been utilised to develop the technical skills that support current and future business needs within the aerospace industry, using digital delivery methods and accredited learning management systems. This in turn has helped to support the training and development of more than 3,000 individuals within GKN Aerospace alone, with key capability gaps closed and tangible value added to the business. Our employees have engaged in a number of different training initiatives. In particular, cryogenics capability training has been provided to employees as both our customers and wider society look to more towards more sustainable fuels for aircraft, such as liquid hydrogen. Additionally, our employees have engaged in training to help identify ways to reduce noise pollution for our customers that operate within the advanced air mobility market.

A key focus of the Melrose Skills Fund has been identifying ways to work with third parties and the community to help bolster the UK's manufacturing and engineering industry. We have worked closely with The Schools' Aerospace Careers Programme (the "SACP"), a charity supporting young people and educational establishments across the UK to increase the number of young people undertaking STEM learning and pursuing careers in engineering-based industries. In addition to supporting school roadshows organised by the SACP, we have hosted a student networking event at our UK Global Technology Centre, which was attended by over 70 students and provided a full day of insights into aerospace careers. Furthermore, we have provided funding to Newcastle University for its research activities into human cell mapping as a basis for both understanding human health and for diagnosing, monitoring and treating disease. The funding has enabled Newcastle University to appoint additional research software engineers to help aid this important research.

Another core component of the Melrose Skills Fund has been supporting initiatives which look to improve diversity in all of its forms within the manufacturing and engineering industry. We collaborated with Enginuity, a not-for-profit organisation, and the trade union, Unite, to help develop an engineering task-oriented computer game contextualised for the aerospace sector to help encourage school children from ethnic minorities and different socio-economic backgrounds to consider a career within the engineering industry. Furthermore, we partnered with Cajigo, an app-based educational platform which offers mentoring and career guidance for girls and women, with the objective of closing the gender gap in engineering and technology. As part of this initiative, a group of our female engineers volunteered to support Cajigo's virtual talks and events. We also partnered with the University of West England and Ambitious about Autism, a London-based charity, to provide two internship opportunities at our UK Global Technology Centre to neurodivergent students.

£10m

invested over five years through the Melrose Skills Fund

>3,000

GKN Aerospace employees supported with technical skills training and development

SUSTAINABILITY REVIEW 2023

IN THIS SECTION

2023 SUSTAINABILITY HIGHLIGHTS

PERFORMANCE AGAINST MELROSE'S EXISTING SHORT-TERM SUSTAINABILITY TARGETS AND COMMITMENTS

During 2023, the Group demonstrated solid performance and strong dedication to deliver on our targets and standing commitments initially introduced in 2021. Having achieved most of our short-term and interim targets in 2023, we have reset those sustainability targets for achievement in 2025 to more ambitious levels (see pages 48 to 51).

Our medium- and long-term targets will be reviewed over the coming years to incorporate the results from our double materiality assessment, and to fully align with changes in regulatory expectations and our strategic priorities to tackle climate change and other environmental challenges, build stronger communities and a more diverse workforce, as well as to further embed sustainability across our governance systems. Our performance against the Melrose Group existing sustainability targets is depicted below. ESG data across our selected KPIs over the last years has been restated throughout this section to only include Melrose and GKN Aerospace performance.

SDG & Sustainability principle	Measure	Target	Baseline year	2023 performance	Target maturity	Progress against target
Respect and protect the environment	Reduce Scope 1 & 2 GHG emissions intensity[1]	20%	2020	38%[2]	2025	Achieved
	Source global electricity from renewable sources[3]	50%	2020	34.4%	2025	On track
	Divert solid non-hazardous waste from landfill	95%	2020	88%	2025	On track
	Reduce water withdrawal intensity[1]	25%	2021	32%	2030	Achieved
Continue to invest in products that help decarbonise aviation	Increase % of total R&D expenditure on climate-related R&D annually to contribute to the decarbonisation of aerospace	50%	2020	80%	2025	Achieved
	Increase % of new products which contribute to the decarbonisation of aerospace	50%	2020	100%	2025	Achieved
Prioritise health and safety, promote diversity and nurture the wellbeing and skills development of employees, and support the communities that they are part of	Protect our employees from injury and lost time accidents ("LTA") and maintain a LTA frequency rate below 0.1	<0.1	2020	0.04		Achieved
	Ensure that all permanent employees receive regular annual formal performance reviews[4]		2020	72%		On track
	Invest £10 million[5] in the Melrose Skills Fund to promote engineering skills across the UK over five years		2018			Achieved
	Ensure at least 33% female membership at Board and in executive committee and its direct reports		2020	40%		Achieved
	Maintain achievement of Parker Review recommendations		2020			Achieved
Exercise robust governance, risk management and compliance	Ensure compliance of all employees, suppliers and contractors with our Code of Ethics, conducting business with integrity and in a responsible, ethical and sustainable manner		2020			On track

(1) The Group's chosen intensity ratio is energy consumption, emissions and water withdrawal reported above normalised megawatts usage ("MWh"), tonnes of CO_2e, or m^3 per £1,000 of revenue. The data has been standardised from the source units in which it was initially collected. The revenue figures used to calculate the intensity ratio include continuing operations under operational control only.
(2) Market-based method has been used for Scope 2 emissions.
(3) Where renewable electricity is commercially and reasonably available in the relevant jurisdiction.
(4) Where permitted by local laws and employee representative bodies.
(5) Investment distributed in line with the public commitment of the Melrose Skills Fund to build the UK's industrial base and support the creation of 100-150 UK apprenticeships over five years.

In 2023, we continued to focus on improving our material sustainability topics that impact our business and are of most concern to our key stakeholders.

MSCI[1]

A

ESG Rating: A
(2022: A)

B

CDP Climate Change score 2023: B
(2022: C)
Industry Average 2023: C
(2022: C)

C

CDP Water Security score 2023: C
(2022: D)
Industry Average 2023: C
(2022: C)

Sustainalytics[2]

27.8

ESG risk rating improved to 27.8 (Medium) from 28.3

13th

Ranked 13th out of 129 Industrial Conglomerates (2022: 8th out of 114 in Industrial Conglomerates Category)

63.3

ESG Risk Management score improved to 63.3 (Strong) from 62.5 in 2023

(1) As of 2023, Melrose Industries PLC received an MSCI ESG Rating of A.
(2) As of 2023, Melrose Industries PLC received an ESG Risk Rating of 27.8 from Morningstar Sustainalytics and was assessed to be at medium risk of experiencing material financial impacts from ESG factors. In no event the ESG Risk Rating shall be construed as investment advice or expert opinion as defined by the applicable legislation.

Key developments include:

ENHANCING OUR CLIMATE STRATEGY AND ENVIRONMENTAL DISCLOSURES TO DRIVE OUR COMMITMENT TO NET ZERO

- Continued significant investment in world leading technologies to enable aviation's route to Net Zero by 2050 (£48m investment in decarbonising R&D in 2023);
- Developing our updated Transition Plan to set out our pathway to Net Zero with an updated climate risks scenario analysis and emissions targets;
- Submitted near and long-term emissions targets to the SBTi for validation;
- Achieved B for our CDP Climate Change and C for CDP Water Security disclosures;
- Commenced Water and Biodiversity impact assessments to improve our understanding of risks, dependencies and opportunities for improvement.

ACHIEVING KEY MILESTONES AND SHAPING OUR BUSINESS FOR THE FUTURE

- Met most of our Group short-term and interim ESG targets ahead of target year;
- Set more ambitious interim sustainability targets to align with our transformation into a pureplay aerospace business;
- Commenced a sustainability data pre-assurance project in preparation for formal limited assurance in the coming years;
- Updated our Diversity and Inclusion policies to better align with the latest benchmarks for diversity across the Board and executive management.

INCREASING ENGAGEMENT

- Completed a double materiality assessment to re-align the key focus areas reflective of our future as an aerospace only business, and re-assess our material sustainability topics based on their impact and financial materiality;
- Continued supply chain engagement through the CDP Supply Chain initiative in order to track and encourage supplier alignment to Net Zero, achieving a response rate of over 70% (2022: 50%);
- Continued collaboration with customers, governments, industry and other key stakeholders to actively influence and shape the future of more sustainable flight.

OUTLOOK FOR 2024

We are committed to remaining at the forefront of advancing aircraft efficiency and pioneering the development of sustainable aircraft of the future.

This endeavour is underpinned by a steadfast commitment to technological innovation, advanced processes, and the pursuit of engineering excellence.

We recognise that the global civil aviation commitments to Net Zero by 2050 will require improvements in aircraft and engine efficiency, improved aircraft flight management, the use of sustainable aviation fuels, and investment in innovative alternative energy solutions to address residual emissions. Our network of Global Technology Centres across the UK, Sweden, the Netherlands and the US ("GTCs") is instrumental in directing Melrose investment into decarbonisation technology, enhancing GKN Aerospace's capabilities, promoting collaboration, and expediting technological breakthrough, with a particular focus on the electric and hydrogen opportunities for sustainable aviation, lightweight (composite) materials and wiring systems, aircraft engine efficiency and additive manufacturing. Furthermore, GKN Aerospace will continue to leverage its distinctive market position to harness the advantages of newly established partnerships with industry leaders in these dynamic and emerging markets.

In 2024, we will continue to oversee and enhance our sustainability performance in the following key areas of focus:

- Identify and drive improvements to attain the new 2025 sustainability targets and associated goals, on or ahead of time, and across the priority material topics as identified and prioritised by the double materiality assessment;
- Continue to drive down business emissions and further develop our decarbonisation roadmap in line with our recently submitted Science Based Targets[(1)], in our own operations and across the value chain;
- Continue to improve sustainability data quality and reporting, including in preparation for the new regulatory requirements for sustainability data disclosures;
- Actively manage and mitigate the risks, and pursue appropriate opportunities, identified in the latest climate scenario analysis and Task Force on Climate-Related Financial Disclosures ("TCFD") and Climate-related Financial Disclosure ("CFD");
- Further improve our supplier engagement in line with the roadmap outlined in the Transition Plan to ensure progress towards achieving our Scope 3 engagement target[(1)].

(1) Submitted to the SBTi in 2023 and pending validation.

OUR SUSTAINABLE IMPROVEMENT STRATEGY

Sustainable value creation

Sustainability is an important part of our strategy, and we firmly believe that this focus is not just the right thing to do but is a central enabler of our success and value creation.

In partnering with our customers, we create breakthrough technologies and highly engineered products and systems where quality always comes first. We support our customers in tackling the most pressing and complex challenges across the aerospace sector and in achieving their own sustainability and net zero ambitions. With our aerostructures and engine systems enabling over 100,000 flights every day, empowered by innovative solutions based on breakthrough R&D and sustainable technology, we are committed to continuously improve all that we do and will always remain central to our success.

Our established sustainability governance framework helps drive longevity and credibility of sustainability performance over time as we seek to apply a long-term view and the highest standards of integrity, honesty, and transparency to any sustainability improvements we make and align them with commercial and operational success.

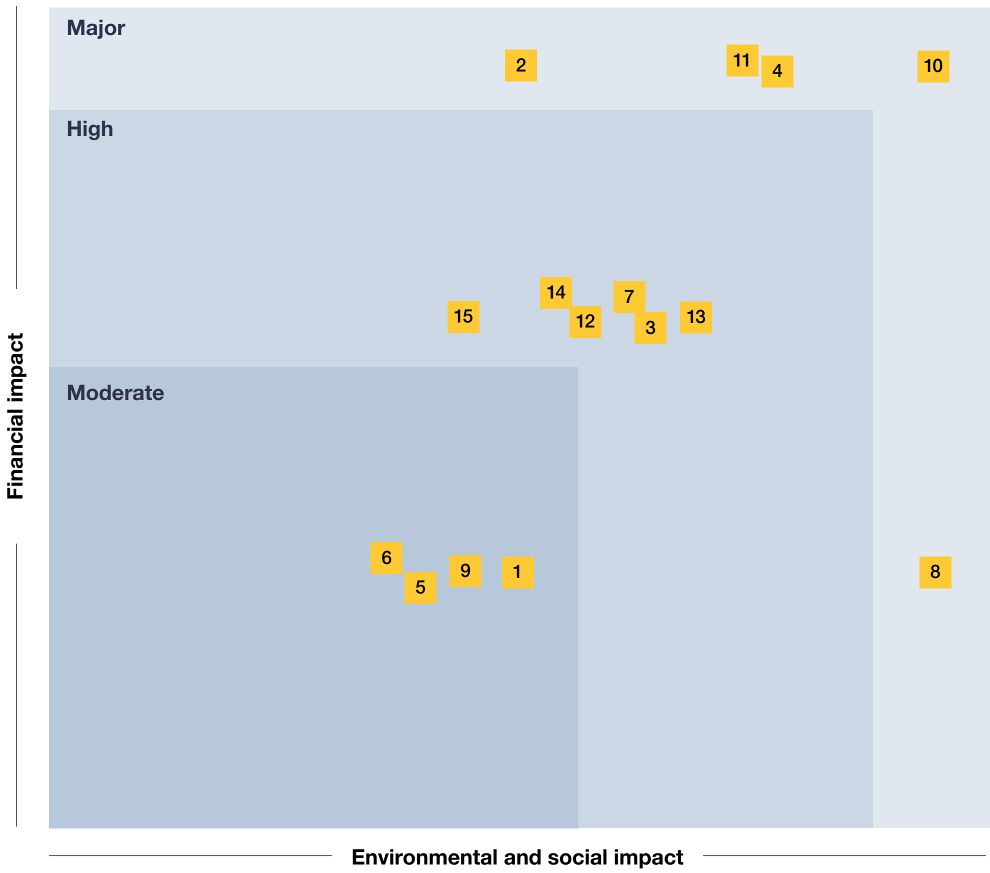
Double Materiality Assessment 2023

The transformation of the Melrose Group into a pureplay aerospace business has triggered the need to re-envision the sustainability topics that are material to the Group, and the Group sustainability targets required to drive improvements. In 2023, we conducted our first double materiality assessment to identify the sustainability topics that are most relevant for our new aerospace focused business and aligned stakeholders.

The new double materiality assessment results will help to guide our sustainability investments and initiatives to help tackle the most relevant risk exposures to society and the environment. This process will also help further integrate sustainability into our broader business strategy. Our near-term targets have also been reset to ensure continued drive and focus, with medium and long-term targets to be assessed over the coming years.

As illustrated below, the highest priority topics were identified as Climate change: Mitigation and adaptation, R&D for sustainable aviation, Occupational health, safety and wellbeing, Product Safety & Quality, and Business integrity. Going forward, we will tailor activities, targets, and commitments based on the results of this materiality assessment. The "Moderate" category ensures ongoing monitoring and action when necessary. Our journey toward an integrated, holistic approach to sustainability management reflects our commitment to supporting GKN Aerospace in its mission to be the most trusted and sustainable partner in the sky.

Our assessment results are plotted on a materiality matrix to show both the degree of stakeholder interest (impact materiality) and potential business impact (financial materiality).



- 1 Biodiversity
- 2 Business integrity
- 3 Circularity and waste reduction
- 4 Climate change: mitigation and adaptation
- 5 Community impact
- 6 Diversity and equal opportunities
- 7 Information security
- 8 Occupational health, safety and wellbeing
- 9 Pollution
- 10 Product safety & quality
- 11 R&D for sustainable innovation
- 12 Respect for human rights
- 13 Sustainable supply chain and responsible sourcing
- 14 Talent and workforce engagement and development
- 15 Water stewardship

GROUP TARGETS AND COMMITMENTS

Our Group sustainability targets and commitments are designed to uphold our company's sustainability principles and directly address the most pertinent sustainability issues we face. By aligning our targets and commitments with the United Nations Sustainable Development Goals ("UN SDGs"), we connect our sustainability aspirations with those of society at large. This alignment also ensures that our value creation strategy aligns with the expectations of our stakeholders, which we are dedicated to embedding into our core business agenda.

In order to reflect the business transformation of Melrose into a pureplay aerospace business, in 2023 our Group sustainability targets have been reset to align with GKN Aerospace's sustainability ambition and the macroeconomic and broader industry drive for advancing the environmental and social improvements in aerospace. Our 2025 targets provide a further short-term improvement against our existing measures, whilst we in parallel will develop our interim and long-term ambitions incorporating both strategic and regulatory developments. The baseline for targets was set in conjunction with the timeframe of the Group's target-setting process.

We summarise below our sustainability improvement principles, linking them to our targets, commitments, material topics, relevant stakeholders and UN SDGs. By fostering a culture of sustainability improvements, both operationally and financially, we strengthen our capabilities and resources, allowing us to pursue sustainable growth.

SUSTAINABILITY PRINCIPLE: RESPECT AND PROTECT THE ENVIRONMENT

UN SDGs	**Target 6.4** We have set a water withdrawal intensity target to increase efficiency across our business as we seek to address water challenges such as scarcity and quality
	Target 9.4 Contributing to resource-use efficiency, we aim to consider the impact of our manufactured products on the environment in terms of raw material and energy use, waste, and carbon footprint throughout each product life cycle
	Target 13.2 In recognition of climate change as a principal risk, we integrate it into strategic thinking and future planning
Targets	**Reduce Scope 1 and 2 GHG emissions intensity by 50% by 2025(1)**
	Source 50% of electricity from renewable sources by 2025(2)
	Divert 95% of solid waste from landfill by 2025(3)
	Reduce water withdrawal intensity(1) by 40% by 2025(4) and continue to implement a Group Water Stewardship Programme to improve water management
Climate targets submitted to SBTi for validation	**Reduce absolute Scope 1 and 2 GHG emissions by 50% by 2030(5)**
	Reduce absolute Scope 3 GHG emissions by 25% by 2030(6)
	Achieve net zero GHG emissions across the value chain by 2050
	Ensure 70% of suppliers by spend covering purchased goods and services have science-based targets by 2028
Sustainability improvement objectives	• Invest to improve operational efficiencies by minimising environmental impact through reduced energy consumption, CO_2 emissions, water use and waste management • Align with recognised frameworks such as SASB, TCFD and CDP to increase transparency of actions as a core driver for change
Material topics	• Climate change: mitigation and adaptation • Sustainable supply chain and responsible sourcing • Circularity and waste reduction • Water stewardship • Biodiversity • Pollution
Relevance to stakeholders	Investors, regulators, contractors, suppliers, customers, communities and joint ventures

SUSTAINABILITY PRINCIPLE:
CONTINUE TO INVEST IN DEVELOPMENT PRODUCTS AND SERVICES ALIGNED WITH A NET ZERO FUTURE

UN SDGs	**Target 7.3** We invest in improving the energy efficiency in manufacturing processes, enabling the development of effective solutions for climate change adaptation and mitigation
	Target 9.5 Our target for climate-related R&D facilitates the upgrade of our technological capabilities, bolstering our ability to help customers achieve their own climate goals
	Target 13.2 Integrating climate considerations into product development and commercial strategy, we have set a target to ensure that new product developments contribute to decarbonisation
Targets	**Maintain 80% of total R&D spend on climate-related R&D per year to contribute to the decarbonisation of aerospace by 2025**
	Achieve 100% of new product contracts that contribute to the decarbonisation of aerospace by 2025
Sustainability improvement objectives	• Support and harness product innovation and quality, to help our customers deliver on their commercial and environmental goals and find effective solutions to assist them in addressing climate change
Material topics	• R&D for sustainable aviation • Circularity and waste reduction
Relevance to stakeholders	Investors, contractors, suppliers, customers, communities and joint ventures

(1) The Group's chosen intensity ratio is energy consumption, emissions and water withdrawal reported above normalised megawatts usage ("MWh"), tonnes of CO_2e, or m^3 per £1,000 of revenue. The data has been standardised from the source units in which it was initially collected. The revenue figures used to calculate the intensity ratio include continuing operations under operational control only.
(2) Where renewable electricity is commercially and reasonably available in the relevant jurisdiction.
(3) Excluding hazardous waste.
(4) Target baselined on FY2021 with consideration of HY2022 performance.
(5) From a 2020 baseline year.
(6) From a 2022 baseline year. Scope 3 emissions primarily based on spend data, more weight data required to improve calculation accuracy. Target includes Scope 3 emissions from Category 3: Fuel- and energy-related activities, Category 4: Upstream transportation and distribution, Category 5: Waste generated in operations, Category 6: Business travel and Category 7: Employee commuting.

SUSTAINABILITY PRINCIPLE:
PRIORITISE HEALTH & SAFETY, PROMOTE DIVERSITY AND NURTURE THE WELLBEING AND SKILLS DEVELOPMENT OF EMPLOYEES, AND SUPPORT THE COMMUNITIES THAT THEY ARE PART OF

UN SDGs	**Target 3.9** Our business has a prominent position at the heart of the net zero transition and our products have a key role to play in achieving air pollution reductions and reducing the associated health damage
	Target 5.5 We promote diversity and inclusion to ensure employees' full and effective participation and equal opportunities at all levels
	Target 8.8 We implement effective policies and procedures to drive best health and safety practices and promote fair employment and skills development
Targets	**Protect our employees[1] from injury and accidents and maintain an LTA[2] frequency rate below 0.1**
	Ensure that all permanent employees receive regular performance reviews[3]
	Invest £5 million on skills development per year
	Maintain 40% female Board membership and at least one member of an ethnic minority background on the Board
	Achieve 40% female representation in the executive committee and its direct reports by 2025
Sustainability improvement objectives	• Follow best health and safety practice across our operations, respect employees' human rights and positively contribute to their communities by implementing effective policies and procedures, supported by local management accountability and a culture of strong awareness, training and investment • Ensure the pension schemes are managed prudently and effectively for both employees and retirees, and where relevant seek to create better-funded schemes with more prudent targets under our stewardship • Promote diversity and inclusion at all levels • Promote fair employment and skills development • Ensure that our people have a voice and can inform executive decisions
Material topics	• Occupational health, safety and wellbeing • Community impact • Diversity and equal opportunities • Product safety and quality • Talent and workforce engagement and development • Respect for human rights
Relevance to stakeholders	Regulators, contractors, suppliers, customers, communities and joint ventures

SUSTAINABILITY PRINCIPLE:
EXERCISE ROBUST GOVERNANCE, RISK MANAGEMENT AND COMPLIANCE

UN SDGs	**Target 8.7** We are committed to acting in an ethical manner with integrity and transparency and create effective systems and controls across the Group to safeguard our business against adverse human rights impacts **Target 8.8** Protect labour rights of all workers, safeguard their contractual and statutory employment rights and the right to participate in collective bargaining and freedom of association
Commitment	**Ensure that all employees, suppliers and contractors comply with our Code of Ethics, conducting business with integrity and in a responsible, ethical and sustainable manner**
Sustainability improvement objectives	• Implement and enforce effective compliance policies, ensuring integrity, responsibility and adherence to ethical principles • Protect the ultimate wellbeing of products' end-users by adhering to the highest safety standards • Respect labour and human rights and request suppliers to respect these principles • Protect information security and data privacy • Carry out prudent and responsible financial and tax planning and management • Maintain sensible and sustainable leverage to support investment
Material topics	• Business integrity • Information Security • Sustainable supply chain and responsible sourcing
Relevance to stakeholders	Investors, regulators, contractors, suppliers, customers, communities and joint ventures

(1) Excluding contractors.
(2) Lost time accidents.
(3) Where permitted by local laws and employee representative bodies.

SUSTAINABILITY GOVERNANCE

In 2023, we further crystallised our sustainability and climate change governance framework, which enables the delivery of our sustainability targets and commitments for our new integrated company. Our sustainability and climate change governance framework illustrates how we govern the delivery of our sustainability ambitions, including identifying, assessing and managing sustainability and climate-related risks and opportunities, setting targets and managing material topics, as overseen by the Board and committees, with the support of the integrated multi-function and multidisciplinary senior management team with respective responsibilities and accountabilities.

The topics discussed with the Board throughout 2023 include quarterly performance against the existing Melrose Group sustainability targets, our new targets and material topics, advancement of our climate financial disclosures, new Transition Plan, progress with ESG ratings, and sustainability governance among other topics.

The Audit Committee is responsible for ensuring that the Climate Change principal risk is integrated into Group risk management. It is responsible for monitoring, overseeing and reviewing the effectiveness of the Group's risk management processes and approach, including reviewing the Group's principal risks which include Climate Change risk, and considering the risks and opportunities identified by the Melrose senior management team. The Nomination Committee is responsible for ensuring that Board membership and pipelines for succession planning are suitably diverse. The Remuneration Committee is responsible for recognising sustainability considerations in the strategic element of the Melrose Group executive remuneration structure.

The GKN Aerospace sustainability function is responsible for executing the Group's sustainability priorities, inclusive of climate change considerations. The function evaluates sustainability performance against sustainability targets each quarter along with the implementation status of agreed-upon actions across the ESG KPIs.

→ **Group sustainability targets and commitments**
pages 48 to 51

→ **TCFD Report: climate change governance, strategy, risk management and metrics and targets**
pages 59 to 77

DELIVERING ON OUR PROMISES

Following strong performance against existing targets and commitments made, further actions being taken include:

- In line with our commitment relating to the setting of science-based emissions targets by our businesses, GKN Aerospace has successfully submitted its application to SBTi for validation.
- We have further advanced our sustainability data management and reporting tools to track quarterly performance against our targets which has helped to bolster regular engagement and focus action planning.
- We have increased our Diversity and Inclusion target to maintain 40% female representation across the Board and to achieve 40% female representation at Melrose Executive Committee level and direct reports.
- Continuing to evolve the Group's understanding and assessment of biodiversity factors prior to the official release of a global Taskforce on Nature-Related Financial Disclosures ("TNFD") framework. Specifically, we have continued to assess our sites' exposure to water risks in their locations and started the analysis of associated biodiversity risks.
- Continuing to evolve the Group's TCFD disclosures, with increased linkages to quantitative data within the Annual Report and financial statements where relevant and appropriate.
- Continuing to engage with our suppliers with a view to expanding our Scope 3 data reporting to ensure we are well positioned to achieve our Scope 3 SBTi target for engagement with our supply chain.
- As part of the renewal of the Company's Directors' remuneration policy in 2023, we have integrated ESG metrics into executive remuneration as a standalone element of the annual bonus.

SUSTAINABILITY AND CLIMATE CHANGE GOVERNANCE FRAMEWORK

MELROSE BOARD OF DIRECTORS

Has oversight responsibility of Group sustainability strategy, including climate-related risks and opportunities and is supported by the senior management team

AUDIT COMMITTEE

- Meets at least three times a year
- Responsible for monitoring, overseeing and reviewing the effectiveness of the Group's risk management processes and approach, including reviewing the Group's principal risks which include climate change risk, and considering the risks and opportunities identified by the Melrose senior management team
- Reviews and monitors the integrity of the Group financial statements, control systems and compliance controls, which over time shall integrate sustainability related financial information more closely, incl. in relation to climate change
- High-level visibility of key divisional risks, which may include sustainability or climate change related risks, following a review of the divisional risk registers by the senior management team

REMUNERATION COMMITTEE

- Meets at least twice a year
- Responsible for setting executive remuneration policy and integrating sustainability into the executive remuneration structure
- Addresses sustainability progress as part of the Annual Bonus Plan

NOMINATION COMMITTEE

- Meets at least twice a year
- Responsible for ensuring the membership of the Board and the pipeline for succession planning purposes reflects diversity

SENIOR MANAGEMENT TEAM

- Cross-functional team, including Group corporate, HR, finance, legal, and sustainability (under CTO)
- Responsible for overseeing sustainability strategy incl. climate change considerations
- Oversees quarterly divisional climate performance reporting against business KPIs and targets
- Identifies, assesses and prioritises climate risks and opportunities
- Advises the Board and Committees on governance and regulatory requirements, incl. on climate change

COMPANY SECRETARIAT

Workforce advisory panel

Responsible for promoting the views and the interests of the workforce

CTO / ESG SUSTAINABILITY FUNCTION

- A focused central team responsible for cross-functional integration, coordination and governance of all ESG activities.
- Leads materiality assessments, climate scenario analysis, sustainability & climate risk assessment.
- Responsible for Group Transition Plan creation and execution.
- Proposes key strategic ESG priorities for SMT and Board approval & incorporation into strategy.
- Responsible for governance of ESG data, quarterly performance, internal and external assurance and audit, and annual reporting and disclosures.
- Responsible for SBTi targets, plans & reporting.
- Engagement with ESG ratings agencies, advisors and shareholders on sustainability and climate topics.
- Responsible for compliance with public company ESG obligations & regulatory requirements.
- Coordinates supply chain programme and initiatives.
- Identification, assessment and management of sustainability risk and opportunities into risk process.
- Monitoring and integration of ESG initiatives towards sustainability targets and commitments.

BUSINESS LINE (EXECUTION)

- Lead the Divisional Business Lines, providing one face to customers and suppliers, with complete ownership from customer demand management, through procurement, supplier management, operations, and customer delivery.
- Responsible for keeping our people safe and delivery of safe products to our customers.
- Responsible for the development and execution of strategy in line with Board approved ESG targets and market & customer needs.
- Responsible for the performance of operational sites and suppliers including execution of plans, performance and reporting in line with ESG goals.
- Responsible for integration, cascade and compliance with all regulatory, customer and internal standards and policies.
- Responsible for effective management of risk, including risk related to ESG topics and maintaining business continuity.

FUNCTIONS (STANDARDS & COMPLIANCE)

	CTO/ESG	HSE	CFO	Legal & CoSec	HR	Quality
Primary focus	• ESG Sustainability Function leadership • ESG integration, governance and compliance • Sustainable R&D investment. • Sustainable products • Supply chain ESG integration (Scope 2 and 3 emissions) • Water stewardship	• Health & Safety • Environmental compliance (ISO's, water, waste, air, nuisance etc) • HSE Auditing • Waste management	• Financial resilience and controls • TCFD financial risks • Information security • IT energy efficiency	• Ethics and compliance • Board & committee oversight	• Diversity & inclusion • Engagement • Education, training & skills • Human rights	• Product Safety: Escape prevention • SMS – Safety Management System* • Global Quality standards • Quality culture training and awareness
Wider scope	• ESG external engagement • Technical community leadership • Strategy & portfolio • Innovation & IP	• Site energy efficiency best practice • Biodiversity	• Data, systems & reporting	• Listing rules	• Wellbeing • Attrition/retention • Community outreach • Fair employment • Trade union engagement	• Assurance and compliance

DIVISIONAL SUSTAINABILITY TEAMS

- Delivery of operational ESG initiatives towards fulfilling sustainability targets and commitments in line with the divisional management, business plans and strategy
- Responsible for the management of climate-related risk assessment and implementing mitigation actions where necessary
- Implementing actions for adapting to changing customer preferences, divisional markets' demands and regulatory requirements for sustainability and climate topics
- Helping to identify sustainability matters, including climate change risks and opportunities, and relay information to the sustainability function
- Monitoring of performance against sustainability targets at a granular level

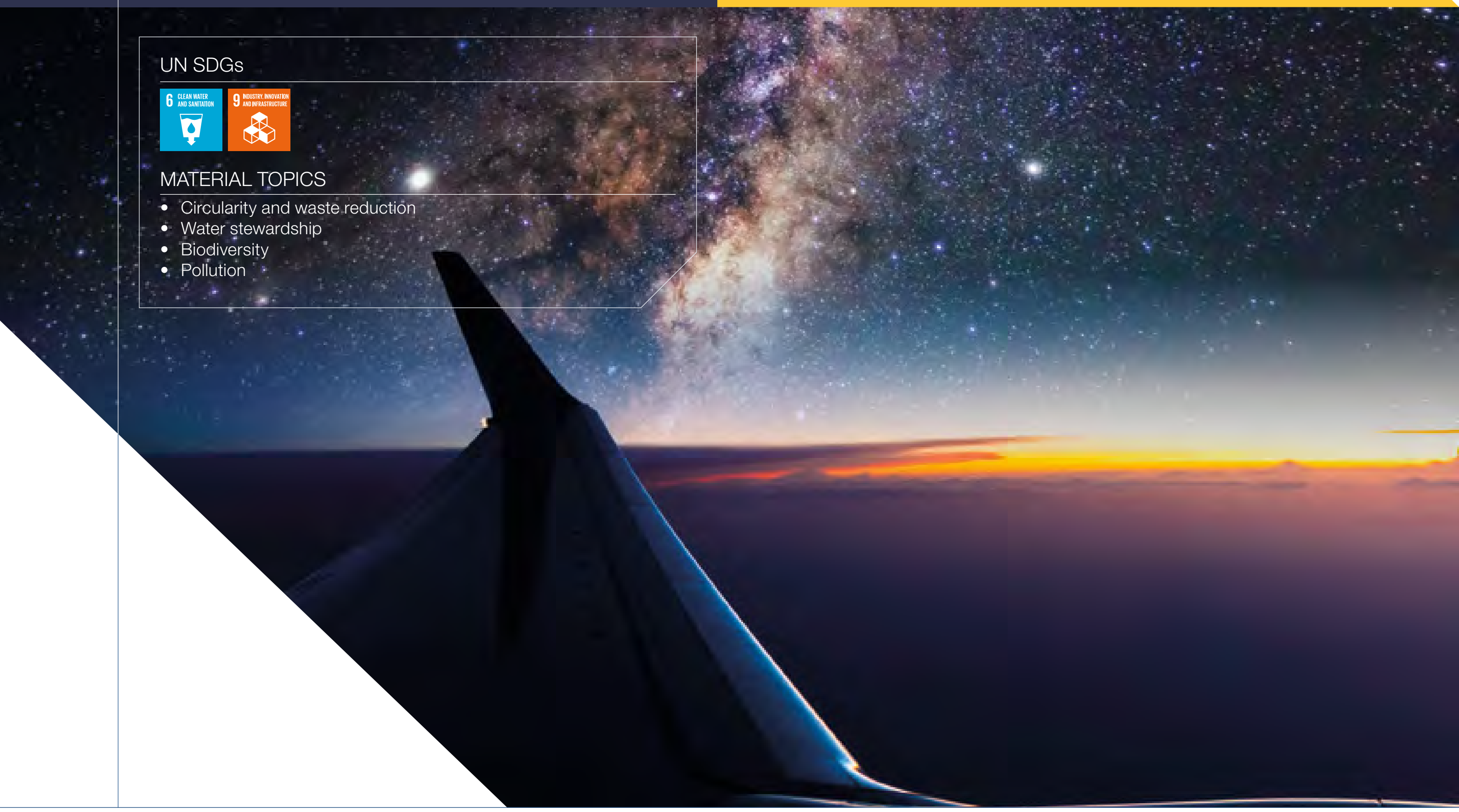
ENVIRONMENTAL IMPACT

Our strategic sustainability priority is to respect and protect the environment. We do so by working to avoid harmful impact on the air, water and soil as far as reasonably possible.

Our approach to environmental protection is twofold. Firstly, we seek to reduce the environmental impact of our operations through robust and ambitious sustainability targets. Secondly, we seek to help our customers address their environmental impact and to contribute to the decarbonisation of aerospace. Our Group environmental policy, as approved by the Board, demonstrates our commitment towards driving sustainable production methods and infrastructure, and minimising the potential negative impact we may have on the environment over the longer term. The policy, which applies to all individuals working across our business, can be found on our website at https://www.melroseplc.net/governance/documents-and-policies/.

No material environmental fines or penalties were issued against any of the businesses in 2023 or in the previous four years.

“GKN Aerospace performs a key role in achieving its climate goals through a number of UK, EU and US industry bodies alongside its portfolio of innovative decarbonising R&D projects, to ensure that the plan for Net Zero can be met despite projected passenger growth.”



UN SDGs

MATERIAL TOPICS

- Circularity and waste reduction
- Water stewardship
- Biodiversity
- Pollution

ENABLING A SUSTAINABLE TRANSITION TO NET ZERO

TRANSITION PLAN

In 2023, we developed our updated Transition Plan to provide our stakeholders with clarity around the actions we intend to take to achieve our short and medium-term emissions reduction targets to reach net zero GHG emissions across the value chain by 2050, and how we plan to contribute to reducing the climate impact of aerospace. Our Transition Plan outlines our objectives, priorities, detailed plans, and projects to reach our science-based emissions reduction targets(1), which have been submitted to the Science Based Targets initiative ("SBTi") for validation. Progress against these targets will be reported annually in our Annual and Sustainability Reports and within our CDP Climate Change responses as applicable.

Opportunity for change

The major manufacturers in the aerospace sector need to collaborate with all parts of the supply chain to innovate and deliver solutions that accelerate the path to Net Zero. The size of the challenge cannot be overestimated and requires a two-pronged approach whereby manufacturers need to find a way to scale up current production levels in a sustainable manner, while developing the aircraft of the future that will eliminate the climate impact of aviation from the top down. Central to tackling this challenge successfully, is not only industry-wide collaboration given the hugely complex aerospace supply chains, but also cumulative support delivered through cross-sector partnerships, investment in renewable energy sources, and enabling the required infrastructure.

As set out in the Sustainable Aviation Roadmap, the UK Government has committed to achieving net zero carbon emissions by 2050, reducing net CO_2e output from around 39 million tonnes to zero whilst still growing UK aviation by 78%. This will require improvements in aircraft and engine efficiency, improved aircraft flight management, the use of sustainable aviation fuels and investment in innovative alternative energy solutions to address residual emissions. With its market-leading positions driven by technological innovation, advanced processes and engineering excellence that help aircraft fly safely and more sustainably, GKN Aerospace's operational excellence, high-volume production and smart industry capabilities are now driving the global development towards lower energy consumption, reduced material waste and higher performance, resulting in shorter production lead times and more affordability for its global customers.

→ **Roadmap for achieving emissions reduction targets**
page 78

(1) Scope 1 and 2 targets are aligned with the ambition and emissions reduction trajectory required to curb global temperature rise to 1.5ºC. Scope 3 target is aligned with the carbon emission reductions needed to curb global temperature rise to well below 2ºC and is a significant step towards our net zero ambition by 2050.

UN SDGs

MATERIAL TOPICS

- Climate change: mitigation and adaptation
- Sustainable supply chain and responsible sourcing
- R&D for sustainable aviation

Strategic ambition

GKN Aerospace performs a key role in achieving this goal through a number of UK, EU and US industry bodies alongside its portfolio of innovative sustainable R&D projects, to ensure that the plan for Net Zero can be met despite projected passenger growth. GKN Aerospace is driving significant progress to support the net zero agenda through decarbonising our own operations and driving impact throughout the value chain. Please see pages 59 to 77 of our TCFD report to read more about our targets and commitments, and the roadmap for achieving them.

FROM IMPROVING EFFICIENCY THROUGH TO CUTTING EDGE TRANSFORMATIONAL SOLUTIONS, OUR TECHNOLOGIES AND PRODUCTS AIM TO ENABLE THE AVIATION'S JOURNEY TO NET ZERO.

COLLABORATION AND INVESTMENT MUST LOOK BEYOND NEW TECHNOLOGIES AND PRODUCTS. CRITICAL TO SUCCESS WILL BE ENSURING THAT REGULATORY FRAMEWORKS AND ECONOMIC POLICIES ENABLE THE MOST ENVIRONMENTALLY SUSTAINABLE SOLUTIONS TO ALSO BE ECONOMICALLY VIABLE.

→ **Melrose Transition Plan**
https://www.melroseplc.net/sustainability/data-centre/

Industry leadership

From improving efficiency through to cutting edge transformational solutions, our technologies and products aim to enable aviation's journey to Net Zero. However, collaboration and investment must look beyond new technologies and products. Critical to success will be ensuring that regulatory frameworks and economic policies enable the most environmentally sustainable solutions to also be economically viable. Participation in major aerospace sustainability think tanks, councils, regulatory bodies and collaboration forums, aims to leverage our focus on sustainability for much greater impact.

GKN Aerospace is an active player in the leading industry and collaboration platforms, which places it at the forefront of the latest breakthrough aerospace trends in both R&D and sustainability. Set out below are some examples of the way we engage with the industry globally and across the countries where we operate.

- GKN Aerospace is a signatory to the Joint Declaration of European Aviation Stakeholders related to Clean Aviation in Horizon Europe, committing to a European Partnership towards achieving the goals of the Paris Agreement.
- Within the UK, it also works within the Jet Zero Council, the Aerospace Technology Institute, the Hydrogen in Aviation alliance, and the Aerospace Growth Partnership, where GKN Aerospace plays a key role in developing the policy to support aviation's transition to Net Zero.
- In Engines, GKN Aerospace's Permanova business continued to support business growth while transforming its supply chain by offering material solutions that are more sustainable than the current alternatives available on the market. It is expected to achieve significant savings in emissions through the expansion of lightweight and much higher buy-to-fly product offerings. The first product using Permanova base material will be a fabricated fan case mount ring for Pratt & Whitney, saving an estimated 1.5 tonnes of CO_2e per unit produced.
- GKN Aerospace's Engines division is also the only partner in both of today's sustainable future civil engine technology development programmes: the SWITCH consortium – alongside Pratt & Whitney, Airbus, MTU and Collins Aerospace – to develop the next-generation of GTF engine, and the CFM RISE programme.
- Within the Structures division, development work continued as a key partner with Airbus on the Wing of Tomorrow project. The project, funded by the UK Aerospace Technology Institute, aims to provide technologies for a composite single-aisle wing to improve aerodynamic performance and reduce CO_2 emissions. The technology deployed sees a move away from traditional, pre-impregnated resin material to dry composite fibres that are injected with thermoset resin co-cured within a highly controlled out-of-autoclave manufacturing process. This enables overall weight reduction, whilst reducing manufacturing process steps and significantly reducing energy consumption.
- The Wing of Tomorrow programme has also enabled the testing of more sustainable out-of-autoclave thermoplastic production processes. Initial tests have demonstrated significant environmental benefits, including an 80% lower production time compared to conventional autoclave technology, as well as an 80% decrease in energy use and therefore emissions.
- 2023 also saw GKN Aerospace lead the Clean Sky 2 STUNNING programme to successfully manufacture one of the world's largest thermoplastic components – an 8m x 4m half-fuselage made from novel thermoplastic manufacturing and joining technologies. These will help enable the performance benefits of composites to be deployed with reduced manufacturing emissions, whilst also improving resilience and material recyclability. The project was part of the Multi-Functional Fuselage Demonstrator, led by Airbus, which aims to reduce fuselage weight by 1 tonne (10%), substantially reducing in-flight emissions.
- GKN Aerospace was among the first companies to sign up to the UK's new Defence Aviation Net Zero Strategy, which serves as a comprehensive roadmap to achieve carbon neutrality in the aviation domain. GKN Aerospace joined key customers and OEMs in supporting the strategy and was the only Tier 1 supplier to sign in 2023.
- GKN Aerospace has taken a sustainability leadership role in the defence markets, including working with Saab and other partners to support the use of Sustainable Aviation Fuels within the Gripen RM12 engine. Biofuels have been proven to be interchangeable within the engine, with tests showing excellent results so far. GKN Aerospace also supported Bell on the first ever 100% SAF single engine helicopter flight.
- In the rapidly developing advanced air mobility sector, GKN Aerospace signed a series of design-and-build production contracts with emerging companies in 2023, including Lilium, Supernal and Joby. These relationships combine with existing partnerships – such as with Eviation and Vertical – to accelerate the future of battery-electric-powered, zero emission flight.
- In the same sector, GKN Aerospace partnered with Pratt & Whitney Canada on its hybrid-electric flight demonstrator project in which it will develop, construct and install the electrical wiring interconnection system for the demonstrator, targeting a 30% improvement in fuel efficiency and reduced CO_2 emissions compared to today's most advanced regional turboprop aircraft.
- Enabled by the Future Flight Challenge for Innovate UK, GKN Aerospace delivered its first ground-based demonstrator of a liquid hydrogen aircraft fuel system. The test helped develop new understanding to support safe system design, manufacturing and operational knowledge for liquid hydrogen fuel systems.
- Work continued under the £54m H2GEAR programme to develop technology for zero emissions hydrogen-powered aircraft. The programme is on track to ground test a scalable hydrogen-electric fuel cell propulsion system in 2025. A memorandum of understanding with Marshall and Parker Aerospace will expand GKN Aerospace hydrogen system capability to liquid hydrogen fuel systems for zero emission aircraft, whilst a further collaboration with Embraer aims to accelerate the implementation of hydrogen technologies and pave the way for a potential flight demonstrator.
- GKN Aerospace also turned its hydrogen leadership towards defence, partnering with Swift Aircraft to develop design concepts for zero emission light aircraft. Light aircraft are essential for training military pilots, and the RAF's net zero 2040 programme has made a future fleet of sustainable military training aircraft a key priority.

"GKN Aerospace is an active player in the leading industry and collaboration platforms, which places it at the forefront of the latest breakthrough aerospace trends in both R&D and sustainability."

TCFD AND CFD

COMPLIANCE

For clarity around compliance of the following information with the TCFD framework, the TCFD All Sector Guidance and Supplemental Guidance for Non-Financial Groups[1] and the requirements arising from Listing Rule 9.8.6R(8), we consider our disclosure to be consistent with all TCFD recommendations and recommended disclosures and with the climate-related financial disclosure requirements under the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, as shown in the TCFD cross-reference and disclosure consistency summary below.

Recommendation	Recommended disclosures	Page
Governance Disclose the organisation's governance around climate-related risks and opportunities	a) Describe the Board's oversight of climate-related risks and opportunities b) Describe management's role in assessing and managing climate-related risks and opportunities	59
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	63
Risk Management Disclose how the organisation identifies, assesses, and manages climate-related risks	a) Describe the organisation's processes for identifying and assessing climate-related risks b) Describe the organisation's processes for managing climate-related risks c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	60
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 GHG emissions, and the related risks c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	74

(1) https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf.

GOVERNANCE

A

Describe the Board's oversight of climate-related risks and opportunities.

B

Describe management's role in assessing and managing climate-related risks and opportunities.

Board oversight of climate change

The Melrose Board of Directors, supported by the Melrose senior management team as informed by the GKN Aerospace sustainability function, has oversight of and ultimate responsibility for Melrose's sustainability strategy (including climate change), targets, disclosures, and reporting. The Board assesses climate-related risks and opportunities among other sustainability and environmental material topics and monitors performance against targets. Climate-related opportunities, such as investment in significant projects, are presented to the Board for sign-off where appropriate. The Board also oversees our alignment with the TCFD recommendations, compliance with the Climate-related Financial Disclosure ("CFD"), and our sustainability and climate commitments and disclosures.

The Board receives annual training and regular updates on key sustainability and climate-related matters that impact Melrose and the GKN Aerospace divisions, and on the specific measures that need to be implemented to improve performance. The Board regularly considers climate-related matters when reviewing and guiding strategy and overseeing its implementation through oversight of divisional financial and operational performance and quarterly Board meetings.

Progress in improving climate-related matters is monitored by the GKN sustainability function and reported to the Melrose senior management team, for the Board's onward review, challenge and discussion where required. This includes the tracking of company sustainability and climate targets, and key metrics such as year-on-year reduction in emissions, increase in spend on R&D programmes focused on decarbonisation, the number of new products contributing to the decarbonisation of aerospace and other innovation programmes.

The Audit Committee updates the Board on climate risk management by monitoring and reviewing the effectiveness of the risk management processes, including the review of our principal risks of which Climate Change risk is one. The Remuneration Committee implements the Company's Directors' remuneration policy ("Directors' Remuneration Policy") and as part of the renewal of the Company's Directors' Remuneration Policy in 2023, we have integrated ESG metrics into executive remuneration as a standalone element of the annual bonus. Please see the Directors' Remuneration report on pages 128 to 152 for more details. Oversight of sustainability and climate-related matters is integrated across our Board and its Committees as outlined in the sustainability and climate change governance framework on page 53.

→ **Directors' Remuneration report**
pages 128 to 152

→ **Sustainability and climate change governance framework**
page 53

Management oversight of climate change

The GKN Aerospace sustainability function plays a key role in escalating material sustainability and climate risks and opportunities to the Melrose senior management team, who ensure the implications of these are considered within the Board's agenda, governance framework, business strategy and where relevant, financial plans, to address climate-related risks and pursue opportunities. The sustainability function meets with relevant members of the executive team on a quarterly basis to track the climate-related risks and opportunities register. More information on how we determine the materiality of climate-related risks, and their financial impact can be found in the Strategy b) section on page 59.

The GKN Aerospace sustainability function is responsible for the identification, design, implementation, monitoring and continuous evolution of improvement actions and performance towards achieving our climate targets, and incorporation of the TCFD and CFD recommendations to improve our disclosures.

Climate-related risks and opportunities are discussed regularly within GKN Aerospace and in decision-making that relates to setting strategy to mitigate identified risks or capitalise on opportunities. Where relevant, the Melrose senior management team engages with the business line senior management teams when reviewing and guiding strategy, which can include the approval of major capital expenditure. This engagement includes the identification and monitoring of sustainability and climate-focused improvement plans, performance against climate targets, management of climate risks and climate reporting alongside financial and operational metrics, the reviews of which are embedded in a structure of business reviews cascaded through the business. The GKN Aerospace sustainability function engages with the respective business line senior management teams to guide focus, review progress and identify synergistic opportunities. The GKN Aerospace sustainability function is responsible for coordinating key stakeholders across the business to ensure that required controls are in place for appropriate risk mitigation and management, and that the assessment and management of sustainability and climate-related risks and opportunities are integrated across the business. Management of sustainability and climate-related matters is integrated across executive levels as outlined in the sustainability and climate change governance framework on page 53.

RISK MANAGEMENT

A

Describe the organisation's processes for identifying and assessing climate-related risks.

B

Describe the organisation's processes for managing climate-related risks.

C

Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Identifying and assessing risk

As a principal risk, Climate Change risk undergoes continuous assessment through the established Melrose risk management processes of identification, evaluation, mitigation, analysis, review and monitoring, as is the case with other principal risks. For further details on our approach to assessing principal risks, please see the Risk Management and Risks section of the Strategic Report on pages 28 to 36. To account for the change of structure within the organisation, we have carried out a new climate scenario analysis to ensure that the specific climate-related risks and opportunities identified by the Company are aligned with the aerospace industry. Specific climate-related risks and opportunities have been identified at subsidiary level (GKN Aerospace) and are reported up to the Group level to inform the assessment of the Climate Change principal risk. The climate scenario analysis will be renewed at least every three years to ensure the most up-to-date and relevant information on our exposure to risks and mitigation opportunities.

This year, we have recalibrated our initial 2021 climate scenario assessment of climate-related risks and opportunities to focus on the aerospace sector. Climate risks and opportunities were identified through a comprehensive assessment conducted with the assistance of third-party consultants. This assessment involved a combination of interviews with key stakeholders, including several internal functions and rigorous desktop research. Two separate climate risk assessments have been carried out to reflect the differences in physical and transition risks and opportunities. Both these risk assessments included a company-wide review of operations, customers, supply chain and how this could impact revenue, assets and other costs. The analysis combined horizon scanning of external industry and wider macroeconomic aspects of climate risks, as well as engagement with internal business functions, including but not limited to R&D, procurement, operations, customers and products function, senior management, risk, finance and sustainability teams across GKN Aerospace's business lines of engines and structures, and at Melrose level. Risks and opportunities have been prioritised to determine which have a material financial impact on the organisation using both likelihood (the probability of the risk occurring) and impact (the financial and reputational outcome of the risk occurring), resulting in a combined risk register with a low-, moderate- or high-risk rating for each time horizon and scenario. The summary of identified risks and opportunities outlines the risk and opportunity exposure, the timeframe to which the impact of the risk and opportunities will manifest, and also which scenario is likely to have the greater likelihood of impact.

Melrose risk assessment criteria

	1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain
Likelihood	Highly unlikely, but the risk event may occur in exceptional circumstances. The risk event could happen, but probably never will.	Not expected, but there's a slight possibility the risk event may occur at some time.	The risk event might occur at some time as there is a history of casual occurrence.	There is a strong possibility the risk event will occur as there is a history of frequent occurrence.	The risk event is expected to occur in most circumstances as there is a history of regular occurrence.
	1 Minimal	**2 Low**	**3 Medium**	**4 High**	**5 Very high**
Impact	Inconvenience, but not impact on ability to achieve objectives.	Disruption to activities but limited to the immediate term. No longer-term impact on ability to achieve objectives.	Considerable issue but short term. Only relatively minor concern about longer-term business prospects.	Significant impact. Casts significant doubt on the ability to meet objectives and places the future of the business in peril.	Failure of the business. Unable to achieve corporate objectives.
	Regulator is aware, but no impact. 'Slap on the wrist'. Not in the public domain.	Small fines or written warnings. Customers aware.	Large fines and written judgements. Public awareness but limited long-term impact on reputation.	Significant adverse regulatory judgement and/or fines. National press coverage and significantly tarnished reputation.	Loss of licence or ability to operate. Very significant fines or criminal proceedings.

The Melrose senior management team oversees the identification of climate-related risks and opportunities with the support of GKN Aerospace sustainability function, who identify, monitor, and manage the specific risks relevant to the GKN Aerospace business lines' operating activities and ensure that required controls are in place for appropriate mitigation and management. The identification and assessment of climate-related risks and opportunities also includes horizon scanning as part of our key positions in influential industry bodies such as Jet Zero Council in order to monitor key developments and risks, and to engage with policy makers to mitigate their impact on the business. We also rely on the support of advisors where appropriate, who contribute to the awareness and analysis of climate-related risks and opportunities that are relevant to the Company. By engaging in this multifaceted approach, we gained valuable insights into the potential risks associated with climate change, as well as the opportunities that might emerge in the context of emerging regulatory landscapes.

Climate-related risks were assessed alongside climate-related opportunities, based on the same criteria that was used to determine and rate the divisional-level risks and their relative significance in comparison to other non-climate-related risks. This allowed for their integration into the overall risk management framework. Our risks were ranked on a five-point scale for both likelihood (the probability of the risk occurring) and impact (the financial and reputational outcome of the risk occurring), resulting in a combined risk register with a low-, moderate- or high-risk rating for each time horizon and scenario. The likelihood and impact criteria allow the materiality of risks to be determined as defined in the table on page 60, meaning that GKN Aerospace can prioritise the management of the most material risks (those of high and very high impact) by allocating appropriate resources to it.

→ **Identified climate-related transition and physical risks**
pages 64 to 71

Management of risk

The GKN Aerospace sustainability function is responsible for regularly reviewing and considering the levels of significant climate-related risks, their impact on business strategy and the effectiveness of management and mitigation controls. The decision to tolerate, transfer or treat a risk is partially determined by the risk impact and likelihood criteria. Risks with higher scores will need to be managed appropriately to bring the risk impact back in line with an appropriate risk appetite. Action plans are developed for higher scoring risks which detail existing controls and descriptions of response actions needed to mitigate the risk. Responsibility for specific risks is also assigned to ensure appropriate implementation and management. For more information on how we manage each identified climate-related risk, please refer to pages 64 to 71.

Integrating climate into existing risk management

Due to the increased frequency of extreme weather and climate-related disasters, coupled with tightening legislation and regulations, Climate Change has been identified as a standalone principal risk since 2021 and is incorporated into Melrose's overall risk management processes. The Climate Change principal risk comprises a combination of transition and physical risks as identified in our climate scenario analysis on pages 63 to 71. These risks undergo reassessment every year by the GKN Aerospace divisional management teams to determine the risk trend, impact and likelihood. The transition and physical climate risks are then presented to the Audit Committee for consideration alongside the other principal risks on a biannual basis in the form of reports prepared by the Melrose senior management team. The Chairman of the Audit Committee updates the Board to inform the Board's review, challenge and setting of Melrose's appetite for each principal risk including Climate Change. The Board's assessment of each of the principal risks and their management, are disclosed on pages 31 to 36 of the Strategic Report which shows the relative significance of climate-related risks compared to other principal risks. The output from the climate change risks assessment is considered in our strategic business planning as relevant.

→ **Risks and uncertainties**
pages 31 to 36


VAHLE
FUMEX

STRATEGY

A

Describe climate-related risks and opportunities the organisation has identified over the short, medium and long term.

B

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

C

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Melrose's commitment to net zero emissions by 2050 and to manage emerging risks associated with extreme weather, pose physical and transitional risks as well as opportunities. The roadmap for achieving our targets through operational decarbonisation, products and services and engagement with our value chain, and the approach for addressing our risks and opportunities are detailed in our Transition Plan.

This year, we have recalibrated our initial 2021 climate scenario assessment of climate-related risks and opportunities to focus on the aerospace sector. Two separate climate risk assessments have been carried out to reflect the differences in physical and transition risks and opportunities. Both these risk assessments included a company-wide review of operations, customers, supply chain and how this could impact revenue, assets and other costs. The analysis combined horizon scanning of external industry and wider macroeconomic aspects of climate risks, as well as engagement with internal business functions, including but not limited to R&D, procurement, operations, customers & products function, senior management, risk, finance and sustainability teams across GKN Aerospace's business lines of engines and structures, and at Melrose level. Risks and opportunities have been prioritised to determine which have a material financial impact on the organisation using both likelihood (the probability of the risk occurring) and impact (the financial and reputational outcome of the risk occurring), resulting in a combined risk register with a low-, moderate- or high-risk rating for each time horizon and scenario. The summary of identified risks and opportunities outlines the risk and opportunity exposure, the timeframe to which the impact of the risk and opportunities will manifest, and also which scenario is likely to have the greater likelihood of impact.

In aggregate, we conclude that our overall climate risk exposure is moderate, and our business is financially and operationally resilient and strategically robust to climate risks in the immediate term within the bounds of our "business-as-usual" operations, considering that many of the risks are already being addressed through existing or planned mitigation or adaptation activities and provisions. In addition, significant focus and investment, such as our R&D programmes, is ongoing to support realisation of a number of related climate-related business opportunities.

TRANSITION RISKS AND OPPORTUNITIES

The speed at which the economy decarbonises will determine the severity and impact of climate transition risks, as well as the ability to capitalise on the opportunities related to the transition to a low-carbon economy. The TCFD framework defines transition risks in four categories (Policy and Legal, Market, Technology, and Reputation) and transition opportunities in five categories (Resource Efficiency, Energy Source, Products & Services, Markets and Resilience). As part of our transitional scenario analysis, we considered risks and opportunities within these nine categories and ranked them on their impact and likelihood to Melrose. Several other risks and opportunities were considered and analysed but only the most material have been disclosed. The assessment of risks and opportunities was carried out at a gross level, meaning the impacts of the risks and opportunities assumed no mitigating actions are already in place.

To understand our business resilience to future climate scenarios, in line with the TCFD guidance, we used International Energy Agency's ("IEA")(1) Net Zero Emissions by 2050 Scenario ("NZE")(2) and Stated Policies ("STEPS")(3) climate scenarios to model transition risks and opportunities, and the Intergovernmental Panel on Climate Change ("IPCC") framework recommended scenarios. The climate scenarios we use are kept under review to ensure they remain viable, plausible and stretching.

In our assessment, we considered the short-, medium- and long-term impacts of climate change when examining the identified transition climate-related risks (and opportunities) and their actual and potential business impacts (including on strategy and financial planning). Three time horizons were used to identify and assess specific transitional climate-related issues. These time horizons allowed us to consider the lifespan of our assets and infrastructure as well as any longer-term regulatory changes.

Time horizons		Rationale
Short	2023–2025	In line with short-term specific business planning.
Medium	2025–2030	Encompasses Melrose's near-term emission targets.
Long	2030–2050	Encompasses Melrose and the UK Government's Net Zero by 2050 target and other long-term policy trends.

(1) IEA (2022), Global Energy and Climate Model, IEA, Paris https://www.iea.org/reports/global-energy-and-climate-model.
(2) NZE outlies a pathway for the global energy sector to achieve net zero CO_2 emissions by 2050, which limits the global temperature rises to 1.5°C by 2100, with 50% probability. This scenario is included as it informs decarbonisation pathways used by the SBTi.
(3) STEPS outlines a combination of physical and transition risk impacts as temperatures rise by 2.5°C by 2100, with 50% probability. This scenario is included as it represents a midway path with the trajectory implied by today's policy settings.

Key

Anticipated onset of risks and opportunities	Low likelihood
Estimated full impact of risks and opportunities	High likelihood

Transition Risks

Risk type	Description	Mitigation	KPIs[1]
EXPOSURE TO CARBON PRICING MECHANISMS			
Policy & Legal	Increased operational exposure to carbon pricing mechanisms such as the ReFuel EU, EU Emissions Trading System, and CORSIA. Additionally, the impact will be felt in our value chain through the EU and upcoming UK Carbon Border Adjustment Mechanisms ("CBAM") applied through raw materials, such as aluminium, imported into our EU operations. The impact is likely to be felt through potential increases in airline ticketing prices and increased cost of raw materials from suppliers. The ultimate impact of increased prices is a dampening of growth in air traffic, leading to a reduction in future potential sales. Over time the adoption of carbon pricing instruments will increase, driving the price levels of all carbon pricing systems and therefore the overall risk exposure. NZE scenario predicts an increased number and ambition of carbon pricing mechanisms, meaning a higher exposure than in STEPS.	• GKN Aerospace's supplier engagement target which will reduce exposure to carbon pricing in our value chain. • GKN Aerospace's SBTi submission and Net Zero Transition Plan sets out ways in which we will decarbonise our operations and supply chain, reducing our emissions and therefore reducing our exposure to carbon pricing mechanisms. • GKN Aerospace monitors exposure to potential future carbon price increases through the IEA World Energy Outlooks carbon prices. • GKN Aerospace is an active member of the IAEG and receives regular updates through a newsletter on global environmental and chemical regulations, policies, and standards that is shared with key stakeholders.	Scope 1, 2 and 3 emissions Carbon pricing market signals

Potential impact	Risk exposure	Timeframe: Short 2023–2025	Medium 2025–2030	Long 2030–2050	Scenario sensitivity: NZE	STEPS
Higher costs	High				●●●●	●●

Risk type	Description	Mitigation	KPIs[1]
REGULATORY CHANGES TO FLIGHT TIME AND ROUTES			
Policy & Legal	The risk of an increased number of regulations that prohibit short haul flights could impact the number of conventional aircraft and components for conventional aircraft that are sold. NZE scenario assumes more ambitious sustainable aviation regulations, that could reduce certain flight routes, are brought in indicating a higher risk exposure than under STEPS. The regulatory changes transition risk affects domestic travel directly, while individual country policies can also have an indirect effect on international air travel.	• R&D investment in low carbon technologies such as battery electric and hydrogen can provide us with avenues to offset potential losses from conventionally powered aircrafts e.g., H2GEAR programme. GKN Aerospace is the leader in a major £54m technology programme, H2GEAR, to develop core capabilities in electrical power generation and cryogenic electrical distribution and motors in five years. H2GEAR aims to deliver a ground-based demonstration of a system capable of delivering 1MW of power, sufficient to support sub-regional aircraft and with the potential to be scaled to regional aircraft of up to 100 seats. • Melrose's targets for decarbonising R&D and new products contributing to the decarbonisation of aerospace drive continued investment and efforts to become the most sustainable partner in the sky. • Membership in industry bodies such as the IAEG helps GKN Aerospace stay aware of any incoming regulatory changes.	Number of regulatory changes to flight routes and times

Potential impact	Risk exposure	Timeframe: Short 2023–2025	Medium 2025–2030	Long 2030–2050	Scenario sensitivity: NZE	STEPS
Decreased revenue	Moderate				●●●	●

Transition Risks continued

DECLINING DEMAND FOR LEGACY PRODUCT OFFERING AND DAMPENING OF AVIATION MARKET

Risk type	Description	Mitigation	KPIs[1]
Market	Changes to societal expectation and behaviour due to concerns about climate change may impact overall demand for air transportation and decrease demand for conventional products. If GKN Aerospace cannot improve alternative technologies such as electric or hydrogen aviation at the required rate there may be a demand curtailment of current products. NZE predicts a faster rollout of lower-carbon technologies meaning a greater exposure of risk than under STEPS.	• To retain value in GKN Aerospace core products, investment in sustainable aviation fuels is a key priority. GKN Aerospace is actively engaged in key industry to government forums, such as the UK government Jet Zero Council, in order to build a clear strategy to deliver SAF at the scale required to retain this market value. • A decrease in demand for conventionally powered aircraft will be offset by an increased demand in lower carbon technologies that Melrose is investing in though R&D and new product development. • Engagement to ensure low-carbon aviation is at the forefront of regulators and governments minds to ensure sustainable growth in the aviation market.	Aviation market growth predictions

Potential impact	Risk exposure	Timeframe: Short 2023–2025	Timeframe: Medium 2025–2030	Timeframe: Long 2030–2050	Scenario sensitivity: NZE	Scenario sensitivity: STEPS
Decreased revenue	High			▼	●●●●	●●

RAW MATERIAL AVAILABILITY

Risk type	Description	Mitigation	KPIs[1]
Technology	An increased focus on developing lower carbon aviation (battery and hybrid electric propulsion systems) causes demand in materials needed in these technologies to increase (Rare Earth Materials ("REM"), composites and titanium). Increased global conflict in areas where these materials are geographically concentrated could impact availability. NZE sees a greater demand for REM and other materials associated with lower carbon aviation, indicating a greater exposure of risk compared to STEPS. In addition, OEMs are already expecting manufacturers to increase use of additive manufacturing due to the much greater "buy-to-fly" ratio and also in the view of global concerns of security of supply.	• Ensure reliable supply from alternative non-sanctioned markets. • Increased focus on resource efficiency by recycling raw materials and therefore reducing the amount of virgin materials. For example, there is an increased use of recycled metals like aluminium being used in manufactured aerostructures. • Increasing additive technologies being developed by GKN Aerospace with a capital investment plan in Sweden, as well as in the UK and the US. • Over stocking on key materials to ensure a reliable supply. • Increased investment in resource efficiency technologies such as nesting and additive manufacturing e.g., the Texas additive manufacturing centre of excellence for large-scale titanium aerostructures. • Investment in composite recycling.	Percentage of raw materials recycled

Potential impact	Risk exposure	Timeframe: Short 2023–2025	Timeframe: Medium 2025–2030	Timeframe: Long 2030–2050	Scenario sensitivity: NZE	Scenario sensitivity: STEPS
Increased costs	High		▼		●●●●	●●

(1) Performance measurements on specific KPI's are conducted through horizon scanning or internal KPI tracking.

Key

Anticipated onset of risks and opportunities	Low likelihood
Estimated full impact of risks and opportunities	High likelihood

Transition Risks continued

Risk type	Description	Mitigation	KPIs[1]
SUCCESSFUL ENTRY INTO SERVICE OF NEW TECHNOLOGIES			
Technology	A lack of certification of aircraft with new technologies such as hydrogen and battery electric could impact the rate to which production demand is met. Certifying organisations, including the CAA and EASA, amongst others, have historically wanted to make decisions based on significant amounts of data but with new technologies, data availability is lacking. The lack of successful entry of lower carbon aviation could impact our ability to benefit from the transition to a lower carbon economy and more sustainable aviation. Under NZE, the rate of new technology certification will need to be high and delays in certification could cause a bottle neck in production, causing a high-risk exposure.	• Collaboration with certification bodies is a key mitigation factor to reduce the potential delay in certification of new technologies. Certifiers are regularly invited to new aircraft testing. • Extensive use of both ground and flight validation of technologies is a critical step both in educating airworthiness authorities as well as building clarity of what will be required to be proven in full scale development programmes. GKN Aerospace is already planning a series of research tests with strong engagement with regulators in order to enable this.	Certification times of components used in low carbon aviation

Potential impact	Risk exposure	Timeframe			Scenario sensitivity	
		Short 2023–2025	Medium 2025–2030	Long 2030–2050	NZE	STEPS
Reduced revenue	Moderate				●● ●●	●●

Risk type	Description	Mitigation	KPIs[1]
REPLACEMENT OF CARBON INTENSIVE MACHINERY			
Technology	Risks associated with decarbonising of manufacturing processes and machinery that are carbon intensive to electric and energy efficient machinery will increase investment of capital. Currently, existing technology to electrify carbon intensive processes either do not exist or are expensive. NZE expects a faster decarbonisation pathway, meaning carbon intensive assets will need to be replaced quicker.	• Electrification of carbon intensive manufacturing processes e.g., furnaces electrification. • Policies to replace older plant machinery with electric machinery and more efficient machinery. • Focus on additive manufacturing to reduce weight, lead times, tooling and inventory, and reduce CO_2 emissions by 70% compared with conventional manufacturing processes. • Out of autoclave composite technologies (such as RTM) have the potential to reduce energy consumption by up to 80% as well as the potential to eliminate carbon intensive energy supply.	Spend on new electrified machinery

Potential impact	Risk exposure	Timeframe			Scenario sensitivity	
		Short 2023–2025	Medium 2025–2030	Long 2030–2050	NZE	STEPS
Increased costs	Moderate				●● ●	●

Transition Opportunities

Opportunity type	Description	Strategy to capitalise	KPIs[1]
OPERATIONAL EFFICIENCY IN WATER, WASTE AND ENERGY			
Resource Efficiency	Actions to reduce waste, water and energy consumption and improve efficiency will provide incremental improvements to Melrose's emissions profile at limited cost to implement. Replacement of older and less efficient machinery with newer, more efficient, models as well as improved insulation in certain sites will provide opportunities to reduce emissions and costs.	Energy • Company-wide energy intensity reduction target. • Employee engagement to reduce energy consumption such as the Project Orville scheme that encourages employees to make individual efforts to reduce energy consumption. • Energy efficiency measures such as LED lighting installations, insulation of sites and booster systems to increase the energy efficiency of machines using compressed air. • Transition to additive manufacturing processes will electrify hard metal manufacturing as well as significantly reduce net energy consumption. • Transition of composite material manufacturing to out-of-autoclave will reduce energy consumption significantly. Waste • Target to divert 95% of solid non-hazardous waste from landfill by 2025. • Reduction and recycling of packaging such as the adoption of new cardboard shredders to reduce use of plastic at the Trollhättan site. Water • 40% reduction in water withdrawal intensity by 2025. • Water efficiency improvements at sites such as irrigation system leak identification at El Cajon.	Energy, waste and water consumption

Potential impact	Opportunity exposure	Timeframe			Scenario sensitivity	
		Short 2023–2025	Medium 2025–2030	Long 2030–2050	NZE	STEPS
Reduced costs	Low		▼		●	●

Opportunity type	Description	Strategy to capitalise	KPIs[1]
MATERIAL EFFICIENCY IMPROVEMENTS OF RAW MATERIALS			
Resource Efficiency	Improved recycling of raw materials and investment in R&D relating to technologies such as additive manufacturing and nesting provides opportunities to reduce energy, emissions, waste and associated costs. Improved efficiency of raw materials specifically provides us with the opportunity to reduce our Scope 3 emissions associated with our purchased goods as it means less raw materials are purchased along with shorter supply chains. NZE sees greater focus and investment in life cycle sustainability, meaning a greater exposure to technology that can improve material efficiency compared to STEPS.	• Nesting technology enables the reduction of scrap raw material produced during cutting and optimises production. • Additive manufacturing investments such as the Permanova acquisition, the additive manufacturing centre of excellence in Texas and collaboration with Northrop Grumman delivers additively manufactured alternatives to conventional forgings and castings, meaning reduced waste and consumables, and reduced impact of transportation through vertical integration. • Recycling of virgin metals such as aluminium and titanium means raw materials stay within the aerospace industry, significantly reducing the amount of embedded carbon in raw materials consumed. • R&D investment in composite recycling.	Percentage of raw materials recycled

Potential impact	Opportunity exposure	Timeframe			Scenario sensitivity	
		Short 2023–2025	Medium 2025–2030	Long 2030–2050	NZE	STEPS
Reduced costs	High			▼	●●●●	●●

(1) Performance measurements on specific KPI's are conducted through horizon scanning or internal KPI tracking.

Key

Anticipated onset of risks and opportunities	Low likelihood
Estimated full impact of risks and opportunities	High likelihood

Transition Opportunities continued

Opportunity type	Description	Strategy to capitalise	KPIs[1]

RENEWABLE ENERGY (PPAS AND INSTALLATION)

Opportunity type	Description	Strategy to capitalise	KPIs[1]
Energy source	The purchase of renewable electricity contracts or PPAs will allow for the reduction of emissions without the capital spend associated with onsite renewable energy installation. Electricity purchase agreements deliver real world GHG emissions reductions by displacing fossil energy sources in the grid systems where we consume electricity. Our US and European sites have easy access to renewable electricity contracts and whilst the cost of electricity under PPAs is variable, contracts can provide fixed costs over several year and reduce Scope 2 emissions to potentially zero. The Group is exploring options to install solar self-generation where possible. Solar installations will reduce reliance on the local grid, reduce GKN Aerospace's emissions and may provide operating cost savings. NZE sees more rapid scaling of renewable energy and grid electrification compared to STEPS.	• Target to procure 50% of electricity from renewable sources by 2025. • Plans are in place to transition the majority of our European and US sites to renewable energy contracts as well as the implementation of PV cells at appropriate sites.	Percentage of renewable electricity

Potential impact	Opportunity exposure	Timeframe: Short 2023–2025	Medium 2025–2030	Long 2030–2050	Scenario sensitivity: NZE	STEPS
Reduced costs	High					

IN FLIGHT EFFICIENCY

Opportunity type	Description	Strategy to capitalise	KPIs[1]
Products & Services	The use of advanced materials and engineering methods provides an opportunity for components to provide the same, or enhanced, performance while using less or lighter material and improving flight fuel efficiency. This can be through the use of composite materials or bonding technologies. Improving the fuel efficiency of engines also provides an opportunity to reduce fuel burn and increase flight efficiency. Increased demand for these technologies and heightened expectations to reduce emissions associated with flying will increase the exposure of this opportunity under NZE compared to STEPS.	• GKN Aerospace has an extensive portfolio of research programmes exploring new design concepts, materials and manufacturing processes aimed at increasing air travel efficiency and reducing fuel burn. These include additive fabrication, resin transfer moulding, metallic and composite bonding and electrification of systems. The majority of these programmes are performed collaboratively with our airframe and engine customers and within funded multi-partner research programmes.	R&D Horizon 1 and 2 programmes

Potential impact	Opportunity exposure	Timeframe: Short 2023–2025	Medium 2025–2030	Long 2030–2050	Scenario sensitivity: NZE	STEPS
Reduced costs	High					

ACCESS TO NEW MARKETS THROUGH LOW-CARBON AVIATION

Opportunity type	Description	Strategy to capitalise	KPIs[1]
Markets	Both battery electric and hydrogen technologies provide potential new markets for GKN Aerospace. Electric technology opens up the potential of the commuter market (up to 400 nautical miles) as well as other regional routes. eVOTLs development also offers new markets in urban mobility that are low carbon, cheaper and quieter than current options. Hydrogen technologies can also offset the potential reduction in market share from conventionally powered engines as well as opening up the potential for a fragmentation of regional routes and an overall growth in regional aviation. NZE sees scaled investment in hydrogen and battery electric technologies resulting in a greater exposure compared to STEPS.	• Continued work as main partner in industry associations, such as the Jet Zero Council, the Aerospace Technology Institute, Swedish Aerospace Industries, Swedish Air Transport Society, the Dutch National Sustainable Aerospace Funding Programme ("LIT"), and the Aerospace Growth Partnership, where GKN Aerospace plays a key role in developing policy to support aviation's transition to Net Zero and the development of hydrogen-fuelled aircraft and leads on various policy topics such as the roadmap to fossil-free aviation. • Continued investment in hydrogen propulsion technologies and the development of routes to exploitation. • Global partnerships with electric aircraft manufacturers such as Joby, Eviation, Supernal and Lilium to work on experimental eVTOL and electric aircraft development.	Revenue from products that contribute to low-carbon economy

Potential impact	Opportunity exposure	Timeframe: Short 2023–2025	Medium 2025–2030	Long 2030–2050	Scenario sensitivity: NZE	STEPS
Increased revenue	High					

Transition Opportunities continued

Opportunity type	Description	Strategy to capitalise	KPIs[1]
TECHNOLOGICAL SOLUTIONS FOR CLIMATE CHANGE MITIGATION			
Products & Services	**Hydrogen technology** We view hydrogen technology as one of the most impactful ways of reducing the aviation industry's impact on climate. This opportunity manifests through an increased demand for hydrogen powered aircraft in both hydrogen electric and hydrogen combustion technologies. Hydrogen electric is seen as the most likely candidate for an earlier entry into service due to greater potential use in smaller aircraft which can be used as a proof of concept for larger aircraft. 80% of flights are less than 2,000km but these make up only 45% of CO_2 emissions. Just 10% of flights are more than 3,000km but account for over 50% of CO_2 emissions hence developing the technology to go further will yield significantly greater impact and market size. Hydrogen combustion provides an opportunity as it enables us to offset potential revenue losses from a decrease in conventionally powered aircraft. However, hydrogen propulsion is not without its challenges, both in the development of technology and also the availability, supply, infrastructure and renewable energy base required to enable widespread adoption. NZE sees scaled investment in hydrogen technologies resulting in a greater exposure compared to STEPS.	• GKN Aerospace is involved in several R&D initiatives relating to fuel cell power, liquid hydrogen, hydrogen combustion and flight trials such as H2GEAR and H2 Flight Trial. • The Horizon 3 team, which focuses on disruptive technologies, helps to focus Melrose's efforts into meeting our low-carbon R&D investment and new product decarbonisation targets. • GKN Aerospace also works within the Jet Zero Council, the Aerospace Technology Institute and the Aerospace Growth Partnership to develop policy to support aviation's transition to Net Zero and the development of hydrogen-fuelled aircraft. • It also carries out engagement activities with the industry to ensure low-carbon aviation is at the forefront of regulators and governments.	R&D investment in hydrogen and battery electric technologies In-flight decarbonisation potential of products
	Battery electric technology Using batteries to power aircraft produces no in-flight emissions at all and offers fully net zero travel if renewable electricity is used. Power density limits the payload and range potential of this technology. Battery electric flight is likely to have only a small role in reducing aviation's impact on global warming, however, this new market area will be born green and offers the ability to develop capabilities with wider exploitation such as in commuter markets. NZE sees greater progression in battery electric technology than STEPS.	• Global partnerships with electric aircraft manufacturers such as Joby, Eviation, Supernal and Lilium to work on experimental eVTOL and electric aircraft development. • GKN Aerospace is actively engaged with both customers and regulators to ensure low-carbon aviation is at the forefront of regulators and governments.	
	Sustainable Aviation Fuels ("SAF") SAF offers the potential to decarbonise the aviation industry, without any significant aircraft or engine technology development. The long-term focus for Melrose is on creating disruptive technologies to ensure airlines meet their net zero goals, considering both CO_2 and non-CO_2 impacts (aka "True Zero"). However, SAF can be used to fuel the existing fleet of approximately 25,000 aircraft around the world, significantly reducing aviation's impact without requiring fleet replacement with the associated environmental cost on natural resources and production emissions. Specifically, to GKN Aerospace, SAF provides an opportunity to continue to manufacture the same components while also reducing the environmental impact of aviation. Under NZE, significant investment into SAF infrastructure occur in comparison to STEPS. At the same time, the limitations of SAF's adoption related to the availability at the right price of the fuel driven means that high level of investment will be needed to ensure stable SAF production which may present certain potential limitations to the aviation growth.	• Test flights have been completed by GKN Aerospace using SAF in the Gripen aircraft. • Development of the RM12 engine which can be powered by 100% SAF. • GKN Aerospace is active with governments and policy makers to develop the right conditions within which SAF investment will be successful.	

Potential impact	Opportunity exposure		Timeframe: Short 2023–2025	Medium 2025–2030	Long 2030–2050	Scenario sensitivity: NZE	STEPS
Increased revenue	High	**Hydrogen**				●●●●	●●
	Moderate	**Battery electric technology**				●●	●
	High	**SAF**				●●●	●●

(1) Performance measurements on specific KPI's are conducted through horizon scanning or internal KPI tracking.

Key

- Anticipated onset of risks and opportunities
- Estimated full impact of risks and opportunities
- Low likelihood
- High likelihood

Physical Risks

As global temperatures rise, the frequency and severity of extreme weather events are expected to increase, resulting in a higher likelihood of disruptions to our global operations and supply chain. The Munich Re Location Risk Intelligence Tool has been used to assess current and potential future physical climate-related risks facing GKN Aerospace's global facilities and key suppliers. We have assessed potential physical risks, both acute and chronic, at 42 GKN Aerospace sites including potential material risks such as drought stress, tornados, storms, sea-level rise and flooding events among other hazards, while heat stress and fire stress were considered but were not deemed material for our operations. The revenue and property value of each site was considered to determine the materiality of identified risks to specific sites.

For the risks assessed we have chosen to use the best-case and worst-case scenarios as described below:
- **RCP 2.6** (approximately 1.8°C warming by 2100). A scenario in line with the United Nations Climate Change Agreement of 2015. According to the IPCC, it requires that Greenhouse gas emissions start declining immediately and go to zero by 2100. This relies on global implementation of stringent climate policies; and
- **RCP 8.5** (approximately 4.4°C warming by 2100). A "business as usual" high-emissions scenario. This scenario is consistent with no major policy changes or industry moves to reduce emissions globally leading to high atmospheric GHG concentrations.

We have considered three-time horizons: 2030 (short term), 2050 (medium term) and 2100 (long term). This differs from our time horizons used for our transitional risk assessment as there are limited predicted material physical climate risks up to 2030 due to the delayed nature of modelled climate impacts.

Risk type	Description	Mitigation	KPIs[1]
FLOODING (STORM SURGE, RIVERINE AND FLASH FLOOD)			
Acute	Risk associated with either costal or riverine flooding can cause damage to site infrastructure, products and equipment stored at sites. Floods can also cause disruptions to manufacturing output and delay production times. Riverine flooding in particular poses a risk to five sites, including Cowes, which are currently located in a 50-year return period zone. An additional one site is projected to also be in a 50-year return period zone by 2030 under RCP 8.5. Cowes and Papendrecht are the only sites which have been identified as being at extreme risk of sea level rise under both scenarios by 2100.	• Collaboration with local environment agencies and councils on flooding defences and prior flooding events. • Alternative suppliers are in place to replace key infrastructure that might be damaged. • Flood management plans include the training of teams to deploy flood barriers and raise at risk machinery above where flood waters could reach. • Safety reports take into account the impact of flooding in at risk sites. • Property damage and business interruption insurance specific to natural hazards.	Number of days operations are disrupted due to flooding events

Potential impact	Risk exposure	Timeframe: Short 2030	Medium 2050	Long 2100	Scenario sensitivity: RCP 2.6	RCP 8.5
Increased costs and decreased revenue	Moderate				●	●●●

Risk type	Description	Mitigation	KPIs[1]
STORM			
Acute	Increased exposure to extreme weather events such as tornados, hailstorms and extratropical storms have the potential to impact the Company's operations and production processes through power outages as well as impacting access to sites through damage to local roads and infrastructure. 17% of sites, including Wellington, Dallas and Cromwell have been identified as having a high exposure to storm risk by Munich RE analysis. However, these sites collectively only account for 5% of revenue.	• Alternative suppliers in place to replace key infrastructure that might be damaged. • Incident Commander outlines approach to dealing with storm events such as internal emergency communication system for employees to be notified of hazards. • Tornado shelters are available for employee safety at impacted sites. • Use of semi-generators for storms that are anticipated to cause power outages of more than 24 hours. • The Garden Grove site has subscribed to county-wide emergency alert systems and its standard operating procedure to shelter under desks during storms. • Property damage and business interruption insurance specific to natural hazards.	Number of days operations are disrupted due to storm events

Potential impact	Risk exposure	Timeframe: Short 2030	Medium 2050	Long 2100	Scenario sensitivity: RCP 2.6	RCP 8.5
Increased costs and decreased revenue	Low				●	●●●

Physical Risks continued

Risk type	Description	Mitigation	KPIs[1]
SUPPLIER DISRUPTION FROM EXTREME WEATHER			
Acute	Increased extreme weather events such as flooding and storms cause supply chain disruptions or site shutdowns. This can impact the ability of suppliers to provide us with appropriate raw materials and other services needed to manufacture our products. However, at this stage, impacts have typically been limited.	• Buffer stocks to protect manufacturing process from short interruptions. • Supplier business continuity plans that include specific climate-related plans. • Ability to switch to alternative suppliers in the event of an extreme weather event.	Number of days suppliers are disrupted due to extreme weather events

Potential impact	Risk exposure	Timeframe			Scenario sensitivity	
		Short 2030	Medium 2050	Long 2100	RCP 2.6	RCP 8.5
Loss in revenue	Moderate		▼		●	●●●

(1) Performance measurements on specific KPI's are conducted through horizon scanning or internal KPI tracking.

"Our ongoing activities are on reducing embodied carbon in materials we consume, as well as lowering emissions within operations through reduced energy consumption, material waste, by recycling and reusing materials during the production phase."

Impact on strategy and financial planning

Climate change has a direct impact on product strategy, development and financial planning across Melrose. Our ambition is to produce long-term sustainable growth for the coming years through continued innovation and product quality across our engines and structures solutions, with fully integrated emissions reduction activities. In the short-term horizon, we do not anticipate any material changes in resource allocation or operational and capital investment to achieve our plans and targets.

The point in the value chain where our actions could have prominent potential impact is the emissions from our products through their design and manufacture. Our ongoing activities work to reduce the embodied carbon in materials we consume, as well as lower emissions within our direct operations, for example, through developing manufacturing processes which reduce energy consumption and material waste and by recycling and reusing materials during the production phase. These activities are already aligned with our existing business targets and therefore are already part of our operational and innovation pipelines.

In 2023, Melrose invested £48 million on climate-related R&D programmes that primarily aim to develop technologies that help our customers improve energy efficiency and reduce GHG emissions compared with conventional technologies. For Scope 1 and 2 emissions reductions, our focus in the near term is on implementing our existing or developing new strategies to minimise emissions in operations that represent hard to abate carbon intensive assets, be it through the replacement of old equipment and machinery, energy efficiency programmes or certain upgrades to our existing procedures at plants. The impact of climate change on our supply chain has been considered as part of our submission of emissions reduction targets to the SBTi. A supplier engagement action plan has been developed which outlines how climate change considerations should be incorporated into procurement policies and encourages suppliers to have science-based targets. This shift towards climate-conscious procurement is indicative of a broader commitment to mitigating climate change and underscores the growing recognition of the environmental impact of supply chains in the global business landscape.

Overall, in the short to medium term, the resourcing for the implementation our net zero commitment is incorporated into the running and planned capex and spending. While projects currently planned for the medium and long term may be outside of the existing capex processes and will require additional funding which is yet to be determined, we believe that the actions we will directly take to reduce emissions in the short term will result in costs or impacts on revenues that are in line with those already in our strategy and growth projections.

→ **Please see pages 166 to 170 for further details on how climate change is taken into account in Melrose's Consolidated Financial Statements.**

Resilience of the organisation's strategy to climate change

Melrose has not only invested in reducing its carbon footprint but has also shown adaptability by embracing renewable energy sources, improving energy efficiency, and investing in low carbon products for its customers. While acknowledging the risks posed by climate change, we can conclude that our strategy is resilient to climate change with appropriate mitigating plans in play for identified risks and opportunities. We will continue to develop our analysis as new data becomes available, both internally and externally, and we will continue to monitor our climate exposures and action plans through the Group's risk management framework.

Our updated scenario analysis, which can be found on pages 64 to 71, posed key questions on how different physical and transitional scenarios would impact future revenue, production costs and the life of current assets. The limitations of the scenario analysis we carried out are:

- Scenarios often only provide high-level global and regional forecasts.
- Not all risks are easily subject to scenario analysis.
- Scenario analysis requires analysis of specific factors and modelling them with fixed assumptions.
- Impacts are to be considered in the context of the current financial performance and prices.
- Gross impacts are assumed to occur without the Company responding with any mitigation actions, which would reduce the impact of risks.
- Impacts are modelled to occur in a linear fashion, when in practice, dramatic climate-related impacts may occur suddenly after tipping points are breached.
- The analysis considers each risk and scenario in isolation, when in practice, climate-related risks may occur in parallel as part of wider set of potential global impacts.
- Carbon pricing is informed by the Global Energy Outlook 2022 report from the International Energy Agency ("IEA").

METRICS AND TARGETS

A

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

B

Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.

C

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Climate-related metrics

We disclose a wide range of metrics associated with climate change, including GHG emissions by type, energy consumption by type, as well as renewable electricity consumption, water withdrawal and waste generation. Specific metrics used to track each risk and opportunity are identified on pages 64 to 71. Our energy consumption and emissions data, the statement of alignment with the GHG Protocol and statement on SECR disclosures can be found on page 75. We currently disclose Scopes 1 and 2 and applicable Scope 3 GHG emissions in line with the GHG Protocol methodology, representing a breakdown of the Group's emissions by type and intensity measurement. We review our GHG inventory on an annual basis and will restate our data and/or recalculate our science-based targets when required, to reflect significant changes to our company structure, methodology changes or errors.

→ **TCFD: Strategy**
page 63

Scope 1 emissions are emissions from sources that we own or control directly, and Scope 2 emissions are those that we cause indirectly as they come from where the energy is purchased and produced.

- Scope 1 emissions are primarily driven by our use of natural gas used in manufacturing processes and heating.
- Scope 2 emissions are tied to the electricity we use in our manufacturing processes, for example autoclaves.

Our Scope 3 emissions represent emissions outside of our direct operations and that occur in our value chains. In line with the Greenhouse Gas Protocol's "Corporate Value Chain (Scope 3) Accounting and Reporting Standard", we evaluate GHG emissions from all 15 categories but report only on categories that are relevant and material to the Company. Aligned with the rest of the aerospace manufacturing sector, Category 11: Use of Sold Products is estimated to be our largest category of Scope 3 emissions from our initial calculations. Category 11 emissions associated with the use of GKN Aerospace products have been estimated but are not included in our emissions footprint. These emissions are classed as indirect as they indirectly consume energy during use (e.g., aircraft landing gear, fan blade and wings). Therefore, the indirect emissions are not within the "minimum boundary", and as such are listed as optional and excluded from our Scope 3 footprint and reduction target. All other downstream categories have been screened and deemed either negligible or not applicable to GKN Aerospace's value chain emissions.

The GHG emissions for Melrose, broken down by Scope 1, Scope 2 and select Scope 3 emissions, for 2022 and 2023, are set out in the table on page 75. In 2023, the Company reported a decrease in total absolute Scope 1 GHG emissions and a decrease in total operational energy consumption of 4% (based on the MWh of energy used across all of our locations).

Scope 3 emissions show an increase in 2023 versus 2022, largely due to increased spend against Purchased Goods and Services and Capital goods (both categories were calculated using the "spend based" approach). Business Travel emissions also increased year-on-year with travel reverting to pre-COVID-19 levels in 2023. We expect Scope 3 emissions to fluctuate in future years as the quality of our reporting improves.

In 2023, operational energy consumption decreased in absolute and associated intensity ratio terms compared to 2022. This is reflective of the fact that revenue has increased at a higher rate than energy consumption year-on-year. Decreases in Scope 2 emissions are due in part to increases in use of renewable electricity. The Group's chosen intensity ratio is energy consumption and emissions reported above normalised megawatts usage ("MWh") and tonnes of CO_2e per £1,000 of revenue[(1)], which we believe remains the most appropriate intensity ratio for Melrose.

Our overall emissions reduction targets are closely linked to our new strategy and business model of an aerospace focused organisation. The climate related targets reflect our strategy for addressing climate risks and capitalising on opportunities identified in our latest climate scenario analysis. The specific KPIs and metrics used to track the identified climate risks and opportunities are set out in the individual descriptions of risks and opportunities as demonstrated on pages 64 to 71.

(1) The data has been standardised from the source units in which it was initially collected. The revenue figure used to calculate the intensity ratio include continuing businesses only and do not include any share of revenues from entities in which the Group holds an interest of 50% or less.

Total energy consumption and GHG emissions for the period 1 January 2023 to 31 December 2023

Energy consumption (MWh)	UK	Global (excl. UK)	Total 2023	UK	Global (excl. UK)	Total 2022	Change (2023/22)
Total operational energy consumption	**90,949**	**477,184**	**568,133**	**94,218**	**495,638**	**589,856**	**-4%**
Total renewable energy consumption			**121,917**			**106,843**	**14%**
Share of renewable electricity in total electricity mix			**34%**			**29%**	**5%**
Energy consumption intensity			**0.170**			**0.200**	**-15%**
Fuels							
Total fuels consumption	**37,155**	**140,490**	**177,645**	**38,236**	**147,025**	**185,261**	**-4%**
Non-renewable fuels consumption	**37,155**	**140,490**	**177,645**	**38,236**	**147,025**	**185,261**	
Renewable fuels consumption							
Electricity							
Total electricity consumption	**53,794**	**300,350**	**354,144**	**55,982**	**313,663**	**369,645**	**-4%**
Renewable electricity consumption (self-generated, purchased or acquired)	0	121,917	121,917	0	106,843	106,843	14%
Non-renewable electricity consumption (purchased or acquired)	53,794	178,433	232,227	55,982	206,820	262,802	-12%
Steam							
Steam consumption (purchased or acquired)	0	36,344	36,344	0	34,950	34,950	4%
Operational emissions (tCO_2e)(1)							
Scope 1: Direct GHG emissions(2)	6,858	26,739	33,597	7,204	27,939	35,143	-4%
Scope 2: Indirect GHG emissions (Location-based)(3)	10,788	102,260	113,048	12,351	106,578	118,929	-5%
– Total purchased electricity	10,788	95,731	106,519	12,351	100,611	112,962	-6%
– Steam (purchased or acquired)	0	6,529	6,529	0	5,967	5,967	9%
Scope 2: Indirect GHG emissions (Market-based)	19,643	84,746	104,389	20,442	94,802	115,244	-9%
– Total purchased electricity	19,643	78,217	97,860	20,442	88,835	109,277	-10%
– Steam (purchased or acquired)	0	6,529	6,529	0	5,967	5,967	9%
Total Scope 1 and Scope 2 emissions (Location-based)	**17,646**	**128,999**	**146,645**	**19,555**	**134,517**	**154,072**	**-5%**
Total Scope 1 and Scope 2 emissions (Market-based)	**26,501**	**111,485**	**137,986**	**27,646**	**122,741**	**150,387**	**-8%**
Emissions intensity(4) (Market-based)			**0.041**			**0.051**	**-20%**
Upstream Scope 3 emissions							
– Category 1: Purchased Goods & Services			1,539,165			1,492,438	
– Category 2: Capital Goods			107,198			96,111	
– Category 3: Fuel & Energy Related Activities			26,314			37,361	
– Category 4: Upstream Transportation and Distribution			42,391			46,442	
– Category 5: Waste Generated in Operations			3,497			3,742	
– Category 6: Business Travel			13,185			7,964	
– Category 7: Employee Commuting			12,554			16,286	
Total Scope 3 emissions			**1,744,305**			**1,700,344**	**2.6%**
Total emissions							
Total Scope 1, Scope 2 (Location-based) and Scope 3 emissions			**1,890,950**			**1,854,416**	**2.0%**
Total Scope 1, Scope 2 (Market-based) and Scope 3 emissions			**1,882,291**			**1,850,731**	**1.7%**

(1) CO_2e – carbon dioxide equivalent, this figure includes GHGs in addition to carbon dioxide.
(2) Scope 1 figures include emissions from fuel used on premises, transport emissions from owned or controlled vehicles, losses of refrigerant, and process and fugitive emission.
(3) Scope 2 figures include emissions from electricity and heat purchased.
(4) Company's chosen intensity measurement: emissions reported above normalised tonnes CO_2e per £1,000 revenue. The data has been standardised from the source units in which it was initially collected. The revenue figures used to calculate the intensity ratio include continuing operations under operational control only.

This section has been prepared for the reporting period of 1 January 2023 to 31 December 2023. We report on all of the material emission sources in line with an operational control approach method, as required in Part 7 under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and under the UK's Streamlined Energy and Carbon Reporting ("SECR") requirements. These emission sources fall within our Consolidated Financial Statements. We do not have responsibility for any emission sources that are not included in our Consolidated Financial Statements.

Our energy consumption and emissions data is reported in accordance with the reporting requirements of the Greenhouse Gas Protocol ("GHG Protocol"), Revised Edition and the Environmental Reporting Guidelines, including the SECR guidance dated March 2019. The GHG Protocol standard covers the accounting and reporting of seven Greenhouse gases covered by the Kyoto Protocol. The statement of alignment with the GHG Protocol and statement on SECR disclosures can be found in our Annual and Sustainability Reports. We currently disclose Scopes 1 and 2 and select Scope 3 GHG emissions, representing a breakdown of the Group's emissions by type and intensity measurement.

Emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2023 (the Department for Environment, Food and Rural Affairs ("DEFRA") factors) have been used to calculate Scope 1 emissions. Scope 2 emissions associated with the GHG Protocol "Location-Based" method have been calculated using International Energy Agency ("IEA") country-specific emission factors. Scope 2 emissions associated with the GHG Protocol "Market-Based" method have been calculated using residual mix emission factors from Association of Issuing Bodies 2022 ("AIB") where applicable. In the absence of residual mix emission factor availability, International Energy Agency ("IEA") country specific emissions factors have been used in line with the GHG Protocol guidance. If sites generate their own renewable electricity or purchase electricity backed by contractual instruments (such as Renewable Energy Guarantee Origin), this has been taken into consideration within the calculations. For Scope 3 emissions, we reported in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard and the GHG Protocol Technical Guidance. Emissions factors from DEFRA and the Aerospace Industry Tool for Calculating Scope 3 Greenhouse Gas Emissions have been used to calculate Scope 3 emissions. A Scope 3 inventory was carried out and the relevant categories were calculated using a combination of spend based and average data based methodologies. Due to recognised inherent uncertainties in calculating Scope 3, we have adopted a continuous improvement approach. We will continue to review our processes and disclose any restatements in a timely and transparent manner.

Climate-related targets

In order to reflect Melrose's transformation into an aerospace focused business, our Group sustainability targets have been reset to align with GKN Aerospace's sustainability ambition, the macroeconomic and broader industry drive for advancing the environmental and social improvements in the aerospace sector at large. Our new 2025 sustainability targets are more ambitious to ensure that we set the right foundations to keep up the pace of improvement in the coming years.

GKN Aerospace has set near and long-term science-based emissions reduction targets which were submitted to the SBTi in 2023 for anticipated validation in 2024. Until the point of validation, they are subject to change. GKN Aerospace's sustainability function is responsible for achieving the targets. SBTi requires that science-based targets are recalculated to reflect material changes in climate science and business context to ensure their continued relevance. SBTi stipulates that targets shall be reviewed, and if necessary, recalculated and revalidated every five years at a minimum. Emissions data is reported quarterly as part of our internal system which enables us to monitor and assess performance against our targets. Revisions of targets will be conducted as and when necessary and updates on progress towards achieving them will be reported on at least an annual basis within our Annual and Sustainability Reports.

OUR CLIMATE-RELATED TARGETS

Our new 2025 sustainability targets are focused on short-term tangible improvements as this is where we believe our focus should be right now.

Our Group climate-related targets are:

↓50%

Reduce Scope 1 and 2 emissions intensity by 50% by 2025 from a 2020 base year.

80%

Maintain 80% of total R&D expenditure on climate-related R&D per year to contribute to aerospace decarbonisation by 2025 from a 2020 base year.

95%

Divert 95% of our solid non-hazardous waste from landfill by 2025 from a 2020 base year.

50%

Source at least 50% of our electricity from renewable sources by 2025 from a 2020 base year.[3]

100%

Achieve 100% of new products which contribute to aerospace decarbonisation by 2025 from a 2020 base year.

↓40%

Reduce water withdrawal by 40% by 2025 from a 2021 base year.

Additional targets proposed for SBTi validation:

↓50%

GKN Aerospace commits to reduce absolute Scope 1 and 2 GHG emissions by 50% by 2030 from a 2020 base year.[1]

70%

Encourage 70% of suppliers by spend, covering purchased goods and services, to have science-based targets by 2028.[1]

Net Zero

GKN Aerospace commits to reach net zero GHG emissions across the value chain by 2050.[1]

↓25%

Reduce absolute Scope 3 GHG emissions[2] by 25% by 2030 from a 2022 base year.[1]

(1) As submitted to the SBTi for validation
(2) Covering Fuel- and energy-related activities (not included in Scope 1 or Scope 2), Upstream transportation and distribution, Waste generated in operations, Business travel and Employee commuting.
(3) Where renewable electricity is commercially and reasonably available in the relevant jurisdiction.

On a mission to be the most trusted and sustainable partner in the sky

AMBITION

GKN AEROSPACE'S MISSION IS TO BE THE MOST TRUSTED AND SUSTAINABLE PARTNER IN THE SKY

Its ambitious targets to reduce direct environmental impact on climate and the environment are supported by strong governance foundations, focused investment and strong industry leadership.
By taking a global value chain approach through collaboration with customers, suppliers and partners alike, it will seek to minimise the collective impact of the aerospace sector to enable global aviation to achieve Net Zero by 2050.

NET ZERO PATHWAY STREAMS

Achieving business-wide Net Zero		Contributing to global Net Zero	
Net Zero operations (Scope 1 and 2)	Net Zero upstream (Scope 3)	Deliver critical internal and industry-wide enabling activities	Co-create with customers, invest in R&D and products contributing to aerospace decarbonisation

CLIMATE TARGETS AND COMMITMENTS

2023 — 2025 — 2028 — 2030 — 2050

80%
Invest at least 80% of our R&D spend into programmes towards aerospace decarbonisation by 2025

100%
Ensure that 100% of new product launches are products that contribute to aerospace decarbonisation by 2025

↓25%
reduction in absolute Scope 3 emissions(1) by 2030(2)

Net Zero
Across the value chain by 2050(2)

Creating and fostering the internal foundations and productive industry engagement to drive decarbonisation efforts

↓50%
reduction in Scope 1 and 2 emissions intensity by 2025

↓50%
reduction in absolute Scope 1 and 2 emissions by 2030(2)

70%
of suppliers by spend covering purchased goods and services will have science-based targets by 2028(2)

DRIVERS

- Improving energy efficiency of our assets
- Green optimisation of operations and sites, including equipment and machinery
- Reducing other Scope 1 emissions
- Greening our purchased electricity mix

- Reducing Scope 3 emissions(1)
- Increasing our investment in additive manufacturing, energy efficient composite technologies, bonding and nesting technology and investment in raw material and composite recycling innovation programmes to help reduce Scope 3 Category 1 emissions in the long-term (waste as resource)

- Continued engagement with industry, government and public sector, enabling customers to launch new aircraft and engine platforms with a significant reduction in inflight emissions, through the provision of our innovative technologies

- Continued partnerships with customers on innovation and climate action for sustainable aviation and supporting them in achieving their own net zero ambitions without compromising business success and profitability

(1) Including Fuel- and energy-related activities (not included in Scope 1 or 2), Upstream transportation and distribution, Waste generated in operations, Business travel and Employee commuting.
(2) As submitted to the SBTi for validation.

ENERGY EFFICIENCY

In 2023, GKN Aerospace developed and set a company-wide energy intensity target to drive more efficient use of electricity, fuel and heat across the business. Not only has this resulted in an absolute reduction in consumption, but employees are now also more aware and supportive of company-wide sustainability ambitions. Complementing this target is an effort to increase renewable energy procurement and implement other climate-positive actions such as sustainable transport initiatives.

Type of energy efficiency programmes	2023	2022
LED lighting retrofits	£790,000	£900,000
More efficient air conditioning and heating systems	£410,000	£1,250,000
Renewable energy installations	£600,000	£5,000
Insulation improvements	£250,000	£700,000
Energy efficient equipment	£960,000	£2,360,000
Total	£3,010,000	£5,215,000

WATER

Water is an essential resource for production processes within GKN Aerospace's operations. It is acknowledged that water scarcity is a global challenge and thus water conservation is an increasingly important topic for our business and stakeholders. Our Water policy is centred around two key principles of ensuring that we remain resilient to any risks associated with water by minimising potential impacts on water availability and quality and facilitating business contributions to addressing water challenges and improving water management practices.

The GKN Aerospace sustainability function has overall responsibility and oversight of the Group Water Policy. The executive management team of each GKN Aerospace business line has direct responsibility for ensuring effective management of their respective water-related risks and opportunities throughout operations and with suppliers. The requirements under our Water Policy are supported by a Group-level target of a 40% reduction in water withdrawal intensity by 2025 (reported above normalised m^3 per £1,000 of revenue), and a process-oriented drive within our Water Stewardship Programme.

Water withdrawal data is presented in the table below, showing a decrease in total water withdrawn by the business in 2023 compared to 2022. In 2023, the largest proportion of our water is withdrawn in North America and Europe. The decrease in the water intensity is reflective of an increase in overall revenue and due to several water withdrawal reduction strategies that are in place, especially in North America where particular success was noted during the reporting period.

GKN Aerospace's operations use water in production processes to dilute coolant used in machining, during cleaning cycles, polishing and chemical treatment processes. In addition, water is required for staff hydration and hygiene. To date, GKN Aerospace has not been subject to conditions where water scarcity had led to interruptions in operations, however, we are aware of the possibility of operational interruption and are planning to reduce our water withdrawal to reduce the stress on water supplies.

In 2023, we further advanced the analysis of our operations by assessing which operational sites are situated in future projected water stressed(1) areas. Our manufacturing and office sites(2) were reviewed to identify operations in areas of "high" (40%–80%) or "extremely high" (>80%) baseline water stress, according to the Water Research Institute ("WRI") Aqueduct Water Risk Atlas tool. WRI defines these areas as those where human demand for water exceeds 40% of resources. We have identified that 26% of our current sites are located in areas of "extremely high" water stress, and a further 13% are currently located in areas of "high" water stress using 2050 projections.

Some sites have already started to explore initiatives which can reduce water usage by roughly 20 to 50%. This has been achieved through operational improvements such as maintenance and adjustments of irrigation systems, increased surveillance to avoid leaks and improved maintenance of cooling towers, as well as other measures at various sites.

Melrose Group water withdrawal(3) data for the period 1 January 2023 to 31 December 2023

Cubic metres	2023	2022	Change (2023/22)
Water withdrawal (m^3) in operations(4)	1,271,189	1,372,693	-7.4%
North America	898,257	1,009,825	-11.0%
South America	7,272	6,446	13.0%
Europe	333,078	324,929	3.0%
Asia	32,582	31,493	4.0%
Company's chosen intensity measurement: Water withdrawal (m^3) per £1,000 turnover(5)	0.379	0.465	-18.0%

(1) For these purposes, baseline water stress measures the ratio of total water withdrawals to available renewable surface and groundwater supplies.
(2) For these purposes a "site" is defined as a manufacturing site or office that is under the operational control.
(3) For these purposes, water withdrawal is defined as the sum of all water drawn into the boundaries of the organisation (or facility) from all sources or any use over the course of the reporting period.
(4) Data was collected from 100% of sites across the Group in 2023 and 2022.
(5) The Group's chosen intensity ratio is water withdrawal reported above normalised m^3 per £1,000 of revenue. The data has been standardised from the source units in which it was initially collected. The revenue figures used to calculate the intensity ratio include continuing operations under operational control only.

By increasingly incorporating circular economy principles into design and manufacturing processes, we are reducing our environmental impact.

↓18%

Water withdrawal intensity reduction in 2023

PRODUCT LIFE CYCLE MANAGEMENT AND CIRCULAR ECONOMY

The global production system promotes a transition away from the linear model towards maximising resource intensity and value addition. Business processes for technology selection, new product development and supplier selection have been updated to incorporate sustainability requirements, to ensure that the life cycle implications are understood as part of any selection decision. We assess the impact of our products on the environment in terms of material usage, waste, energy usage and CO_2 emissions throughout each products' life cycle. Their impact on the environment is assessed in terms of use of materials, waste, energy and emissions. Across the business, life cycle assessments have been completed for products sold in 2023, representing 7% of total revenue.

By increasingly incorporating circular economy principles into design and manufacturing processes, we are reducing our environmental impact and deliver products to end-markets with increased durability and longevity, reduced emissions and waste. By way of example, GKN Aerospace's continued innovation in Additive Manufacturing has enabled its development of a leading Fan Case Mount Ring ("FCMR") structural design. GKN Aerospace's fan blade housing structure allows significant reduction in source material use, energy consumption and product weight, with a view to reducing Greenhouse gas emissions in both the manufacturing process and across the product life cycle. GKN Aerospace's new fabricated FCMR promotes resource efficiency by reducing the buy-to-fly ratio from 15 in the original design to five. This represents a 60% reduction in material waste, which will save over 90 tonnes of forged titanium annually.

Additionally, in line with the circular economy principles, GKN Aerospace's maintenance, repair and operation ("MRO") services aim to enable products to be reintroduced into the production cycle and thereby extending product lifetime instead of disposal at the end of useful life. This approach will gradually lead us to a shift from quantitative-based concept of "expansion of recycling industry" to the pursuit of optimum resource recovery quality through "waste as resource".

OPERATIONAL WASTE MANAGEMENT

In 2023, GKN Aerospace continued to make an active effort to reduce the amount of waste generated and to divert waste from landfill. To support this, we have a target to divert 95% of solid non-hazardous waste from landfill by 2025.

GKN Aerospace's waste generation data for 2023 shows an overall decrease in the solid waste generated compared to 2022 due to operational changes, improvements and a bigger focus placed upon waste by sustainability and environmental managers. Despite the decrease in absolute waste weight, there have been increases in the proportion of non-hazardous waste per revenue that is sent to landfill.

GKN Aerospace is running a number of significant operational improvements to reduce the impact of its waste and associated emissions in transportation of waste contents. These include, among other programmes, various recycling initiatives and modifications to equipment such as converting materials into packaging, resulting in potential significant savings in costs of new packaging materials, transportation and disposal services, as well as an estimated significant reduction of the associated emissions if rolled out across the majority of sites.

Biodiversity

We recognise the importance of biodiversity and how fundamental it is to our society and are committed to playing our part in preserving biodiversity for the benefit of future generations. Our Biodiversity policy sets out the foundational principles in promoting the growth of the natural world and helping prevent deforestation. The Group Biodiversity policy can be found on our website at https://www.melroseplc.net/governance/documents-and-policies/.

In 2023, we started a top-down assessment[1] to identify the physical risks associated with our operational sites, namely the ways in which our operations depend on and impact nature and surrounding ecosystems.

The initial analysis showed the operational sites, based on their location and industry specifics, with the highest risk of direct pressures on biodiversity. Of 30 industrial sites, five have a high physical risk score and 25 have a medium physical risk score. The analysis also indicated pollution and high risk of natural disasters as other relevant impact indicators to our operations.

GKN Aerospace's sites are mostly located in industrial zones and operate under general binding rules. Permitting processes which review the impact of our emissions on the environment and set limits to prevent harm to the surrounding environment provide the necessary safeguards against extreme natural events. Through this, we ensure that our sites do not adversely affect the integrity of a geographic area, local communities or change its ecological features and functions, meaning that the operation of our sites should not contribute to any net loss in biodiversity. We continue to further to deepen our understanding of physical biodiversity risks and assess possible impacts of our operations.

88%

solid non-hazardous waste diverted from landfill in 2023 against the 95% target by 2025

Melrose waste generation data for the period 1 January 2023 to 31 December 2023

Tonnes	2023	2022	Change (2023/2022)
Total solid waste	17,547	50,525	-65%
thereof non-hazardous waste	**15,781**	**32,884**	**-52%**
thereof non-hazardous waste to landfill	1,893	2,628	-28%
thereof non-hazardous waste for recycling/reused	10,453	19,102	-45%
thereof non-hazardous waste incinerated	3,433	11,154	-69%
thereof non-hazardous waste incinerated with energy recovery	2	0	
thereof hazardous waste	**1,766**	**17,642**	**-90%**
thereof hazardous waste to landfill	952	1,192	-20%
thereof hazardous waste for recycling/treatment	632	16,450	-96%
thereof hazardous waste incinerated	182	0	
thereof hazardous waste incinerated with energy recovery	0	0	
Solid waste to landfill (hazardous and non-hazardous)	2,845	3,820	-26%
Solid waste diverted from landfill (hazardous and non-hazardous)	14,702	46,706	-69%
Solid non-hazardous waste diverted from landfill	13,888	30,256	-54%
Solid non-hazardous waste diverted from landfill rate	88%	92%	
Company's chosen intensity measurement[2] Tonnes of solid non-hazardous waste per £1,000 revenue	**0.0047**	**0.0111**	**-58%**

(1) Using the WWF Biodiversity Risk Filter at riskfilter.org.
(2) The revenue figures used to calculate the intensity ratio include continuing operations under operational control only.

SOCIAL IMPACT

OUR PEOPLE

Promoting diversity, prioritising and nurturing the wellbeing and skills development of our employees, and contributing to the communities that we are part of, is instrumental to the success of our business and our impact in the regions where we operate.

The Melrose Code of Ethics reinforces our sustainability principles and provides clear guidance as to how the Board and the Melrose senior management team expect business to be conducted, and the consequences of non-compliance. The Code of Ethics outlines the policies and procedures that Melrose has put in place to drive best practice in health and safety, wellbeing and training, and to promote diversity and inclusion throughout our business. The Code was approved by the Board and last updated in December 2022. It can be found on our website at https://www.melroseplc.net/governance/documents-and-policies/.

To perform well and achieve our potential, it is important to nurture an engaged, capable and enthusiastic workforce. We want to ensure that we prioritise people, enabling them to enjoy the work they do, and that employees' safety and wellbeing is a priority. We value and champion diversity in its broadest sense and encourage working environments that nurture employees and encourage them to grow and act with integrity.

Social impact highlights

40%

female representation on the Board, meeting the expectations of the FTSE Women Leaders Review

>£5m

invested in workforce training in 2023

83%

Average response rate for employee engagement surveys in 2023

EMPLOYEE ENGAGEMENT

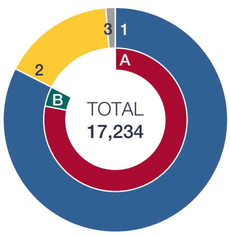
We recognise the importance of engaging with employees in a meaningful way to support their development and ensure that we provide the best working environment. Consultations with employees are held regularly to ensure that concerns are addressed in a meaningful and mutually beneficial way. In 2023, 72% of employees received performance reviews. Such consultations are performed through confidential and anonymous all-employee engagement surveys. The results are shared with the executive management teams, plant directors, HR teams and other people leaders, and are then further analysed through fora such as employee focus groups. Action plans are then developed to help address areas for improvement. The survey feedback and resulting measures are shared with employees through various engagement tools, such as town hall meetings.

WE RECOGNISE THE IMPORTANCE OF SUPPORTING THE WELLBEING AND DEVELOPMENT OF OUR EMPLOYEES, DRIVING AND MAINTAINING A DIVERSE, INCLUSIVE AND SAFE ENVIRONMENT.

The Workforce Advisory Panel ("WAP") enables key views of the workforce to be heard and considered by the Group's senior management team, where it can have maximum impact. The WAP reports to the Board on an annual basis to provide visibility and oversight of key workforce views, which are then discussed and considered at Board meetings. The WAP comprises the Chief Human Resources Officer and Group General Counsel from Melrose and GKN Aerospace and other relevant internal stakeholders as required as the Group's new business strategy and integrated structure evolves. Each member of the WAP is responsible for promoting workforce engagement, disseminating information and collating the voice of their workforce. They are also responsible for demonstrating how key workforce views are fed into executive management decisions, as well as ensuring that the workforce is aware of their impact on such decisions. Key workforce views in 2023 related to learning and development opportunities. Please refer to the Talent and career management section on pages 86 to 87 for examples of how this has been addressed.

We are committed to safeguarding the contractual and statutory employment rights of their employees through constructive relationships with employee representative bodies, including unions and works councils.

Group employees as at 31 December 2023



1	Permanent employees of which some are:	**14,234**
	A Full-time employees	13,492
	B Part-time employees	742
2	Temporary employees	**2,786**
3	Apprentices	**214**
Total		**17,234**

UN SDGs

3 GOOD HEALTH AND WELL-BEING · 5 GENDER EQUALITY · 8 DECENT WORK AND ECONOMIC GROWTH

MATERIAL TOPICS

- Occupational health, safety and wellbeing
- Community impact
- Diversity and equal opportunities
- Product safety and quality
- Talent and workforce engagement and development
- Respect for human rights

The rights of workers to participate in collective bargaining and their freedom of association is respected across the business. Workers are entitled to join or form trade unions of their own choosing and to bargain collectively where legally permissible within their jurisdiction. Workers' representatives are not discriminated against and have access to carry out their representative functions in the workplace. Trade union membership fluctuates year-on-year depending on the Group composition. Melrose and GKN Aerospace pay all UK employees at least the real living wage, save for Apprentices, Interns and year-in industry students, who are paid in accordance with the national minimum wage rates for their age group. In addition, GKN Aerospace offer all employees in the UK the opportunity to work for at least 15 hours per week.

83%

Average response rate for employee engagement surveys we undertook in 2023

DIVERSITY, EQUITY AND INCLUSION

Driving and maintaining a diverse, inclusive and safe environment is a priority for us. We recognise the importance of diversity in building a high-calibre workforce and are committed to championing diversity in the broadest sense, be that along geographical, cultural or personal lines, encompassing gender, race, ethnicity, country of origin, nationality, colour, social and cultural background, religion, family responsibilities, sexual orientation, age and disability.

We do so by ensuring that our employees' entry into, and progression within our business are based on aptitude and the ability to meet fair criteria outlined in job descriptions. For any employees with a disability, we take steps to ensure reasonable adjustments are made where required. Melrose is proud to be a member of the Business Disability Forum, a not-for-profit member organisation that works with the business community to understand the changes required in the workplace for disabled persons to be treated fairly, so that they can contribute on an equal-opportunity basis to business success, society and economic growth.

Our Code of Ethics highlights the importance of diversity and inclusion and is supported by our Board of Directors' Diversity policy and our Melrose Diversity, Equity and Inclusion policy, both of which are reviewed, updated where relevant and approved each year by our Nomination Committee. Copies of these policies can be found on our website at https://www.melroseplc.net/governance/documents-and-policies.

Promoting diversity at all levels

The Board is committed to furthering diversity at all levels. In particular, the last five Non-executive Director appointments have been female. Furthermore, two of the Committee Chair roles, the Chair of the Audit Committee and the Chair of the Nomination Committee, are held by women.

As at 31 December 2023, Melrose had 40% female representation on the Board (2022: 40%), which meets the expectations of the FTSE Women Leaders Review, as well as the target set out in the Financial Conduct Authority's Listing Rules (the "FCA Listing Rules"). The FTSE Women Leaders Review and the FCA Listing Rules also set a target for at least one senior board position, being that of Chairman of the Board, Senior Independent Director, Chief Executive, or Chief Financial Officer to be held by a woman (the FTSE Women Leaders Review having a 2025 target date). The Nomination Committee recognises that Melrose does not currently meet this requirement and, as noted in the Nomination Committee report on pages 124 to 127, this is being kept under review for future improvement. The Nomination Committee currently takes into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience and knowledge needed to ensure a rounded Board and the benefits each candidate can bring to the overall Board composition. The Committee also strongly encourages executives to adopt the same approach when making appointments to the Melrose Executive Committee and the wider senior management team. The most important priority of the Committee, however, has been, and will continue to be, to ensure that the best candidate is selected, and this approach will remain in place going forward.

In addition, Melrose also continues to meet the expectations of the Parker Review, as well as the target set out in the FCA Listing Rules, of having one director from an ethnic minority background.

Below Board level, Melrose operates an Executive Committee which facilitates the development of a diverse pipeline for succession planning purposes. As at 31 December 2023, the Executive Committee and its direct reports consisted of 41% female representation (and 37% female representation specifically at an Executive Committee level). Melrose therefore currently meets the expectations of the FTSE Women Leaders Review.

Melrose notes the recent recommendations of the Parker Review for FTSE 350 companies to set a percentage target for senior management positions that will be occupied by ethnic minorities in December 2027, with the target being set by 31 December 2023. The Nomination Committee and Board agreed that it was not feasible for Melrose to set a sufficiently informed ethnic diversity target for senior management by the end of last year. However, this target will be set during the course of 2024. Please refer to the Nomination Committee report on pages 124 to 127 for further details.

The following tables provide a breakdown of gender and ethnic diversity at a Board and executive management level as at 31 December 2023. This information was collected by asking both the Board and executive management team to complete the same voluntary questionnaire. This questionnaire set out questions related to gender and ethnic diversity, as extracted from Acas's equality and diversity monitoring form template. In advance of circulating the questionnaire, Melrose engaged external legal advisors to ensure that the processes and procedures related to such data collection were compliant with applicable data protection laws and best practice.

Gender diversity as at 31 December 2023

	Number of Board members	Percentage of Board members	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management[(1)]
Men	6	60%	4	16	59%
Women	4	40%	0	11	41%
Not specified / prefer not to say	0	0%	0%	0	0%

Ethnic diversity as at 31 December 2023

	Number of Board members	Percentage of Board members	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority white groups)	9	90%	100%	18	67%
Mixed / Multiple ethnic groups	0	0%	0%	0	0%
Asian / Asian British	0	0%	0%	2	7%
Black / African / Caribbean / Black British	1	10%	0%	0	0%
Other ethnic group, including Arab	0	0%	0%	0	0%
Not specified / prefer not to say	0	0%	0%	7	26%

(1) Including direct reports.

GKN Aerospace has the ambition to increase the representation of all currently under-represented groups across the business. To proactively support this, in 2022 a dedicated Global Diversity, Inclusion and Belonging Manager was hired to proactively promote diversity throughout the organisation. Initiatives include starting to baseline the extent to which GKN Aerospace employee ethnicity profiles match the communities in which they operate. In 2023, GKN Aerospace also developed and launched additional Diversity & Inclusion ("D&I") training for all employees and managers (via both e-learning and face-to-face training). This D&I training consists of five videos covering topics like bias, understanding difference and workplace culture. Team sessions have also been rolled out using a form of boardgame which allows teams to have more open and honest discussions about sensitive topics.

GKN Aerospace also recognises that some of its colleagues face different challenges and may need support, either to get their voices heard or to put their ideas into practice. In recognition of this and to drive a greater sense of Diversity, Inclusion and Belonging ("DIB"), GKN Aerospace currently has six dedicated Employee Resource Groups ("ERGs"). The current six ERG's are: Connected Women, Future GKN, LGBTQ+, African Black Caribbean Professionals, Mastering Neurodiverse Strengths and Veterans & Reservists. Additionally, in 2023, a Menopause support group was also launched for the first time.

These ERGs are voluntary, company-endorsed, employee groups, created by employees specifically to address the concerns of a particular group or an aspect of our culture that we want to improve. ERGs have brought together groups of like-minded people, providing them with opportunities to collaborate, educate others about the challenges they face – or ways they can help the organisation – and help to give them a real sense of belonging within the organisation. Currently the total membership across these groups is nearing 2,000 employees. In addition, all main countries have dedicated Employee Assistance Plans ("EAPs") providing everything from counselling support, mental health and wellbeing advice and guidance on legal and financial queries (increasingly important against a backdrop of increased cost of living).

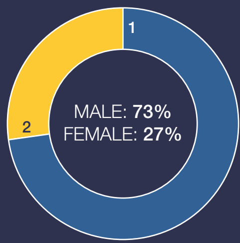
Melrose is required to report on gender diversity at a senior manager level. In accordance with section 414C of the Companies Act 2006, the definition of senior managers is required to include Group employees who are directors of Group undertakings but excludes the Board of Melrose Industries PLC. Melrose does not consider that including the employee directors of its undertakings provides an accurate reflection of the senior management at Melrose, nor its executive pipeline.

As reflected in note 3 to the financial statements, Melrose has many undertakings, including dormant, non-trading and immaterial subsidiaries. However, the Group has continued to make good progress in increasing senior manager diversity during the year.

40%

Female representation on the Board, meeting the expectations of the FTSE Women Leaders Review

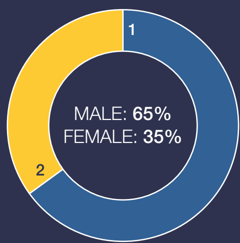
Group permanent employee gender diversity at 31 December 2023



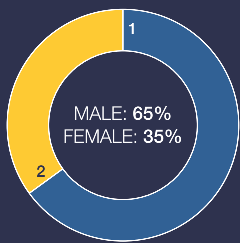
Total Group permanent employees		
1	Male	10,718
2	Female	3,933
Total		**14,651**

Group senior manager diversity at 31 December 2023

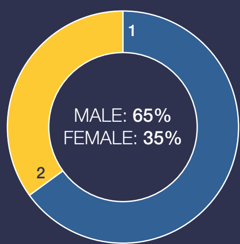
Senior managers (section 414C of the Companies Act 2006)



Employees in senior management positions		
1	Male	13
2	Female	7
Total		**20**



Directors of Group undertakings, excluding the above		
1	Male	35
2	Female	19
Total		**54**



Total Senior Managers		
1	Male	48
2	Female	26
Total		**74**

TALENT AND CAREER MANAGEMENT

Skills development

Melrose is committed to fostering the professional growth and lifelong learning of its employees. A proactive approach to anticipating both short and long-term workforce requirements and skill prerequisites, is essential in ensuring our workforce remains at the forefront of innovation. Enhancing productivity lies at the core of Melrose's strategy for enhancing performance, with a strong emphasis on providing extensive training opportunities that are accessible and actively promoted to employees at all career stages.

Leadership training is an integral part of ensuring the workforce remains engaged and innovative. Annual talent reviews help identify individuals who have the ability and aspiration to grow into more stretching roles and assist us to develop a diverse pipeline of successors for key leadership positions.

GKN Aerospace delivers a wide variety of flexible training programmes through a combination of online and in-person training. In 2023, 89% (2022: 87%) of employees received training during the year. Set out in the table on page 87 is the average training time per GKN Aerospace's employee and the total number of hours spent on workforce training. The average training time per employee remained static between 2022 and 2023, with increased spend per employee.

Social impact highlights

£292

Average training spend per employee in 2023[2]

512,238

Total number of training hours[1]

£5.08m

Total annual spend on workforce training in 2023[2]

REWARD AND RECOGNITION

Our policies and protocols for recruitment, talent development and succession planning are supported by robust training programmes and effective management to ensure that relevant opportunities are in place for employees to pursue career development. We also encourage internal applications for open positions.

Where permitted by local laws and employee representative bodies, performance evaluations are undertaken across the business, with 72% of employees receiving a performance appraisal in 2023 (2022: 59%). At the time of writing, performance evaluations for 2023 were ongoing.

Annual salary reviews are aligned with performance evaluations where applicable to ensure that employees are paid fairly and correctly for the position they hold. In compliance with all applicable local laws relating to the provision of pensions, over 82% of our permanent employees (by headcount) benefit from being a member of a company-based pension scheme.

TRAINING AND DEVELOPMENT

	2023	2022
Average training time per employee (hours)[1]	29	29
Average training spend per employee (£)[2]	292	279
Total number of training hours[1]	512,238	496,312
Total annual spend on workforce training (£)[2]	5,085,732	4,756,851

APPRENTICESHIPS AND GRADUATE PROGRAMMES

Apprenticeship and graduate programmes assist with training a new generation of employees and help to ensure that knowledge is retained within the business. In 2023, over 200 apprenticeships were in place at GKN Aerospace, providing a mix of on-the-job and classroom training. In turn, in 2023, GKN Aerospace's Global Graduate Development Programme enrolled a further 32 graduates onto the programme, adding to the existing 32 graduates who joined as part of the 2021 and 2022 cohorts.

In addition to apprenticeships and graduate programmes, GKN Aerospace also runs a number of internship and cooperative education programmes, whereby students complement their studies with paid periods of work over the course of their degree. These programmes give students the opportunity to gain valuable industry experience that helps broaden their skillsets, whilst helping businesses develop a talented and diverse recruitment pool.

MELROSE SKILLS FUND

In 2023, we met our commitment given at the time of the acquisition of GKN plc to invest £10 million over five years through the Melrose Skills Fund to build the UK's industrial base and to support the creation of between 100 to 150 new apprenticeships in engineering, technology and science, with the total number of apprenticeships created having exceeded this target. The Melrose Skills Fund has been utilised to develop the technical skills that support current and future engineering skills needs, using digital delivery methods and accredited learning management systems.

(1) Data was collected from 100% (by headcount) of the Group in 2023 and 2022.
(1) Data was collected from 100% (by headcount) of the Group in 2023, and from 98% in 2022.

The Melrose Skills Fund has helped to support the training and development of more than 3,000 individuals across GKN Aerospace's UK workforce, with key capability gaps closed and tangible value added to the business. GKN Aerospace investment was focused on three areas, emphasising the importance of building technical capabilities to meet future business challenges and customer expectations: Tactical Skills Standardisation, Future Skills Differentiation and Skills Delivery Infrastructure.

- **Tactical Skills Standardisation:** A bottom-up approach used to identify technical capability gaps and training opportunities focusing on tactical skills standardisation in areas such as Manufacturing Engineering, Quality Management, Life Cycle Assessment Process Development and Automation and Robotics.
- **Strategic Skills Differentiation:** A top-down approach used to proactively identify emerging capabilities and skills that will be required over the next 10–15 years in the aerospace industry. Areas highlighted for strategic skills differentiation included Digital Skills, STEM Pipeline Industry Collaboration and Academic Institution Collaboration.
- **Skills Delivery Infrastructure:** To address the need to invest in infrastructure to effectively govern, accelerate and deliver the Melrose Skills Fund, investments were made to recruit a GKN Aerospace Skills Fund Programme Manager, review existing learning and development systems and set-up a multi-purpose training and development function at GKN Aerospace's UK GTC.

A key focus of the Melrose Skills Fund has been identifying ways to work with third parties and the community to help bolster the UK's manufacturing and engineering industry. The Melrose Skills Fund has supported the Schools' Aerospace Careers Programme (the "ACP"), a charity supporting young people and educational establishments across the UK to increase the number of young people undertaking STEM learning and pursuing careers in engineering-based industries. This included employees attending multiple school roadshows and hosting an ACP Student Networking Event in which around 75 students attended the GKN Aerospace GTC for a full day of insights into aerospace careers.

Another core component of the Melrose Skills Fund has been supporting initiatives which look to improve diversity within manufacturing. In collaboration with Enginuity, a not-for-profit organisation, and the trade union Unite, Melrose helped develop an engineering task-oriented computer game contextualised for the aerospace sector to help encourage school children from ethnic minorities and different socio-economic backgrounds to consider a career within engineering.

More information relating specific projects enabled by the Melrose Skills Fund can be found in our 2023 Sustainability Report.

COMMUNITY IMPACT

At Melrose, we firmly believe that our responsibility extends beyond our core business operations. Our commitment to the communities where we operate is an integral part of our corporate ethos. This past year, we continued to contribute to local charitable and community initiatives, both in terms of volunteering time and material resources, that create a positive and lasting impact on the communities we serve. In 2023, GKN Aerospace undertook community initiatives and invested over £312,000 in a mix of donations, sponsorships and employee's volunteering their time to help others and charitable causes globally. GKN Aerospace also made cash donations to non-profit charitable organisations in excess of £825,000, giving a total contributed of more than £1,100,000 to support charities and its local communities. Community investment is led by sites who are required to enter donation and sponsorship programmes in compliance with the Anti-Bribery & Corruption policy. As an example, GKN Aerospace's GTC in the UK recently hired, in partnership with a UK Autism charity, two intern engineers with autism and has since re-mapped the hiring processes to make adjustments to the working environment to ensure they felt safe and included.

SAFETY FIRST

The health, safety and wellbeing of all our employees and contractors has always been of paramount important to Melrose. We understand the unique challenges and responsibilities that come with our industry, and we are resolute in our commitment to maintaining the highest standards in these areas. In the past year, we have continued to make significant strides in ensuring the wellbeing of our workforce and the safety of our operations.

Safety is paramount in our industry and thus our safety culture is ingrained in our business. We have established strong governance principles, robust policies and rigorous safety protocols, and invested in safety equipment whilst ensuring employees are equipped with the knowledge and skills necessary to perform their roles safely. We take a holistic approach to employee wellness, which starts with protecting their physical and mental health, protecting their social wellbeing and respecting their human rights, and extends to ensuring a positive workplace culture that attracts and retains a highly-skilled workforce.

We have a Group target to achieve and maintain an annual LTA Frequency Rate of below 0.1. This underpins our overarching commitment to stop all accidents from occurring, through the promotion of safe behaviours across all locations, and an enhanced focus on hazard identification and awareness. Health and safety management systems are supported by internal health and safety effectiveness audits, with regular oversight and challenge by the Melrose senior management team, quarterly reporting to the Board, and further regular oversight over any material incidents or issues that arise.

As at 31 December 2023, 30 sites (2022: 30) (inclusive of office, production and testing sites) within the Group were certified to the ISO 45001 international standard, with additional relevant sites progressing towards accreditation. Third-party auditing on a three-year certification cycle is required to maintain ISO accreditation, with annual surveillance audits taking place in between to ensure standards are being maintained.

HEALTH AND SAFETY PERFORMANCE

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

In 2023, we maintained an average LTA Frequency Rate of less than 0.1 and continued to prioritise continuous health and safety improvements in the push for the LTA Frequency Rate of zero. Please refer to the Health and Safety section of our Non-Financial KPIs on page 19 of the Strategic Report.

HUMAN RIGHTS, MODERN SLAVERY AND HUMAN TRAFFICKING

Modern slavery and human trafficking

The Group has a zero-tolerance approach to any form of modern slavery, as set out in the Melrose Anti-Slavery and Human Trafficking policy which is available on the website at https://www.melroseplc.net/governance/documents-and-policies/.

In accordance with the Modern Slavery Act 2015, Melrose publishes its own Modern Slavery Statement, which is approved by the Board annually. The latest statement can be found on our website. GKN Aerospace also is responsible for publishing their own Modern Slavery Statement in accordance with the requirements under the Modern Slavery Act 2015, which can be accessed here: www.gknaerospace.com/en/utilities/modern-slavery-statement. This approach ensures that those senior managers closest to the business operations devise appropriate measures to ensure that slavery is not present within supply chains.

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

Human rights

We are committed to acting in an ethical manner with integrity and transparency in all business dealings, and to create effective systems and controls across the Group to safeguard against adverse human rights impacts. The Group has a strong culture of ethics, which encompasses key human rights considerations, as set out in our Human Rights policy, in support of the principles set out in the UN Declaration of Human Rights. The Human Rights policy can be found at https://www.melroseplc.net/governance/documents-and-policies/.

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

There have been no violations reported on human rights in 2023 or in the previous two years.

GOVERNANCE

ETHICS AND COMPLIANCE

Sound business ethics and integrity, and effective and transparent governance, are core to the Group's values and fundamental for the success of our strategy. Melrose is a premium listed company with strong, established financial and non-financial controls that are continually assessed, tested and reviewed.

The Melrose Board oversees our robust governance framework at a Group level, with risk ownership decentralised across GKN Aerospace's business lines and functions. This is supported by independent internal audit and risk functions, regular public disclosure and financial reporting, external audits, public accountability and conformance with leading benchmarks set by the UK Corporate Governance Code (the "Code"). The framework is also supported by direct engagement with investors, corporate governance and proxy advisors and the Group's wider stakeholders to ensure best market practice is being implemented.

GROUP CODE OF ETHICS AND COMPLIANCE POLICIES

Our commitment to maintaining a responsible and ethical corporate environment is underscored by a framework that includes robust financial and non-financial controls. This framework is further reinforced by a strong governance structure that is subject to regular internal reviews and, when necessary, external assessments to ensure compliance at every level of the Group.

Directors, officers, employees and contractors, whether they are part of our permanent or temporary workforce, are obligated to uphold the highest standards of conduct. This entails strict adherence to Melrose's Code of Ethics and compliance policies, which are continually refined to reflect the latest industry best practices and to uphold the principles of corporate citizenship.

Each individual business line is tasked with the responsibility of not only complying with our Code of Ethics and compliance policies but also promoting and embedding them within their day-to-day operations. This approach ensures that every facet of our business is conducted with integrity, responsibility, and sustainability at its core, reinforcing our commitment to ethical and responsible corporate practices.

The Code of Ethics and compliance policies, as approved by the Board, cover best practice with respect to anti-bribery and corruption, anti-money laundering, anti-facilitation of tax evasion, competition, conflict minerals, trade compliance, data privacy, whistleblowing, treasury and financial controls, anti-slavery and human trafficking, document retention, joint ventures, diversity and inclusion, environmental, human rights, supply chain, biodiversity and water.

Implementation of the Group Code of Ethics and compliance policies is supported by risk assessments, audits and reviews and annual compliance certifications. Melrose strongly believes that policies and procedures are only as effective as the people who implement them. To that end, all of the above measures are backed by investment, resources and training.

UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH

MATERIAL TOPICS

- Business integrity
- Information Security
- Sustainable supply chain and responsible sourcing

ANTI-BRIBERY AND CORRUPTION

We take a zero-tolerance approach to bribery, corruption and other unethical or illegal practices, and are committed to acting professionally, fairly and with integrity in all business dealings and relationships, within all jurisdictions in which we operate. Melrose adopts high governance standards, to ensure that the Group conducts business responsibly, sustainably, and in the pursuit of long-term success for the collective benefit of stakeholders. This is outlined in our Anti-Bribery and Corruption policy, which is implemented and administered throughout the Group, and is available on our website at https://www.melroseplc.net/governance/documents-and-policies/.

Although the policy prohibits party political donations, it does however recognise that from time to time our Group may comprise businesses that engage in policy debate and advocacy activities on subjects of legitimate concern to their respective industries and key stakeholders, including their staff and the communities in which they operate. There were no political donations made during the year ended 31 December 2023: £0 (2022: £0).

WHISTLEBLOWING

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

GKN Aerospace takes a number of actions to raise employees' awareness of the whistleblowing platform, using online and offline media as appropriate, including through its six dedicated employee resource groups: Connected Women, Future GKN, LGBTQ+, African Black Caribbean Professionals, Mastering Neurodiverse Strengths and Veterans & Reservists. Currently, the total membership across these groups is nearing 2,000 employees.

Employees who come forward with a genuine concern are treated with respect and dignity and do not face retaliation. During 2023, 84 whistleblowing cases were recorded through the platform (2022: 78). This highlights the effectiveness of awareness campaigns together with the trust placed by employees in the whistleblowing programme. Each case is investigated confidentially by the business with appropriate response measures taken. Whistleblowing cases are regularly reported to the Audit Committee and ultimately to the Board.

PAYING TAX RESPONSIBLY

Melrose is committed to paying taxes that are due, complying with all applicable laws, and engaging with all applicable tax authorities in an open and cooperative manner. The Group does not engage in aggressive tax planning. The Group's Tax Strategy is reviewed, discussed and approved by the Board annually. The Audit Committee periodically reviews the Group's tax affairs and risks.

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

The Group does not operate in countries considered as partially compliant or non-compliant according to the OECD tax transparency report, or in any countries blacklisted by the EU, for the purposes of tax avoidance and/or harmful tax practices, per the lists released as at 17 October 2023.

SUSTAINABILITY AND CLIMATE CHANGE RISK MANAGEMENT

Sustainability risks, including Climate Change, are integrated into the Company-wide risk management framework which serves as the foundation of the Group's risk management process. The process includes identification of relevant risks, risk scoring, development and assignment of appropriate response actions, monitoring the effectiveness of key mitigating controls and reporting of the overall risk trend to the Audit Committee each year. During 2023, the GKN Aerospace sustainability function re-assessed climate-related risks, taking into account the evolving landscape associated with climate change in the areas of existing and expected legislation, supplier and consumer preferences, government policies and commitments, as well as changes in climatic patterns. The core sustainability team also engaged with Health, Safety and Environment leaders across GKN Aerospace to start the assessment and better the understanding of potential water and biodiversity risks that sites can be exposed to, and therefore addressing those risks through mitigation actions in sustainability and environmental plans will be an area of focus in 2024. Risks are typically assessed for likelihood, magnitude of impact and their strategic impact on the business with a view to develop mitigating action plans for risks where the risk scoring exceeds the Group's tolerance levels. For more information on governance and management of the Climate Change principal risk, please refer to our TCFD report on pages 58 to 63. For more information on our approach to management of principal risks, please see the Risks and uncertainties section on pages 31 to 36.

ENSURING THE HIGHEST STANDARDS OF PRODUCT QUALITY AND SAFETY

We are committed to ensuring the highest standards of product quality, reliability and safety. Recognising the importance of protecting the wellbeing of the ultimate end users of our products, we follow structured product design and development procedures to ensure precise delivery to customer specification. As we develop new designs or update existing designs, we seek opportunities to enhance quality and safety performance. Every site has active plans and targets to reduce the risk of non-conformance and to reduce the cost of poor quality.

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

In 2023, 96% (2022: 95%) of the Group's product portfolio (by revenue) was certified to a recognised international quality management standard of ISO 9001, or EN/AS9100. The relevant certifying bodies audit the manufacturing facilities and support functions at least annually, undertaking surveillance audits, and each site is recertified once every three years. In addition, a number of GKN Aerospace certified entities also have additional regulatory approvals, including EASA, FAA and EMAR, covering design, production and repair.

SUPPLY CHAIN MANAGEMENT

We participate responsibly and sustainably within our supply chains and mitigate the risk of supply chain issues. At a minimum, we source raw materials and manufacture products in a responsible, ethical and sustainable manner.

We encourage our suppliers to respect, protect and minimise their impact on the environment, respect their employees' human rights and provide good and safe working conditions across their operations. In practice, this means that we require suppliers to respect and protect the environment in compliance with the applicable environmental legislation relating to energy use, waste, emissions, water and resource consumption and management, to treat their staff equally, to pay their employees a fair wage that meets or exceeds the minimum standards or prevailing industry standard, to eliminate excessive working hours for all workers and protect their workers' health and safety rights at work.

Implementing supplier qualification processes where relevant, including through various risk assessments, helps identify and appropriately manage the risks associated with the environmental and social sustainability of their operations. Through Melrose's Supply Chain Policy and GKN Aerospace's Supplier Code of Conduct, we set our ambitions to safeguard both human rights and the natural environment globally and all suppliers are required to comply with the policy and the Code.

In 2023, Melrose continued to participate in the CDP Supply Chain engagement initiative, in order to provide an insight into our supplier's environmental data and enable efficient tracking of their alignment with Net Zero. This second year of engagement has generated an over 70% response rate (2022: 50%) and provided further insights on suppliers' environmental data, their energy consumption, emissions reduction initiatives and climate targets alongside other environmental data. The selected organisations were reflective of GKN Aerospace's largest suppliers by spend, and engagement with them was therefore important for pinpointing risks and identifying emissions reduction opportunities. Internal initiatives for streamlining supply chain management, assessment and engagement are underway at GKN Aerospace in close collaboration within sustainability, procurement, finance and site operations functions to facilitate the data capture and to ensure we were following best practice.

Responsibility for the implementation and management of supplier-related governance principles and policies rests with the GKN Aerospace business lines and their management teams. Our Group-level supplier-related policies include the new Supply Chain policy, introduced in 2022 (https://www.melroseplc.net/governance/documents-and-policies/).

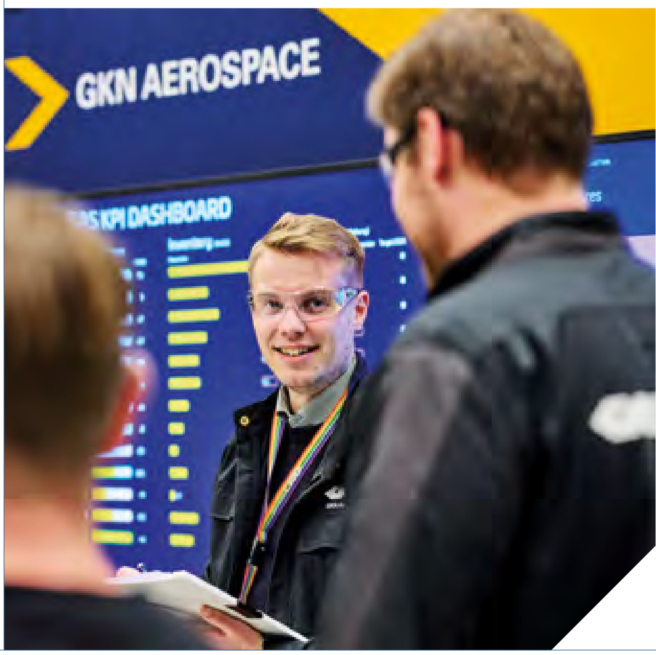
CONFLICT MINERALS

As set out in the Group Conflict Minerals policy, we have strict procedures in place in respect of sourcing products or raw materials containing 3TG minerals to the extent required by applicable laws or customer expectations, and to seek to identify whether 3TG minerals are sourced responsibly and from conflict-free geographies. We also work with our supply chain partners to ensure compliance with all applicable laws and regulations. As a minimum, relevant suppliers are required to perform due diligence to ascertain whether any 3TG minerals in products are conflict-free and complete the Responsible Minerals Initiative reporting.

INTERNAL FINANCIAL CONTROLS AND REPORTING

We have a comprehensive and robust system for assessing the effectiveness of internal controls, including strategic business planning and regular monitoring and reporting of ESG data alongside financial and operational performance. The identification and oversight of material controls over the ESG data of the businesses is the responsibility of the GKN Aerospace sustainability function, which runs an established yet evolving programme of regular monitoring and review (at least quarterly) processes that are consistently robust across the Group. This is complemented by reporting protocols to ensure the business lines' management are accountable for achieving progress on sustainability and climate-related matters. The quality and accuracy of ESG data is continually improved against relevant guidance from prominent international regulatory frameworks and as tailored for our chosen metrics and targets. In 2023, we commenced a sustainability data pre-assurance project in preparation for formal limited assurance in the coming years. Horizon-scanning of applicable external reporting requirements is conducted regularly to identify the opportunities to strengthen data management systems and controls and ensure data-driven compliance mechanisms.

The Audit Committee also monitors the effectiveness of the internal control process implemented across the Group through a review of the key findings presented by the external and internal auditors.



INFORMATION SECURITY AND DATA PRIVACY

Melrose strongly respects privacy and seeks to minimise the amount of personal data that it collects, as well as to ensure the robust and sufficiently segregated storage of any data that is held. Information security and cyber threats are an increasing priority across all industries globally, and Melrose recognises that the Group must be protected from potential exposures in this area, particularly considering its scale, reach, complexity and public-facing nature, as well as the potential sensitivity of data held in relation to civil aerospace technology and controlled defence contracts. The Melrose senior management team routinely works with the GKN Aerospace Chief Information Officer and external cyber security risk consultants to review the information security and cyber threats risk profile which is one of our principal risks. This helps to monitor and track the Group's exposure to cyber security risk and drive continuous improvement actions, as well as ensure appropriate compliance with the General Data Protection Regulation ("GDPR").

The GKN Aerospace information security strategy and risk-based governance framework follows the UK Government's recommendations on cyber security. This strategy has enabled risk profiling and mitigation plans to be developed to mitigate and reduce exposure to cyber risk. This ensures clarity and consistency in the assessment of IT and cyber security matters. Progress is measured against the information security strategy and is monitored on a quarterly basis. To mitigate the impact of external cyber-attacks, the Melrose senior management team works with the GKN Aerospace Chief Information Officer and external cyber security risk consultants. The results of this ongoing review programme are reported to the Board on a regular basis. The Board, supported by the Melrose senior management team, oversee the Group's cyber security risk profile, and requires each business function to protect any commercial or personal information ensuring safe and appropriate usage of their IT systems and processes by their employees.

Regular internal and external testing of perimeter defences through penetration testing is undertaken, ensuring appropriate threat monitoring systems are in place. We work towards national and international business accreditations in varying aspects of cyber management where applicable and relevant to our business activities, including the UK's National Cyber Security Strategy ("NCSS"), ISO 27001, and industry-specific National Institute of Standards and Technology ("NIST"). As part of Melrose's overall information security strategy, IT security awareness training in various forms was provided consistently across the business in 2023 to all its employees.

96%

of the Group's product portfolio (by revenue) was certified to a recognised international quality management standard of ISO 9001, or EN/AS9100 (2022: 95%)

ABOUT THIS REPORT

REPORTING STANDARDS

This report has been prepared with reference to the following frameworks, standards and guidelines:

- Group sustainability targets and commitments have been aligned to the United Nations Sustainability Development Goals ("UN SDGs").
- Additional disclosure on our sustainability performance has been prepared in line with the Sustainability Accounting Standards Board ("SASB") requirements for Aerospace and Defence sector standards.
- Energy and emissions reporting has been prepared in accordance with the principles and requirements of the Greenhouse Gas ("GHG") Protocol Revised Edition, ISO 14064 Part 1 and the Environmental Reporting Guidelines, including the Streamlined Energy and Carbon Reporting guidance dated March 2019. The GHG Protocol standard covers the accounting and reporting of seven Greenhouse gases covered by the Kyoto Protocol.

REPORTING BOUNDARIES, SCOPE AND BASIS OF PREPARATION

Unless otherwise stated, our sustainability reporting covers all entities in which the Group has operational control. Data from entities disposed of during the reporting period (i.e., disposed of before 31 December 2023) are not accounted for in this section in respect of the FY 2023 data and all previous years.

INTERNAL DATA CONTROLS

All reported figures represent the latest available internal data, unless otherwise specified. Some of the totals presented may reflect the rounding down or up of subtotals. Melrose has a central internal reporting system which captures and records the ESG data alongside financial and operational metrics used in this report. All data is subject to quarterly internal reviews by subject matter experts at business line level.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

In addition to the operational and financial improvements that we implement within our business, we recognise our responsibility to improve our non-financial performance, focusing on long-term sustainable value creation for the aerospace sector and all of our stakeholders.

Our efforts to improve non-financial and sustainability performance are supported by a foundation of robust governance, risk management and compliance, and we continue to engage with key internal and external stakeholders to ensure we deliver upon their expectations.

This section of the Strategic Report constitutes the Group's Non-Financial and Sustainability Information Statement for the purposes of sections 414CA and 414CB of the Companies Act 2006. The information listed is incorporated by reference.

Reporting requirement	Policies and standards that govern our approach	Principal Group Risk	Where you can find more
Stakeholders	Melrose was founded in 2003 to empower underperforming manufacturing businesses to unlock their full potential for the collective benefit of stakeholders, whilst providing shareholders with a superior return on their investment. Melrose now operates as a pureplay aerospace business. The Board understands and takes into account the interests of its different stakeholders when taking decisions and undertakes thorough event-driven consultations with relevant stakeholders to ensure that the decisions it takes are based on a fully informed view of the potential impact of the decision on those stakeholders.	• n/a	**2023 Annual Report** • Our strategy and business model • Our strong track record • Board stakeholder engagement and decision-making (Section 172 statement) • Sustainability review
Environmental matters	The Sustainability review on pages 43 to 93 sets out our approach in respect of the environment and climate change, and provides examples of the actions we are taking to contribute to the decarbonisation of the aerospace sector, to promote energy efficiency, decarbonise our operations and supply chain, and to reduce waste and water consumption. As we transition to a net zero economy by 2050, we have reset our sustainability targets and commitments to focus on immediate tangible improvements. These targets are supported by our four overarching sustainability principles, being aligned with our new material sustainability topics as identified within our double materiality assessment in 2023. For more information on our new sustainability targets, please see pages 48 to 51 of the Sustainability review. In 2023, we also updated our Net Zero Transition Plan, prepared in accordance with the UK Transition Plan Taskforce's ("TPT") guidance. The plan sets out the actions we intend to take in the transition to a net zero economy, how we plan to execute on our interim and long-term emissions reduction targets, and how we plan to achieve Net Zero by 2050. As part of our third year of reporting against the Task Force on Climate-related Financial Disclosures ("TCFD") framework, we recalibrated our initial 2021 climate-scenario assessment of climate-related risks and opportunities to focus on the aerospace sector, providing more sector aligned disclosure to shareholders and other stakeholders.	• Climate change • Legal and regulatory	**2023 Annual Report** • Board stakeholder engagement and decision-making (Section 172 statement) • Sustainability review • Melrose Group Task Force on Climate-related Financial Disclosures ("TCFD") **Group Policies** • Conflict Minerals policy • Environmental policy • Biodiversity policy • Water policy • Supply Chain policy
Employees	At Melrose, we promote diversity and prioritise and nurture the wellbeing and skills development of employees and the communities that they are part of. Our Sustainability review on pages 43 to 93 sets out our approach and the policies that support it. We recognise the increasing importance of taking a holistic approach to employee wellness by protecting physical health, mental health and social wellbeing. This helps to foster a positive workplace, and to attract and retain a highly-skilled workforce. We are committed to building a diverse workforce at all levels and creating an inclusive culture for all. Our Sustainability review on pages 43 to 93 sets out how we are doing this, and further information on our policies to promote diversity and inclusion can be found in the Nomination Committee report. Investment in people is a key driver of commercial success throughout the Group, underpinned by employee engagement and a firmly integrated culture of employee development, diversity and inclusion. By providing a safe working environment, encouraging diversity and inclusion at all levels, and ensuring all our employees have access to training and career development opportunities, we will continue to attract and retain the best talent. Our Workforce Advisory Panel provides an important, ongoing forum for direct engagement and consultation between the workforce and divisional executive teams. An annual all-employee engagement survey is undertaken across the Group in order to collate the views of employees and identify areas of strength and those in need of development. The Board receives a summary of these results, and is provided with feedback on how employees' views are taken into account in executive decision making.	• Operations • Loss of key management and capabilities • Legal and regulatory • Treasury	**2023 Annual Report** • Board stakeholder engagement and decision-making (Section 172 statement) • Sustainability review • Nomination Committee report **Group Policies** • Code of Ethics • Whistleblowing policy • Anti-slavery and Human Trafficking policy • Melrose Board of Directors Diversity policy • Melrose Diversity, Equity and Inclusion policy • Human Rights policy

Reporting requirement	Policies and standards that govern our approach	Principal Group Risk	Where you can find more
Respect for human rights	We are committed to acting in an ethical manner with integrity and transparency in all business dealings, and to creating effective systems and controls across the Group to safeguard against adverse human rights impacts. The Group has a strong culture of ethics, which encompasses key human rights considerations, and which is set out in our Human Rights policy which drives the implementation of effective and proportionate measures to identify, assess and mitigate potential labour and human rights abuses across our operations and supply chain. The Group supports the principles set out in the UN Declaration of Human Rights. We take a zero-tolerance approach to any form of modern slavery or human trafficking and are committed to investing in effective systems and controls to safeguard against any form of modern slavery taking place within them or their respective supply chains. You can read more on our approach and the policies in place to support it in the Sustainability review on pages 43 to 93.	• Legal and regulatory	**2023 Annual Report** • Sustainability review **Group Policies** • Modern Slavery Statement • Whistleblowing policy • Anti-slavery and Human Trafficking policy • Human Rights policy • Supply Chain policy
Social matters and communities	Our Sustainability review on pages 43 to 93 details our approach to supporting communities. There you can find out more information on our policies, schemes, charity programmes and initiatives that support it.	• n/a	**2023 Annual Report** • Sustainability review **Group Policies** • Code of Ethics • Anti-Bribery and Corruption policy • Conflict Minerals policy • Whistleblowing policy • Anti-slavery and Human Trafficking policy • Environmental policy • Human Rights policy • Supply Chain policy • Biodiversity policy • Water policy
Anti-corruption and anti-bribery	We take a zero-tolerance approach to bribery, corruption and other unethical or illegal practices, and are committed to acting professionally, fairly and with integrity in all business dealings and relationships, within all jurisdictions in which we operate. Melrose follows high governance standards, to ensure that the Group conducts business responsibly, sustainably, and in the pursuit of long-term success for the collective benefit of stakeholders. This is outlined in our Anti-Bribery and Corruption policy, which is implemented and administered throughout the Group.	• Legal and regulatory	**2023 Annual Report** • Sustainability review **Group Policies** • Code of Ethics • Anti-Bribery and Corruption policy

All Group policies referred to in the table above, as well as additional information in relation to the areas discussed above, are available on our website at www.melroseplc.net/governance/documents-and-policies.

Additional information		Where you can find more
Description of principal Group risks and impact of business activity	Risk management	Pages 28 to 30
	Risks and uncertainties	Pages 31 to 36
Description of the business model	Our business model	Pages 14 to 15
	20 years of Melrose	Page 16
	Why aerospace? Why now?	Page 17
Financial and non-financial KPIs	Key performance indicators	Pages 18 to 19

The Strategic Report, as set out on pages 1 to 95, has been approved by the Board.

On behalf of the Board:

Peter Dilnot
Chief Executive

7 March 2024

GOVERNANCE

IN THIS SECTION


7
9
10

The Board is committed to maintaining the high standards of corporate governance required to ensure that the Company can continue to deliver on its strategic goals, and to achieve long-term success for the benefit of its stakeholders.

Justin Dowley
Non-executive Chairman

As part of this approach, the Board has applied the principles and complied with the provisions of corporate governance contained in the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council (the "FRC") and available to view on the FRC's website at: www.frc.org.uk.

In support of this commitment, the Board carried out a number of key governance activities during 2023 designed to ensure that Melrose remains compliant with the provisions of the Code and to enable continuous improvement in line with best practice corporate governance guidelines.

Succession planning

Succession planning continued to be an area of focus for Melrose in 2023. The Nomination Committee and the Board considered the leadership needs of the Group, present and future, together with the skills, experience and diversity needed from its Directors going forward. We recognise that succession planning is an ongoing process and is critical to maintaining an effective and high-quality Board.

Melrose is now a pureplay aerospace business. As a result, succession planning for the executive Directors was a key focus for the Nomination Committee and the Board in 2023. In particular, the Board, with the support of the Nomination Committee, approved Mr Simon Peckham and Mr Geoffrey Martin stepping down as Melrose Chief Executive Officer and Group Finance Director with effect from 6 and 7 March 2024 respectively, to be replaced by Mr Peter Dilnot and Mr Matthew Gregory as Chief Executive Officer and Chief Financial Officer respectively. The Committee considers that these changes provide strong management continuity. Mr Dilnot has served as Melrose Chief Operating Officer since April 2019 as well as serving as Chief Executive Officer of GKN Aerospace for periods during his tenure, most recently from October 2023 onwards. Mr Gregory has served as Chief Finance Officer of GKN Aerospace since September 2022. Mr Peckham, Mr Martin, Mr Christopher Miller and Ms Victoria Jarman will not stand for re-election as Directors at the 2024 AGM.

During the year, Ms Funmi Adegoke, Non-executive Director, resigned from the Board following her appointment to an executive role at Halma plc. The Board appointed Ms Gillian Elcock as a Non-executive Director of the Board in June 2023 after the completion of a thorough recruitment process conducted by an external recruitment consultancy firm which, other than providing recruitment consultancy services to the Group, has no commercial dealings or other connection with the Melrose Group or its Directors. Ms Elcock has extensive asset management and investment research experience, including in the aerospace and defence sector. There were no other changes made to the Board's composition during 2023. Biographies for the Directors of the Company as at the date of this Annual Report can be found on pages 102 to 103.

As previously announced, my tenure will end in 2025, and the Board has commenced a search for my successor led by our Senior Independent Director, David Lis. I will therefore be standing for re-election at the 2024 AGM as planned, with a view to support the transition to the new Chair prior to their appointment in 2025.

Furthermore, succession planning arrangements for the Board as a whole were reviewed and considered in 2023. This included a review and discussion of the skill set of the Directors in light of the change in business strategy of the Company, as well as a review of the tenure, diversity and independence of those already on the Board. This review allowed the Nomination Committee to satisfy itself that the right balance of skills, experience and diversity are reflected and being developed, and that the composition of the Board is consistent with the Board of Directors' Diversity policy. The Nomination Committee report on pages 124 to 127 contains further details on how succession planning arrangements for the Board and the Melrose senior management team were reviewed and considered during 2023.

MAIN RESPONSIBILITIES OF THE BOARD

The main responsibilities of the Board are to:

- effectively manage and control the Company via a formal schedule of matters reserved for its decision;
- define the Group's purpose, determine and review Group strategy and policy to deliver that purpose, and provide strategic leadership to the Group;
- set the Group's values and behaviours that shape its culture and the way it conducts business;
- review financial and trading performance in line with the Group's strategic objectives;
- ensure that adequate funding and personnel are in place;
- engage with stakeholders and key shareholders on issues that are most important to the long-term success of the Company;
- oversee the effective operation of the Workforce Advisory Panel in ensuring the views of the workforce are considered in its discussions and decision-making;
- report to shareholders and give consideration to all significant financial matters;
- agree Board succession plans and consider the evaluation of the Board's performance over the preceding year;
- oversee the Group's risk management and internal control systems;
- determine the nature and extent of the risks the Group is willing to take;
- agree the Group's governance framework and approve Group compliance policies;
- monitor, assess and review cyber security and fraud risk for the Group;
- consider acquisitions, disposals and requests for major capital expenditure;
- delegate and oversee responsibility for entrepreneurial leadership and strategic management of the Group to the Group senior executives;
- challenge, review and exercise robust managerial oversight across key decisions, actions and processes within the Group;
- promote the long-term success of the Company for the benefit of shareholders as a whole, having regard to a range of other key stakeholders and interests; and
- oversee and retain ultimate responsibility for Melrose's enhanced sustainability and climate-related initiatives, disclosure and reporting in respect of improving the sustainability performance of its businesses.

GOVERNANCE STRUCTURE(1)

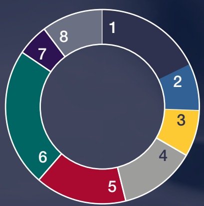
Non-executive Chairman

Executive Directors

Non-executive Directors

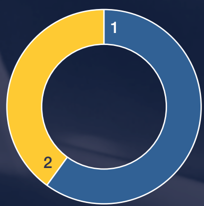
Audit Committee page 116 | **Nomination Committee** page 124 | **Remuneration Committee** page 128

DIVERSITY AND SKILLS OVERVIEW(2)



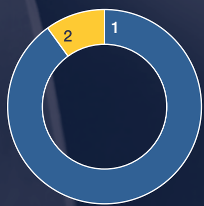
Board Skills

1	Accounting and Finance	**7**
2	Aerospace	**3**
3	Aviation	**3**
4	Corporate Governance	**5**
5	Industrial	**6**
6	Investment	**9**
7	Legal	**2**
8	Sustainability (Environmental and Social)	**4**



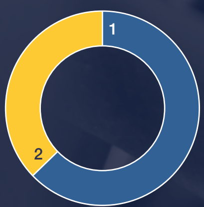
Board gender diversity

1	Male	**60%**
2	Female	**40%**



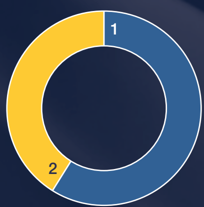
Board ethnic diversity

1	White	**90%**
2	Ethnically diverse	**10%**



Melrose Executive Committee

1	Male	**63%**
2	Female	**37%**



Melrose Executive Committee and direct reports

1	Male	**59%**
2	Female	**41%**

(1) Please refer to page 3 for details of changes to the Melrose Board.
(2) Diversity data as at 31 December 2023.

Melrose Executive Committee

The Melrose Executive Committee operates under the direction of the Chief Executive Officer. It is chaired by a member of the Melrose senior management team on a rotating basis to encourage diversity and comprises members of the Melrose head office team, including the executive Directors. Its key roles are to ensure that there is full knowledge of, and coordination between, the Melrose corporate team and the GKN Aerospace business lines, including in respect of the Group's key transformation projects, as well as day-to-day management, to ensure that the appropriate resource is being devoted to resolve any issues, and to ensure that actions being taken are supportive of the Group's aims, objectives and culture.

Remuneration

The Directors' Remuneration report, comprising the annual statement from the Chairman of the Remuneration Committee, the Annual Report on Remuneration and the proposed 2024 Directors' Remuneration Policy, is available on pages 128 to 152.

Our long-standing executive remuneration structure has traditionally been characterised by setting salary, benefits and annual bonuses below the lower quartile of our FTSE 100 peers, with the opportunity for significant reward being weighted towards long-term incentivisation. This approach has been entirely appropriate in complementing our "Buy, Improve, Sell" strategy and has been central to the success that has been delivered for our shareholders. It has also been both well understood and well supported by our investors, as most recently demonstrated by the votes in favour of the 2022 Directors' Remuneration Report and the 2023 Directors' Remuneration Policy at the 2023 AGM.

With Melrose's strategy having shifted from its previous "Buy, Improve, Sell" model to becoming an aerospace business for the long term, now is the appropriate time to realign the Company's executive remuneration structure to reflect our new strategic direction, subject to approval by shareholders of the 2024 Directors' Remuneration Policy. Our new strategy remains focused on value creation, driven by operational and financial improvement over the longer term. Our positive trajectory is underpinned by leading positions on the world's major aircraft platforms, strong organic growth prospects within the aerospace sector, and attractive opportunities to differentiate our business through cutting-edge proprietary technology that is already shaping the future of flight. To support this change in strategy, the Board believes that the new executive management team should be remunerated under a structure that resembles more closely Melrose's FTSE 100 peers. In particular, we propose to rebalance Melrose's weighting of fixed to variable remuneration, and of medium- to longer-term incentivisation, using a structure reflective of the majority of FTSE 100 companies, including through the introduction of a performance share plan which will replace the Melrose Employee Share Plan as the Group's ongoing long-term incentive plan. We have engaged with key shareholders and other stakeholders in relation to the proposed 2024 Directors' Remuneration Policy as further described on page 129.

Melrose's remuneration philosophy remains unchanged in order to align senior management with shareholders: executive remuneration should be simple, transparent, support value creation and pay only for performance.

Sustainability

The Board is mindful of its responsibilities regarding climate change and sustainability, which are central to implementing the Company's purpose and strategy. In particular, the Board assesses the basis on which the Company generates and preserves value over the long term, including reviewing opportunities and risks, and the sustainability of the Company's business model. Further details on this can be found in the Sustainability review on pages 43 to 93. The Company has carefully considered how it can strategically address matters relating to sustainability in the most efficient and appropriate way. The Board oversees and retains ultimate responsibility for the Group's strategy, initiatives, and disclosure in respect of improving the Group's sustainability performance. The Board receives regular training at least annually on key sustainability and climate-related issues, and on the specific measures that are required to be implemented to drive improved sustainability performance over the longer term, for the benefit of all stakeholders. Sustainability and climate change are also a standing topic on the Board's quarterly agenda.

As part of the renewal of the Directors' Remuneration Policy in 2023, the Remuneration Committee further integrated ESG metrics into executive remuneration as a standalone element of the annual bonus. Please see the Directors' Remuneration report on pages 128 to 152 for further details.

Risk management and internal control

Melrose has implemented a Group Enterprise Risk Management programme, with complementary processes and procedures. During 2023, the Audit Committee continued to keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks and other internal control and risk management systems, and the effectiveness of the Group's risk management system, through regular updates from management. This included a review of the key findings presented by the external and internal auditors having agreed the scope, mandate and review schedule in advance.

Management, with support from external advisors, continued to utilise a third-party hosted interactive dashboard which has been tailored to the requirements of the Group in order to consolidate the Group's risk reporting. The dashboard includes data from GKN Aerospace's risk register, which was reviewed and approved by GKN Aerospace's senior management key risk owners. The dashboard has supported the continued enhancement of the Group's risk management processes, with in-depth reporting and data collection. The outputs have informed management's reporting to the Audit Committee and has bolstered the Audit Committee's oversight of risk areas, mitigations, controls and trends. Furthermore, it has helped to guide the Audit Committee on relevant updates to the Group's principal risks (including assessing, for discussion with the Board, any new and/or emerging principal Group risks), as reported in the Risks and uncertainties section on pages 31 to 36.

Full details on the Group's approach to risk management can be found in the Risk management section on pages 28 to 30, and in the Audit Committee report on pages 116 to 123.

Ethics and compliance

Our Code of Ethics (which can be found at www.melroseplc.net/governance/documents-and-policies) reinforces our values and provides guidance for all employees, contractors and business associates so that they are fully aware of what is expected of them, their responsibilities and the consequences of non-compliance. The principles outlined in our Code of Ethics are embedded within the Group, and mechanisms and policies are in place for anyone to whom the Code of Ethics applies to seek guidance on interpreting its principles, where required.

The Code of Ethics is supported by Group compliance policies covering best practice with respect to anti-bribery and corruption, anti-money laundering, anti-facilitation of tax evasion, competition, conflict minerals, trade compliance, data privacy, whistleblowing, treasury and financial controls, anti-slavery and human trafficking, document retention, joint ventures, diversity and inclusion, environmental, human rights, supply chain, biodiversity and water.

The implementation of the Code of Ethics and Group compliance policies is supported by a combination of risk assessment requirements, training and ongoing monitoring to ensure their effectiveness for the Group. Taken together, these initiatives have enhanced our business's effectiveness at identifying and managing risks and have promoted and embedded a more risk-aware culture. Further details on the Group's management of risk can be found in the Risk management section on pages 28 to 30.

Melrose's reputation for acting responsibly plays a critical role in its success as a business and its ability to generate shareholder value. We maintain high standards of ethical conduct and take a zero-tolerance approach to bribery, corruption, modern slavery and human trafficking and any other unethical or illegal practice. We are committed to acting professionally, fairly and with integrity in all business dealings and relationships, within all jurisdictions in which we operate. Further details of the Group's stance and focus on ensuring effective stewardship in respect of key environmental, social and governance matters are set out in the Sustainability review on pages 43 to 93. Supporting our compliance policies are a comprehensive online training platform, an industry-leading whistleblowing reporting facility and a data-driven risk reporting dashboard providing increased risk management visibility and trend analysis to senior management and the Audit Committee. The integrity of the compliance framework is further reinforced by the use of independent compliance reviews where required.

Engagement with stakeholders

In 2023, the Company continued to run engagement initiatives with key shareholders and governance bodies on key topics including diversity, sustainability and remuneration. Members of the Board also made themselves available to discuss issues with key investors and other stakeholders on an ad-hoc basis upon request.

Stakeholder engagement was considered particularly important in 2023 following the Company's change in business strategy. The Company held a successful capital markets event in May 2023 to provide further information on the Company's new strategy, and the executive Directors also engaged with key investors on the new strategy as part of the investor roadshow programme.

Melrose also continued with a variety of workforce engagement initiatives, most notably through its Workforce Advisory Panel ("WAP"), which met twice in 2023. The purpose of the WAP is to promote effective engagement with, and encourage participation from, the Group's workforce. The WAP comprises the Chief Human Resources Officer and Group General Counsel from Melrose and GKN Aerospace and other relevant internal stakeholders as required as the Group's new business strategy and integrated structure evolves. Each member of the WAP is responsible for promoting workforce engagement, disseminating information and collating the voice of their workforce. The Board remains of the view that this structure is the most appropriate and effective method of ensuring that workforce voices are heard.

It is our intention to continue with our programme of stakeholder engagement in 2024. Full details of how the Board engages with all of its stakeholders and considers them in its decision-making is set out in our Section 172 statement on pages 37 to 42.

J Dowley

Justin Dowley
Non-executive Chairman

7 March 2024

Justin Dowley
Independent
Non-executive Chairman

Year appointed
Appointed as Chairman on 1 January 2019, having previously served as a Non-executive Director from 1 September 2011, and as the Senior Independent Director from 11 May 2017 to 31 December 2018. As previously announced, Mr Dowley's tenure will end in 2025, and a search for his successor has been commenced. Mr Dowley will be standing for re-election at the Company's Annual General Meeting on 2 May 2024 (the "2024 AGM") as planned, with a view to support the transition to the new Chairman prior to their appointment in 2025.

Skills and experience
Mr Dowley has extensive experience with over 35 years spent within the banking, investment and asset management sectors. A chartered accountant, Mr Dowley qualified with Price Waterhouse 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.

Board meetings attended[1]	4
Business reviews attended	3

Other significant appointments
- Chair of Scottish Mortgage Investment Trust PLC
- Deputy Chairman of The Panel on Takeovers and Mergers
- Director of a number of private companies

Committee membership
- Nomination
- Remuneration

Independent	Yes
Tenure[2]	12 years

Peter Dilnot
Chief Executive Officer

Year appointed
Appointed as an executive Director on 1 January 2021, having served as Chief Operating Officer since April 2019. Mr Dilnot was appointed as Chief Executive Officer on 6 March 2024.

Skills and experience
Mr Dilnot has been at Melrose since April 2019. As well as serving as an executive Director and Chief Operating Officer during this time, he has also fulfilled the role of Chief Executive Officer of GKN Aerospace for periods during his tenure, most recently from October 2023. Mr Dilnot has considerable public company and industrial business experience, having been the Chief Executive Officer of international recycling company Renewi PLC (formerly Shanks Group PLC) and having been a senior executive at Danaher Corporation. He also spent seven years at the Boston Consulting Group in London and Chicago, working primarily with industrial businesses. Mr Dilnot has an engineering and aviation background, and started his career as a helicopter pilot in the British Armed Forces. He also holds a degree in Mechanical Engineering.

Board meetings attended[1]	4
Business reviews attended	3

Other significant appointments
- Trustee of Autistica

Independent	Not applicable
Tenure[2]	Not applicable

Matthew Gregory
Chief Financial Officer

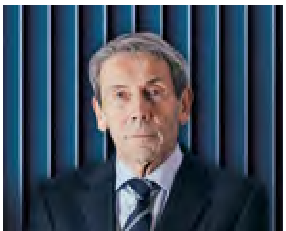
Year appointed
Mr Gregory was appointed as an executive Director on 7 March 2024, joining the Board as Chief Financial Officer. He will stand for election for the first time at the 2024 AGM.

Skills and experience
Mr Gregory has extensive knowledge of GKN Aerospace, having served as Chief Financial Officer of GKN Aerospace since September 2022. Matthew is a seasoned Chief Financial Officer, with considerable public company leadership experience, having served as both Chief Executive Officer and Chief Financial Officer of FirstGroup plc and Chief Financial Officer of Essentra plc. Matthew has strong strategic and operational expertise, including in driving strategy and operational turnaround in complex multinational listed companies, alongside international and corporate development experience. Mr Gregory is a qualified chartered accountant having started his career at Ernst & Young, working in London and Milan.

Board meetings attended[1]	Not applicable
Business reviews attended	Not applicable

Other significant appointments
None

Independent	Not applicable
Tenure[2]	Not applicable



David Lis
Senior Independent Director

Year appointed
Appointed as the Senior Independent Director on 5 May 2022, having previously served as a Non-executive Director from 12 May 2016, and Chair of the Remuneration Committee on 1 January 2019.

Skills and experience
Mr Lis has held several senior roles in investment and fund management, as well as other board appointments. He brings extensive financial experience to the Board. Mr Lis commenced his career at NatWest, and held positions at J Rothschild Investment Management and Morgan Grenfell after which David founded Windsor Investment Management. David joined Norwich Union Investment Management in 1997 (later merging to form Aviva Investors), before becoming Head of Equities in 2012 and latterly Chief Investment Officer, Equities and Multi Assets, until his retirement in March 2016.

Board meetings attended[1]	4
Business reviews attended	3

Other significant appointments
- Chairman of Windar Photonics Plc
- Senior Independent Director of Hostmore plc
- Director of a number of private companies

Committee membership
- Audit
- Nomination
- Remuneration (Chair)

Independent	Yes
Tenure[2]	7 years

Charlotte Twyning
Independent
Non-executive Director

Year appointed
Appointed as a Non-executive Director on 1 October 2018 and Chair of the Nomination Committee on 1 January 2022.

Skills and experience
Ms Twyning brings a diverse range of experience and commercial acumen to the Board. After a successful legal career specialising in competition and M&A law in the City, she held various senior positions across a number of sectors, most recently in aviation and transportation. Ms Twyning has proven leadership and operational skills in large, complex organisations and has consistently succeeded in driving performance and building the foundations for growth throughout her career. She now enjoys a portfolio career, combining a number of non-executive, trustee and advisory roles.

Board meetings attended[1]	4
Business reviews attended	3

Other significant appointments
- Governor of the Museum of London

Committee membership
- Audit
- Nomination (Chair)
- Remuneration

Independent	Yes
Tenure[2]	5 years

Heather Lawrence
Independent
Non-executive Director

Year appointed
Appointed as a Non-executive Director on 1 June 2021 and Chair of the Audit Committee on 5 May 2022.

Skills and experience
Mrs Lawrence originally qualified as a chartered accountant and subsequently spent well over a decade working in senior roles within corporate finance and investment banking, where she honed her experience across industrials and transportation businesses. Mrs Lawrence has significant non-executive directorship experience, including as non-executive director of Antofagasta PLC and non-executive director and audit committee chair of FlyBe Group plc.(3)

Board meetings attended(1)	4
Business reviews attended	3

Other significant appointments
- Non-executive Director of Antofagasta PLC

Committee membership
- Audit (Chair)

Independent	Yes
Tenure(2)	2 years

Victoria Jarman
Independent
Non-executive Director

Year appointed
Appointed as a Non-executive Director on 1 June 2021.

Skills and experience
Ms Jarman is a chartered accountant who qualified at KPMG before spending over ten years with Lazard Ltd working in the investment banking team and then as Chief Operating Officer for the London and Middle East operations until 2009. Ms Jarman has previously been a non-executive director of Equiniti Group plc, Hays plc and De La Rue plc, a Non-Executive Director of Signature Aviation plc and Entain plc and Senior Independent Director at Equiniti Group plc. Ms Jarman will not be standing for re-election at the 2024 AGM.

Board meetings attended(1)	4
Business reviews attended	3

Other significant appointments
- Non-executive Director of Great Portland Estates plc

Committee membership
- Audit • Nomination • Remuneration

Independent	Yes
Tenure(2)	2 years

Gillian Elcock
Independent
Non-executive Director

Year appointed
Appointed as a Non-executive Director on 21 June 2023.

Skills and experience
Ms Elcock has extensive asset management and investment research experience, including covering the aerospace and defence sector. Ms Elcock is the founder and former Managing Director of Denny Ellison, an independent investment research and training company. She also brings insight gained from several non-executive director roles.

Board meetings attended(1)(4)	2
Business reviews attended(4)	1

Other significant appointments
- Non-executive Director of International Biotechnology Trust Plc
- Non-executive Director of STS Global Income & Growth Trust plc
- Member of the Board of the CFA UK
- Non-executive Director of Octopus Apollo VCT plc

Committee membership
- Audit • Nomination • Remuneration

Independent	Yes
Tenure(2)	0 years

Former Directors

Christopher Miller
Former Executive Vice-Chairman

Co-founder of Melrose, appointed as Executive Vice-Chairman on 1 January 2019, having previously served as Executive Chairman from May 2003. Mr Miller stepped down from the Board on 7 March 2024 and therefore will not be standing for re-election at the 2024 AGM.

Board meetings attended(1)	4
Business reviews attended	3

Other significant appointments
None

Simon Peckham
Former Chief Executive

Co-founder of Melrose, appointed as Chief Executive on 9 May 2012, having previously served as Chief Operating Officer from May 2003. Mr Peckham stepped down from the Board on 7 March 2024, and therefore will not be standing for re-election at the 2024 AGM.

Board meetings attended(1)	4
Business reviews attended	3

Other significant appointments
None

Geoffrey Martin
Former Group Finance Director

Appointed as Group Finance Director on 7 July 2005. Mr Martin stepped down from the Board on 7 March 2024, and therefore will not be standing for re-election at the 2024 AGM.

Board meetings attended(1)	4
Business reviews attended	3

Other significant appointments
- Executive Director of Dowlais Group plc

(1) Meetings attended refers to scheduled meetings.
(2) Tenure runs from the date of appointment until 31 December 2023 and is based on full years only.
(3) Ms Lawrence was also a non-executive director of Coats Group PLC until 31 March 2023.
(4) Ms Elcock was appointed to the Board on 21 June 2023. She has attended all Board and applicable meetings and business reviews since her appointment. She will stand for election for the first time at the 2024 AGM.

The Directors of Melrose Industries PLC present the Annual Report and financial statements of the Group for the year ended 31 December 2023.

Incorporated information

The Corporate Governance report set out on pages 109 to 115, the Finance Director's review on pages 20 to 27, and the Sustainability review on pages 43 to 93 are each incorporated by reference into this Directors' report.

Disclosures elsewhere in the Annual Report are cross-referenced where appropriate. Taken together, they fulfil the combined requirements of the Companies Act 2006 (the "Act") and of the Disclosure Guidance and Transparency Rules and the Listing Rules of the Financial Conduct Authority (the "FCA").

AGM

The Annual General Meeting ("AGM") of the Company will be held at Butchers' Hall, 87 Bartholomew Close, London EC1A 7EB at 11.00 am on 2 May 2024. A detailed explanation of each item of business to be considered at the AGM is included with the Notice of Annual General Meeting. The notice convening the meeting is shown on pages 240 to 242 and includes full details of the resolutions to be proposed, together with explanatory notes in relation to such resolutions (the "AGM Notice").

Directors

The Directors of the Company as at the date of this Annual Report, together with their biographies, can be found on pages 102 to 103.

Changes to the Board during the year are set out in the Governance overview on pages 98 to 101 and the Corporate Governance report on pages 109 to 115. Details of Directors' service contracts are set out in the Directors' Remuneration report on pages 128 to 152.

The Statement of Directors' responsibilities in relation to the consolidated financial statements is set out on page 153, which is incorporated into this Directors' report by reference.

Appointment and removal of Directors and their powers

The Company's articles of association (the "Articles") give the Directors the power to appoint and replace other Directors. Under the terms of reference of the Nomination Committee, any appointment must be recommended by the Nomination Committee for approval by the Board.

Pursuant to the Articles and in line with the UK Corporate Governance Code (the "Code"), all of the Directors of the Company are required to stand for re-election on an annual basis. Mr Simon Peckham, Mr Geoffrey Martin, Mr Christopher Miller and Ms Victoria Jarman will not stand for re-election by shareholders at this year's AGM. With the exception of Mr Matthew Gregory and Ms Gillian Elcock, who are standing for election for the first time, all of the remaining Directors of the Company will be standing for re-election by shareholders at the forthcoming AGM, and in each case, an ordinary resolution will need to be passed to approve such (re-)election.

The Directors are responsible for managing the business of the Company and exercise their powers in accordance with the Articles, directions given by special resolution, and any relevant statutes and regulations.

Insurance and indemnities

In accordance with the Articles and the indemnity provisions of the Act, the Directors have the benefit of an indemnity from the Company in respect of any liabilities incurred as a result of their office. This indemnity is provided both within the Articles and through a separate deed of indemnity between the Company and each of the Directors.

The Company has taken out an insurance policy in respect of those liabilities for which the Directors may not be indemnified. Neither the indemnities nor the insurance provide cover in the event that a Director is proved to have acted dishonestly or fraudulently.

Post balance sheet events

On 1 March 2024, the Group completed the disposal of its Fuel Systems business for £50 million, before costs and other deductions.

Capital structure

In connection with the demerger of Dowlais Group plc (the "Demerger"), the ordinary share capital of the Company was consolidated (the "Share Capital Consolidation"). Recognising that the Demerger involved the extraction of businesses from the Group which accounted for a significant proportion of the Company's market capitalisation, the Share Capital Consolidation was undertaken in order to enable the post-Demerger share price of both the Company and the new demerger entity, Dowlais Group plc ("Dowlais"), to initiate at sensible levels.

The Share Capital Consolidation was effected by each holding of three existing ordinary shares of 160/21 pence in the capital of the Company being consolidated into one new ordinary share of 160/7 pence in the capital of the Company. The record date for the Share Capital Consolidation was 6.00 pm on 19 April 2023 and the new ordinary shares were admitted to listing and trading at 8.00 am on 20 April 2023. Subject to allowance for fractional entitlements, shareholders continued to own approximately the same proportion of the ordinary share capital of the Company before and after the Share Capital Consolidation.

The Share Capital Consolidation was approved by shareholders of the Company at a general meeting of the Company held on 30 March 2023.

Additionally, the Company commenced a share buyback programme on 2 October 2023, which is intended to be conducted over a period of 12 months, and will end no later than 1 October 2024 (the "Share Buyback"). In accordance with the Company's general authority to repurchase ordinary shares in the Company granted by its shareholders at the Annual General Meeting held on 8 June 2023, the Share Buyback is limited to 202,586,150 ordinary shares in the Company (the "General Authority") and was further limited to a maximum aggregate consideration payable by the Company of £500 million (the "Limit"). The continuation of the Share Buyback beyond the conclusion of this year's AGM is subject to the Company obtaining approval for a new General Authority from shareholders at this year's AGM.

The ordinary shares in the Company repurchased as part of the Share Buyback are intended to be either held in treasury or cancelled. As at 31 December 2023, 18,761,840 ordinary shares had been repurchased, all of which are currently held in treasury, meaning that the Company had 1,351,475,321 ordinary shares in issue as at 31 December 2023, with 18,761,840 of these shares being held in treasury.

The table below shows details of the Company's issued share capital as at 31 December 2022; following the Share Capital Consolidation; and as at 31 December 2023.

Share class	31 December 2022	19 April 2023 Post Share Capital Consolidation(1)	31 December 2023
Ordinary shares of 160/21 pence each	4,054,425,961	Nil	Nil
Ordinary shares of 160/7 pence each	n/a	1,351,475,321	1,351,475,321

The Company's sole class of ordinary shares is admitted to the premium segment of the official list.

Shareholders' voting rights

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 of the Company, each member who holds ordinary shares in the Company and who is present (in person or by proxy) at such meeting is entitled to:

- on a show of hands, one vote; and
- on a poll, one vote for every ordinary share held by them.

There are currently no special rights or restrictions as to voting attached to any class of shares.

The Company is not aware of any agreements between shareholders that restrict voting rights attached to the ordinary shares in the Company.

Where any call or other amount due and payable in respect of an ordinary share remains unpaid, the holder of such shares shall not be entitled to vote at or attend any general meeting of the Company in respect of those shares. As at 7 March 2024, all ordinary shares issued by the Company are fully paid.

Details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the 2024 AGM are set out in the AGM Notice on pages 240 to 242.

Shareholders whose combined shareholdings amount to at least 5% of the issued voting share capital may, pursuant to section 303 of the Act, request that the Directors call a general meeting of the Company. Shareholders whose combined shareholdings amount to at least 5% of the issued share capital entitled to vote can also request that the Company introduces a resolution to be voted on at an AGM.

Restrictions on transfer of securities

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company, aside from the usual restrictions applicable where shares are not fully paid up, if entitled to do so under the Uncertificated Securities Regulations 2001, where the transfer instrument does not comply with the requirements of the Articles or in exceptional circumstances approved by the relevant investment exchange, provided such refusal would not disturb the market in such shares. Restrictions may also be imposed by laws and regulations (such as insider trading and market abuse provisions). Directors and certain senior employees of the Group may also be subject to internal approvals before dealing in ordinary shares of the Company and minimum shareholding requirements. The Company does not have any anti-takeover devices in place, including devices that would limit share ownership.

The Company is not aware of any agreements between shareholders that restrict the transfer of ordinary shares in the Company.

Articles of association

The Articles may only be amended by a special resolution at a general meeting of the shareholders of the Company. There are no amendments proposed to be made to the Articles at the forthcoming AGM.

Substantial shareholdings

As at 31 December 2023, the following voting interests in the ordinary share capital of the Company, disclosable under Chapter 5 of the FCA's Disclosure Guidance and Transparency Rules, had been notified to the Directors:

Shareholder	Shareholding(2)	% of ordinary share capital as at 31 December 2023(2)
The Capital Group Companies, Inc.	256,866,618	19.01%
BlackRock Inc	94,720,155	7.00%
Select Equity Group Inc	67,196,570	4.97%
Norges Bank	81,260,011	6.06%
Aviva plc	118,577,085	2.92%
Bank of America Corporation	131,232,533	3.24%
Permian Investment Partners, LP	38,240,723	2.85%

(1) To effect the Share Capital Consolidation, two ordinary shares of 160/21 pence each were allotted and issued to Investec Bank plc on 19 April 2023 at 163.125 pence per share, being the closing mid-market price of an ordinary share on 19 April 2023, in order to ensure that the number of ordinary shares of the Company was exactly divisible by three. These ordinary shares were issued pursuant to the general authorities granted by the Company's shareholders in accordance with section 551 and section 570 of the Act at the Company's AGM held on 5 May 2022. The terms of this issue were fixed on 19 April 2023 following a meeting of a committee of the Board. These ordinary shares were subject to the Share Capital Consolidation.

(2) Where the holding of shares has not been re-notified to Melrose since the Share Capital Consolidation, the number of shares and percentage of ordinary share capital is as notified to Melrose prior to this consolidation. In addition, where the holding of shares was notified to Melrose prior to commencement of the Share Buyback and has not been re-notified to Melrose since the commencement of the Share Buyback, and where the holding of shares was notified to Melrose after commencement of the Share Buyback, the number of shares and percentage of ordinary share capital is as notified to Melrose.

Shareholder dividend

The Directors are pleased to recommend the payment of a final dividend of 3.5 pence per share (2022: second interim dividend of 1.5 pence per share)[1] to be paid on 8 May 2024 to ordinary shareholders on the register of members of the Company at the close of trading on 2 April 2024. This dividend recommendation will be put to shareholders at the forthcoming AGM of the Company, to be held on 2 May 2024. Subject to shareholder approval being obtained at the AGM for the final dividend, this will mean a full year 2023 dividend of 5.0 pence per share (2022: 2.325 pence).

For discussion on the Board's intentions with regard to the Company's dividend policy, please see the Chairman's statement on pages 2 to 3, which is incorporated into this Directors' report by reference.

The Company offers a Dividend Reinvestment Plan ("DRIP"), which gives shareholders the opportunity to use their dividend payments to purchase further ordinary shares in the Company. Further details about the DRIP and its terms and conditions can be found within the Investors section of the Company's website at www.melroseplc.net.

Historical dividends

Equiniti, the Company's registrar, administers the unclaimed dividends of the former GKN plc (now GKN Limited). Pursuant to law and its articles of association, GKN Limited is obliged to pay such unclaimed dividends for a period of 12 years from the date on which they were declared or became due for payment. As at 31 December 2023, the total amount of dividends of GKN Limited remaining unclaimed for more than 12 years was £244,458.77. If the unclaimed dividends are not claimed by 30 June 2024, the Company will look to donate the funds to charity.

Ability to purchase own shares

Pursuant to sections 693 and 701 of the Act and a special resolution passed at a general meeting of the Company on 8 June 2023, the Company is authorised to make market purchases of up to 202,586,150 of its ordinary shares, representing approximately 14.99% of the current issued ordinary share capital of the Company. The Company has made purchases of its own shares pursuant to this authority. As described on page 104, the Company commenced the Share Buyback on 2 October 2023. As at 31 December 2023, 18,761,840 ordinary shares of the Company had been repurchased pursuant to, and in compliance with, this authority. The remainder of this authority will expire at the end of this year's AGM.

At the 2024 AGM, the Company is seeking approval to make market purchases of its ordinary shares up to 197,373,991, being approximately 14.99% of the issued ordinary share capital of the Company (excluding treasury shares) as at the latest practicable date prior to notice of AGM, thereby renewing the authority. The continuation of the Share Buyback beyond the conclusion of this year's AGM is therefore subject to this authority being renewed. The full text of the resolution, together with minimum and maximum price requirements, is set out in the AGM Notice on pages 240 to 242.

Financial instruments

The disclosures required in relation to the use of financial instruments by the Company, including the financial risk management objectives and policies (including in relation to hedging) of the Company and the exposure of the Company to liquidity risk, cash flow risk, exchange rate risk, contract and warranty risk and commodity cost risk, can be found in the Finance Director's review on pages 20 to 27, the Risks and uncertainties section of the Strategic Report on pages 31 to 36, and in note 25 to the financial statements, which are incorporated by reference into this Directors' report.

Research and development activities

The aerospace industry is highly competitive and as such the Group researches and develops new and innovative product lines and processes in order to meet customer demands in a continuously evolving environment and to support its sustainability goals.

As noted in the Sustainability review on pages 43 to 93, which is incorporated by reference into this Directors' report, investment into research and development activities continued throughout 2023. GKN Aerospace is a technology leader in aerostructures, engine structures and wiring systems. Its lightweight composites, additive manufacturing, innovative engine systems and smart transparencies help to reduce emissions and weight on the aircraft and enhance passenger comfort, pushing the boundaries for the next generation of aircraft. It is at the forefront of many research and developments partnerships and industry collaboration programmes, including the development of a ground-breaking liquid hydrogen technology as part of its £54 million collaborative H2GEAR programme which focuses on technology to accelerate aerospace decarbonisation, with the goal of zero CO_2 emissions hydrogen-powered sub-regional aircraft entering the skies as early as 2026. The programme is expected to create more than 3,000 jobs across the UK and will reinforce the UK's position at the forefront of aerospace technology research and development.

Other examples include the Future of Flight Challenge for Innovate UK where GKN Aerospace leads in the development of safe system design, manufacturing and operational knowledge for liquid hydrogen fuel systems; development of an out-of-autoclave technology, addressing the energy intensive nature of composite material structures to enable their wider application for lowering an aircraft's CO_2 emissions through their reduced weight and additional benefits such as material toughness, high processing speeds and recyclability; work with Eviation on an experimental electric aircraft, providing expertise for the integration of large-scale components; as well as industry collaboration to develop a hydrogen gas generation solution which aims to substitute natural gas with combined H2 generation and hydrogen storage technologies, thus reducing reliance on fossil fuels.

The Melrose Skills Fund has also funded initiatives within the Group and in the wider community. Further details on these initiatives are set out in the Sustainability review on pages 43 to 93.

(1) The Company paid a second interim dividend of 1.5 pence per share to replace the final dividend which would normally have been approved at the Company's 2023 AGM. This second interim dividend was paid on 11 April 2023, prior to the Demerger, to ordinary shareholders on the register of members of the Company at the close of trading on 10 March 2023.

Business review and risks

A review of the Group's performance, the key risks and uncertainties facing the Group and details on the likely development of the Group can be found in the Chairman's statement on pages 2 to 3 and the Strategic Report on pages 1 to 94 of this Annual Report (including the Longer-term viability statement on page 27 and the Risks and uncertainties section on pages 31 to 36), which are incorporated into this Directors' report by reference.

Employee engagement

The Company operates a Workforce Advisory Panel (the "WAP") as its chosen method of complying with the requirements of the Code on employee engagement. The WAP comprises the Chief Human Resources Officer and Group General Counsel of Melrose and GKN Aerospace and other relevant internal stakeholders as required as the Group's new business strategy and integrated structure evolves. Details in relation to the WAP, employment policies, and employee involvement, consultation and development, together with details of some of the human resource improvement initiatives implemented during 2023, are highlighted in the Sustainability review on pages 43 to 93 and in the Section 172 statement set out in the Strategic Report on pages 37 to 42, both of which are incorporated by reference into this Directors' report.

Diversity Policies

The Company acknowledges that diversity, equity and inclusion is a changing landscape, and the Nomination Committee reviews its diversity policies on an annual basis, with any recommendations for amendments being approved by the Board. The policies, which can be viewed on the Company's website at www.melroseplc.net/governance/documents-and-policies include a Board of Directors' Diversity policy and a Melrose Diversity, Equity and Inclusion policy. The Board of Directors' Diversity policy sets out the Nomination Committee's commitment to ensuring that Board membership and pipeline for succession remains diverse, which is equally applicable to each of the Board's committees. It also sets out the Company's diversity targets for the Board. The Melrose Diversity, Equity and Inclusion policy, which is applicable to all Melrose employees, sets out the Company's position on diversity, equity and inclusion in its workforce. Further details can be found in the Nomination Committee report on pages 124 to 127.

Business relationships

Details of our business's clients and suppliers and how we work and engage with them are described in the Divisional review on pages 8 to 11, in the Section 172 statement on pages 37 to 42 and in the Sustainability review on pages 43 to 93, each in the Strategic Report, and all of which are incorporated by reference into this Directors' report.

Environmental

Details of the sustainability initiatives across the Group, and the Group's Greenhouse Gas ("GHG") emissions, waste, water usage and other energy consumption, as well as the methodology used to calculate such emissions and consumption, are set out in the Sustainability review on pages 43 to 93, which is incorporated by reference into this Directors' report.

In 2023, the Board oversaw the implementation of the Group's sustainability targets and commitments which were set in 2021, and the setting of new sustainability and environmental targets as part of the Group's evolved sustainability strategy as it shifted to become a pureplay aerospace business. Details on performance against the existing targets are set out on page 44, and the new targets and commitments are set out in the Sustainability review on pages 48 to 51. The GKN Aerospace sustainability function conducted a Double Materiality Assessment which resulted in a set of material sustainability topics to reset the foundations of the Group's sustainability strategy and address the emerging trend of assessing material sustainability topics through the prism of the Company's impact on the environment and society, and financial materiality of these topics. The Group's new priority material topics are: climate change; mitigation and adaptation; research and development for sustainable aviation; occupational health, safety and wellbeing; product safety and quality; and business integrity.

As part of the Group's new business model and strategy, the GKN Aerospace sustainability function developed an updated Transition Plan which sets out the Group's commitment to addressing climate change and ongoing dedication to reducing our carbon footprint and promoting climate-aware practices throughout the Group's operations and supply chain.

Political donations

The Group's policy is not to make any political donations and there were no political donations made during the year ended 31 December 2023 (2022: nil).

Branches

The Melrose Group and its business operates across various jurisdictions. The Group, through its various subsidiaries, has established branches in a number of different countries in which the business operates.

Disclosures required under Listing Rule 9.8.4R

Other than the following, no further information is required to be disclosed by the Company in respect of Listing Rule 9.8.4R:

- details of the allotment of ordinary shares to Investec Bank plc in connection with the Share Capital Consolidation, which is set out in the "Capital structure" section of this Directors' report on pages 104 to 105;
- GKN had historically operated employee share option plan trusts to satisfy the vesting and exercise of awards of ordinary shares made under GKN's share-based incentive arrangements. On the acquisition of GKN, these shares were converted into Melrose shares. A dividend waiver is in place on the shareholdings in respect of relevant trusts in part, or in full, in accordance with the provisions of the relevant trust deeds.

Significant agreements and change of control

With the exception of the Group's banking facilities, the Notes (as defined below), the 2020 Employee Share Plan, the Melrose Automotive Share Plan and the GKN Aerospace long-term incentive plan, there are no other agreements that would have a significant effect upon a change of control of Melrose Industries PLC as at 7 March 2024.

The Group's committed bank facilities were refinanced during the year, resulting in term loan facilities of US$300 million and €100 million and a multi-currency revolving credit facility of US$250 million (in each case maturing in April 2026) and additionally multi-currency revolving credit facilities totalling US$690 million, £300 million and €300 million that initially mature in April 2026, but with the potential to be extended for two additional one-year periods at the Company's option. Details of these facilities are provided in the Finance Director's review on page 25 and note 25 to the financial statements.

In the event of a change of control of the Company following a takeover bid, the Company and lenders under the bank facilities are obliged to enter into negotiations to determine whether, and if so how, to continue with the facilities. There is no obligation for the lenders to either fund new loans requested during the 30-day period after a change of control, or, if no agreement is reached, continue to make the facilities available following such 30-day period. Failure to reach agreement on any revised terms requested by the lenders could require an acquirer to put in place replacement facilities.

The Company's wholly-owned subsidiary, GKN Holdings Limited, has approximately £9.74 million fixed rate notes outstanding paying 4.625% p.a. interest and maturing on 12 May 2032 (the "Notes"), issued under a Euro medium-term note programme. Pursuant to their terms and conditions, a holder of the Notes has the option to require GKN Holdings Limited to redeem or (at GKN Holdings Limited's option) purchase the holder's Notes at their principal amount together with accrued interest, if there is a change of control of GKN Limited and either: (i) the Notes are unrated or do not carry an investment grade credit rating from at least two ratings agencies at the time the change of control occurs; or (ii) if the Notes carry an investment grade credit rating from at least two ratings agencies at the time the change of control occurs, and the Notes are downgraded to a non-investment grade rating or that rating is withdrawn and not restored to an investment grade rating by them or replaced by an investment grade rating of another rating agency, within 90 days of the change of control and, in each case, such downgrade or withdrawal is publicly announced, or notified in writing to the Notes trustee, by such ratings agencies as being the result of the change of control.

In the event of a takeover of the Company, awards granted under the 2020 Employee Share Plan would crystallise and convert into ordinary shares in the Company or give rise to an entitlement for the participants to a dividend paid in cash. The rate of conversion is based upon the offer price of the Company's ordinary shares as calculated on the date of the change of control of the Company. If the offer price, or any element of the offer price, is not in cash, the Remuneration Committee will determine the value of the non-cash element, having been advised by a reputable investment bank that such valuation is fair and reasonable.

In the event of a takeover of the Company, awards granted under the Melrose Automotive Share Plan would crystallise, giving participants a right to receive ordinary shares in Dowlais. The number of Dowlais shares to which participants would be entitled is based upon the amount of increase in shareholder value in Dowlais created above an initial invested capital of £3,525,237,530, as calculated based on the average market capitalisation of Dowlais for the 40 business days prior to (but excluding) the date of the change of control of the Company, subject to certain adjustments and a minimum level of crystallisation.

A long-term management incentive plan is in place for GKN Aerospace which would be triggered upon a sale of the business or a takeover of the Company. The plan provides for the payment of bonuses to certain key managers of GKN Aerospace based upon the increase in value of the business. If a sale of the business has not occurred within a certain period, the incentive plan will crystallise and any payment to be made to participants will be based on the increase in value of the business during this period.

Auditor

So far as each Director is aware, there is no relevant audit information (being information that is needed by the Company's auditor to prepare its report) of which the Company's auditor is unaware. Each Director has taken all the steps that he or she ought to have taken as a Director to make him or her aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

On behalf of the Board, the Audit Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external auditor, Deloitte LLP, for the financial year ended 31 December 2023 and concluded that the external auditor was in all respects effective. PricewaterhouseCoopers LLP ("PwC LLP") has agreed to be appointed as the external auditor from the financial year ending 31 December 2024. Accordingly, resolutions will be proposed at this year's AGM for the appointment of PwC LLP as auditor of the Group and to authorise the Audit Committee to determine its remuneration.

Approval

Approved by the Board and signed on its behalf by:

Warren Fernandez
Company Secretary

7 March 2024

In line with the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council (the "FRC"), and the Listing Rules issued by the Financial Conduct Authority, this section of the Annual Report and financial statements details the ways in which the Company has applied the principles and complied with the provisions of the Code applicable during the year ended 31 December 2023.

The Audit Committee report, Nomination Committee report, Directors' Remuneration report, Statement of Directors' responsibilities, Risk management and Risks and uncertainties sections of the Strategic Report, together with the Sustainability review and the Section 172 statement, also form part of this Corporate Governance report.

Statement of compliance

Throughout the year ended 31 December 2023, the Company has applied the principles and complied with the provisions of the Code.

1. Principles A-E: Board Leadership and Company Purpose

Long-term sustainable success

The Board comprises individuals from a diverse range of backgrounds and with a wealth of knowledge, understanding and experience. The Chairman is responsible for leadership of the Board. The division of responsibilities is described further in section 2 on page 111.

The Board's overarching objective is to generate value for the Company's shareholders in a way that is sustainable in the long term and contributes to wider society. The Section 172 statement on pages 37 to 42 sets out the ways in which the Board took shareholder and other stakeholder considerations into account in its decision-making in 2023.

Our purpose, strategy and values

Melrose is a pureplay, UK-listed, aerospace business, focused on value creation driven by continuous operational and financial improvement over the longer term. Our positive trajectory is underpinned by the strong organic growth prospects within the aerospace sector, alongside attractive opportunities to further differentiate our business through cutting-edge proprietary technology.

The Company's purpose and strategy remain underpinned by the principles and values on which it was founded. We act with integrity, honesty, transparency and decisiveness, and believe in a lean operating model, high productivity and sustainable business practices. We see the decarbonisation of the aerospace sector as a priority, and indeed a central tenet of GKN Aerospace's mission to be "The Most Trusted and Sustainable Partner in the Sky". Whilst the sector and our customers provide many opportunities for further progress towards cleaner air travel through our innovation and technology leadership, we see no reason why this priority cannot be achieved at the same time as generating superior financial returns for our shareholders.

The Board recognises that culture, values and standards are key contributors to how a company creates and sustains value over the long term. High standards of business conduct guide and assist the Board's decision-making, and in doing so, help promote the Company's success, recognising, amongst other things, the likely consequences of any decision in the long term and wider stakeholder considerations. The standards set by the Board mandate certain requirements and behaviours with regards to the activities of the Directors, our employees and others associated with the Group.

Resources and controls

As described in more detail in the Risk management section of the Strategic Report and the Audit Committee report on pages 28 to 30 and 116 to 123 respectively, the Board has established a framework of reporting procedures, lines of responsibility and delegated authority, which is updated regularly and understood by all Board members and the Melrose senior management team. These reporting processes allow the Board and the Melrose senior management team to allocate resources in a sustainable and appropriate manner, enabling the Group to meet its objectives and measure performance effectively, whilst promoting sustainability. The Board and the Audit Committee each have access to the Melrose senior management team and to external assistance in order to satisfy themselves that appropriate and effective controls are in place, including Deloitte, who undertake the Group's external audit and BM Howarth and Ernst & Young, who assist with the Group's internal audit.

Stakeholder engagement

Through presentations and regular meetings between the executive Directors, analysts and institutional shareholders, including those following the announcements of the Company's annual and interim results and trading updates, the Company seeks to build on a mutual understanding of objectives with its shareholders and other stakeholders. This has been particularly important following the Company's change in business strategy to operating as a pureplay aerospace group. The Company held a successful capital markets event in May 2023 to provide further information on the Company's new strategy, and the executive Directors also engaged with key investors on the new strategy as part of the investor roadshow programme. Furthermore, in addition to the usual disclosure rounds following the release of annual and interim results, the Company continued its programme of engagement with key investors and corporate governance bodies in respect of specific material topics, including the proposed 2024 Directors' Remuneration Policy, which can be found on pages 145 to 152, as well as open-agenda discussions between key shareholders and members of the Board.

Engagement with key shareholders, proxy advisors, employee bodies, ratings agencies (including sustainability ratings agencies) and other governance bodies remains a central part of the Company's approach to stakeholder engagement and governance and will continue in the lead up to the 2024 Annual General Meeting ("2024 AGM").

The Company notes that the majority of shareholder resolutions put to shareholders at the 2023 AGM attracted support in excess of 97% votes in favour. However, whilst special resolutions 17 (general disapplication of pre-emption rights) and 18 (disapplication of pre-emption rights in connection with an acquisition or specified capital investment) were passed, they received just under 80% of votes in favour. Since the 2023 AGM, in accordance with provision 4 of the Code, the Board has engaged with relevant shareholders to understand and discuss their views with respect to these resolutions. Whilst the Board considers the flexibility sought by resolutions 17 and 18 to have been in the best interests of the Company and its shareholders, and notes that both resolutions had followed the provisions of the Pre-Emption Group's 2022 Statement of Principles for the disapplication of pre-emption rights, having taken into consideration shareholder feedback and to seek alignment with shareholder preferences, the Board has decided to revert to a limit of 5% of the issued share capital of the Company (excluding treasury shares) in respect of the equivalent resolutions at the 2024 AGM.

Further details on the Company's engagement with stakeholders, including the material topics discussed with investors and corporate governance bodies, are contained in the Section 172 statement on pages 37 to 42.

In order to promote effective engagement with, and encourage participation from, its workforce, Melrose operates a Workforce Advisory Panel ("WAP"). The WAP comprises the Chief Human Resources Officer and Group General Counsel of Melrose and GKN Aerospace and other relevant internal stakeholders as required as the Company's new business strategy and integrated structure evolves. Each member of the WAP is responsible for determining how the workforce should be defined, promoting workforce engagement, disseminating information and collating the voice of their workforce. Each member of the WAP is in turn responsible for demonstrating how key workforce views are fed into executive management decisions, which may include executive remuneration, as well as ensuring that the workforce is aware of their impact on such executive management decisions. The WAP meets twice a year and an annual report is prepared for the Board which highlights workforce engagement and key views. Further details on the WAP are contained in the Sustainability review on page 83.

Workforce policies and practices

Melrose's reputation for acting responsibly plays a critical role in its success as a business. It maintains high standards of ethical conduct which are reflected in the Group compliance policies, and cover best practice with respect to anti-bribery and corruption, anti-money laundering, anti-facilitation of tax evasion, competition, conflict minerals, trade compliance, data privacy, whistleblowing, treasury and financial controls, anti-slavery and human trafficking, document retention, joint ventures, diversity and inclusion, environmental, human rights, supply chain, biodiversity and water.

The Company also operates an externally hosted whistleblowing portal which is readily available to all Group employees. This is supported by regularly updated policies, procedures and awareness campaigns to create an environment in which the workforce feels it is safe to raise concerns in confidence without fear of retaliation, and to foster an ethical and supportive Group culture. The Board and the Audit Committee are provided with updates on material whistleblowing events as they are reported from time to time to the Melrose senior management team, and the Audit Committee is provided with an overview of whistleblowing activity on a quarterly basis. An annual report is prepared for the Audit Committee which highlights whistleblowing activity in further detail across the Group, together with a summary of the whistleblowing processes and awareness activities undertaken during the year; this is then fed back to the Board.

2. Principles F-I: Division of Responsibilities

The Board

Details of the structure of the Board and its key responsibilities are shown on page 99.

There were four formally scheduled Board meetings held during the year and the attendance of each Director at these meetings is shown on page 112.

Business review meetings are held between scheduled Board meetings. There were three business review meetings held during the year, and the attendance of Directors at these review meetings is set out on page 112. These meetings provide the Directors with a comprehensive understanding of the current performance of, and the key issues affecting the Group, without the formality of a Board meeting. Members of the GKN Aerospace executive team are periodically invited to attend and present at these meetings, providing the Directors with an opportunity to further strengthen the relationship with the team as well as enabling detailed insight into the operation of the business. The executive Directors also undertake site visits on an ad-hoc basis and sessions are held between the executive Directors and the GKN Aerospace executive team at such site visits.

Detailed briefing papers containing financial and operational business summaries and an agenda are provided to the Directors in advance of each Board, committee or (where relevant) business review meeting. The Directors are able to seek further clarification and information on any matter from any other Director, the Company Secretary or any other employee of the Group whenever necessary.

Decisions are taken by the Board in conjunction with the recommendations of its committees and advice from external consultants, advisors and the Melrose senior management team.

The Board has a fully encrypted electronic portal, enabling Board, committee and business review papers to be delivered securely and efficiently to Directors. This facilitates a faster and more secure distribution of information, accessed using electronic devices, and reduced resource usage, which in turn helps to reduce paper waste.

The Company Secretary is responsible for advising and supporting the Chairman and the Board on corporate governance matters as well as assisting the Chairman in ensuring a smooth flow of information to enable effective decision-making. All Directors have access to the advice and services of the Company Secretary and, through him, have access to independent professional advice in respect of their duties, at the Company's expense. The Company Secretary, supported by the Assistant Company Secretary, acts as secretary to the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee.

In accordance with its articles of association (the "Articles"), and in compliance with the Companies Act 2006, the Company has granted a qualifying third-party indemnity to each Director. This indemnity is provided both within the Company's Articles and through a separate deed of indemnity between the Company and each of the Directors. The Company also maintains directors' and officers' liability insurance.

Chairman and Chief Executive Officer

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

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

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

Non-executive Directors

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

During 2023, the Board consisted of four executive Directors, five Non-executive Directors (inclusive of the Senior Independent Director) and the Non-executive Chairman. As such, the Board is satisfied that there is sufficient challenge by Non-executive Directors of executive management in meetings of the Board, and that no individual or small group of individuals dominates its decision-making.

Together with the Chairman, the majority of the Non-executive Directors are members of the Nomination Committee and as such, they play a key role in appointing and removing executive Directors. As considered in section 3 on page 113, the Non-executive Directors are also key in evaluating the performance of the Directors.

Non-executive Director independence

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

Upon Mr Justin Dowley's appointment to the role of Chairman, he was considered independent. He has strong shareholder support for his current tenure to 2025, subject to annual re-election at the Company's AGM each year, and his extended term helps to ensure continuity and stability following the completion of the Demerger. It is also important to ensure continuity and stability through 2024 following the change in the Company's business strategy, as well as aiding the development of a diverse pipeline for succession planning purposes, with the planned retirement of Mr Simon Peckham, Mr Geoffrey Martin and Mr Christopher Miller from the Board.

Mr David Lis is the appointed Senior Independent Director, and acts as an intermediary for the other Directors and shareholders.

In accordance with the Code requirements, at least half of the Board, excluding the Chairman, comprises Non-executive Directors determined by the Board to be independent, and this will remain the case after the upcoming Board changes as outlined on page 3.

The Non-executive Directors are not entitled to any cash bonus or shares under the 2020 Employee Share Plan or the Melrose Automotive Share Plan, nor do they receive taxable benefits or pension contributions. The Board does not consider it appropriate to impose minimum shareholding requirements on the Non-executive Directors.

Corporate governance framework and terms of reference

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

Each committee has its own written terms of reference. The Company Secretary supports the committees in updating these terms of reference in order to comply with the Code and other good corporate practice. The terms of reference are continuously reviewed, although they are more formally reviewed on an annual basis in the committee meetings. The terms of reference are available via the Melrose website at www.melroseplc.net/governance/documents-and-policies.

Board induction, training and support

An induction programme tailored to the needs of individual Directors is provided for new Directors joining the Board. The primary aim of the induction programme is to introduce new Directors to, and educate them about, the Group's businesses, its operations and its governance arrangements. Individual induction requirements are monitored by the Chairman and the Company Secretary to ensure that new Directors gain sufficient knowledge to enable them to contribute to the Board's deliberations as quickly as possible.

The Board also receives annual training and quarterly updates on key sustainability issues that impact the sectors in which the Group's businesses operate, and on the specific measures that are required to be implemented to drive improved sustainability performance over the longer term for the benefit of all stakeholders.

Time commitments and attendance of Directors at meetings

When considering appointments to the Board, the Board, in conjunction with the Nomination Committee, reviews any other demands on a candidate's time. New Directors are required to disclose any directorships held and other business interests, and existing Directors are required to obtain the Chairman's consent for additional external appointments. The ability of Directors to have sufficient time to meet their Board responsibilities is considered on an annual basis as part of the performance evaluation process. Mr Martin[7] is an executive director of Dowlais Group plc, the UK listed holding company incorporated as part of the Demerger, having agreed to take on this role to provide his knowledge and expertise to Dowlais for a period of time following the Demerger. The Board has concluded that this appointment does not affect Mr Martin's ability to meet his Board responsibilities. Other than Peter Dilnot's position as a trustee of the charity Autistica, which the Board has concluded does not affect his ability to meet his Board responsibilities, none of the other executive Directors hold any significant appointments nor do they have any non-executive directorships in any FTSE 100 company.

The following table shows the attendance of each of the Directors at the scheduled meetings of the Board and its committees held during the year. The quorum necessary for the transaction of business by the Board and each of its committees is two. The table also shows attendance at business review meetings held between scheduled Board meetings. Non-executive Directors are invited but are not required to attend such meetings.

Attendance of Directors

	Board	Audit	Nomination	Remuneration	Business review
Number of meetings[1]	**4**	**4**	**2**	**2**	**3**
Justin Dowley[2]	4	3[2]	1	1	3
Christopher Miller	4	–	–	–	3
Simon Peckham	4	–	–	–	3
Geoffrey Martin	4	4[3]	–	–	3
Peter Dilnot	4	–	–	–	3
David Lis	4	4	2	2	3
Charlotte Twyning	4	4	2	2	3
Funmi Adegoke[4]	2	2	1	–	2
Heather Lawrence	4	4	–	–	3
Victoria Jarman[5]	4	–	2	2	3
Gillian Elcock[6]	2	2	1	–	1

(1) In addition to the above scheduled meetings, ad-hoc Board and committee meetings are held from time to time which are attended by a quorum of Directors and are convened to deal with specific items of business.
(2) Mr Dowley attended these Audit Committee meetings by invitation. He was unable to attend the Nomination Committee and Remuneration Committee meetings held in November due to a conflicting mandatory commitment. He was in any case briefed on the matters discussed at the meetings, with his feedback being considered by the committees.
(3) Mr Martin attended by invitation.
(4) Ms Adegoke resigned as a Non-executive Director of the Company on 16 June 2023. She attended all Board and applicable committee meetings, together with all business reviews, prior to her resignation.
(5) At the meeting of the Board held on 6 December 2023, Ms Jarman was appointed to the Audit Committee. No meetings of the Audit Committee were held between 6 December 2023 and 31 December 2023.
(6) Ms Elcock was appointed as a Non-executive Director of the Company on 21 June 2023. She has attended all Board and applicable committee meetings, together with all business reviews, since her appointment. At the meeting of the Board held on 6 December 2023, Ms Elcock was appointed to the Remuneration Committee. No meetings of the Remuneration Committee were held between 6 December 2023 and 31 December 2023.
(7) Mr Peckham, Mr Martin and Mr Miller resigned from the Board on 7 March 2024.

3. Principles J-L: Composition, Succession and Evaluation

Board composition

The Board believes that the Directors bring a combination of skills, experience and knowledge to the Board that is complementary to the activities of the Company. Biographies of the Directors are shown on pages 102 to 103, and on the Company's website at www.melroseplc.net/governance/board-leadership. These biographies identify any other significant appointments held by the Directors.

During the year, Ms Funmi Adegoke, Non-executive Director, resigned from the Board following her appointment to an executive role at Halma plc. Ms Gillian Elcock was appointed as a Non-executive Director on 21 June 2023 and brings to the Board extensive asset management and investment research experience, including in the aerospace and defence sector.

The Board has made significant progress in improving its diversity in recent years. It continues to meet the FTSE Women Leaders Review target of having 40% female representation on its Board. In particular, the last five Non-executive Director appointments have been female. In addition, the Board continues to meet the Parker Review target of having one Director from an ethnic minority background on the Board. Melrose is committed to continuing to meet these targets. The FTSE Women Leaders Review and the FCA Listing Rules also set a target for at least one senior board position, being that of Chairman of the Board, Senior Independent Director, Chief Executive Officer or Chief Financial Officer, to be held by a woman (the FTSE Women Leaders Review having set a target date of the end of 2025). The Committee recognises that Melrose does not currently meet this requirement and that it is under active review. Whilst there is a need for continuity and stability amongst the Board during the current period of significant strategic change for Melrose, this requirement is being factored into ongoing succession planning discussions.

Succession planning

Succession planning is coordinated via the Nomination Committee in conjunction with the Board and includes all Directors and Melrose senior management. It was a core focus in 2023 in light of the transition to operating as an aerospace-only business. In particular, the Board, with the support of the Nomination Committee, approved Mr Peckham and Mr Martin stepping down as Melrose's Chief Executive Officer and Group Finance Director with effect from 6 March 2024 and 7 March 2024 respectively, to be replaced by Mr Peter Dilnot and Mr Matthew Gregory as Chief Executive Officer and Chief Financial Officer respectively. Both changes provide strong management continuity. Mr Dilnot has served as Melrose's Chief Operating Officer since April 2019 as well as serving as Chief Executive Officer of GKN Aerospace from October 2023 onwards. Mr Gregory has served as Chief Finance Officer of GKN Aerospace since September 2022. Mr Peckham, Mr Martin, Mr Christopher Miller and Ms Victoria Jarman will not stand for re-election as Directors at the 2024 AGM.[7]

As previously announced, Mr Dowley's tenure will end in 2025, and the Board has commenced a search for his successor led by our Senior Independent Director, David Lis. Mr Dowley will therefore be standing for re-election at the 2024 AGM as planned, with a view to support the transition to the new Chairman of the Board prior to their appointment in 2025.

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

Board performance review

Evaluation approach and process

The Code requires that FTSE 350 companies undertake an externally facilitated Board and committee evaluation once every three years. The last external Melrose Board and committee review was in 2020. Therefore, the Board engaged Lintstock Ltd in 2023 to undertake an independently facilitated evaluation of the Board and each committee in order to identify areas where performance and procedures might be further improved. As in prior years, Lintstock also conducted an evaluation of the Chairman of the Board's performance. Lintstock is a specialist corporate governance consultancy and, other than the Board, committee and Chairman evaluations, has no commercial dealings or other connection with the Melrose Group or its Directors.

The evaluations were conducted and facilitated by the completion of questionnaires, and discussions at the applicable Board and committee meetings, with follow-up actions taking place where relevant. A range of topics were discussed as part of the evaluations including reviewing the composition and skills set of the Board in light of the change in business strategy, consideration of the Board's transition to overseeing an aerospace-only business, succession planning and diversity, and risk management. Directors were also given the option for meetings to be scheduled with the Chairman of the Board, the Senior Independent Director in respect of the evaluation of the Chairman of the Board, or the Chair of the relevant committee about any relevant matters that they wished to raise as part of the review.

Outputs of the evaluation

The report and subsequent discussion concluded that the Board and its committees, the Chairman of the Board, the Senior Independent Director and the Chair of each committee continue to be highly effective.

In order to further enhance the Board's effectiveness, the following areas were designated as the subject of focus for the Board and management during 2024:

- continuing to monitor Board and senior management succession to ensure effective management at all levels;
- ensuring the adequacy of the Board's visibility over the impact of principal risks on the business divisions, and continuing to monitor and enhance the Group's management of risk;
- further integrating and embedding sustainability into the Group's business strategy and operations, which the Group views as a process of continuous progression in response to ever-evolving sustainability developments;
- continuing to focus on cyber security, recognising that it remains an ongoing risk for a business of the Group's nature;
- continuing to monitor the cash management culture within the businesses and to drive cash performance; and
- continuing to impress upon all levels of the business that the health and safety of our workers is of the utmost importance and ensuring that management places a high degree of focus on implementing, monitoring and maintaining high standards of health and safety awareness, coupled with appropriate protective measures and high performance, with a view to eliminating preventable accidents.

Annual (re-)election of Directors

Pursuant to the Company's Articles and in accordance with the provisions of the Code, all of the Directors stood for re-election at the 2023 AGM. As detailed on page 112, Mr Peckham, Mr Martin, Mr Miller and Ms Jarman will not be standing for re-election by shareholders at this year's AGM.(7) With the exception of Mr Gregory and Ms Elcock, who are standing for election for the first time, all of the remaining Directors of the Company will be standing for re-election, and in each case an ordinary resolution will need to be passed to approve such (re-)elections.

In considering whether each Director should stand for re-election, the Nomination Committee, in consultation with the Board, considers whether the Board has the appropriate balance of skills, experience, independence and diversity to enable the Board to carry out its duties and responsibilities effectively. The time commitments of each Director are also reviewed as part of this assessment, and Directors are required to disclose any directorships held and other business interests. The annual performance evaluation referred to above assists with determining whether each Director should stand for re-election.

Following performance evaluations of each of the Directors, and having considered in turn the individual skills, relevant experience, contributions and time commitment of the Directors to the long-term sustainable success of the Company, the Chairman is of the opinion that each Director's performance continues to be effective and demonstrates commitment to the role. Similarly, following performance evaluations of the Chairman, and having carefully considered the commitments required and the contributions made by the Chairman, the Non-executive Directors, led by the Senior Independent Director, are of the opinion that the Chairman's performance continues to be effective and that he continues to demonstrate commitment to the role.

Justin Dowley, Non-executive Chairman, is standing for re-election as Director due to his extensive and long-standing experience within the banking, investment and asset management sectors. He first joined the Board as a Non-executive Director in September 2011 and served as the Senior Independent Director in the two years prior to his appointment as Non-executive Chairman in 2019. He has strong shareholder support for his current tenure to 2025, which has been approved by the Nomination Committee and the Board, subject to annual re-election. Mr Dowley's extended tenure is thought appropriate in order to facilitate succession planning arrangements for the Board and the development of a diverse Board, as well as providing continuity and stability following the change in the Company's business strategy, and the upcoming changes in executive leadership. He was considered independent upon his appointment as Non-executive Chairman.

Peter Dilnot, Chief Executive Officer with effect from 6 March 2024, is standing for re-election due to his deep understanding of Melrose and its investor base and GKN Aerospace, having served as Chief Operating Officer since 2019 as well as serving as Chief Executive Officer of GKN Aerospace for periods during his tenure, most recently from October 2023 onwards. He has strong sector experience in engineering and aviation, and has extensive experience in holding executive roles at listed companies.

Matthew Gregory, Chief Financial Officer with effect from 7 March 2024, is standing for election for the first time. Mr Gregory brings strong management continuity and a deep understanding of GKN Aerospace, having served as Chief Financial Officer for GKN Aerospace since September 2022. He has extensive experience in holding chief financial officer roles at listed companies.

Gillian Elcock, Non-executive Director, is standing for election for the first time. She has extensive asset management and investment research experience, including covering the aerospace and defence sector. She also brings insight gained from several non-executive director roles.

The following Non-executive Directors are standing for re-election due to their independence, diversity, skills and experience. In particular:

- David Lis, the Senior Independent Director, brings to the Board extensive financial experience and deep insight into the expectations of Melrose's institutional investor base, having held several roles in investment management.
- Charlotte Twyning brings to the Board a diverse range of experience and commercial acumen, having held numerous senior positions in various sectors, most recently in aviation, alongside her substantial board experience.
- Heather Lawrence brings to the Board a diverse range of experience across the industrials and transportation sectors, having held senior roles within corporate finance and investment banking, as well as having the necessary expertise required to perform the role of Chair of the Audit Committee.

Biographies of each of the Directors are shown on pages 102 to 103, and on the Company's website at www.melroseplc.net/governance/board-leadership. Detailed justifications for each Director's re-election (or election, as the case may be) are set out in the Notice of Annual General Meeting, on pages 240 to 248.

4. Principles M-O: Audit, Risk and Internal Control

Objectives and policy

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

The Board is ultimately responsible for the development of the Group's overall risk management policies and system of internal control frameworks and for reviewing and maintaining their respective effectiveness. In assisting the Board with these responsibilities, the Audit Committee reviews the effectiveness of, and monitors and oversees, the Group's risk management, internal financial control systems and processes and compliance controls, and provides both feedback and recommendations to the Board. The role of the Melrose senior management team is to implement these risk management and internal control policies and frameworks across the Group's business operations. The Directors recognise that the systems and processes established by the Board are designed to manage, rather than eliminate, the risk of failing to achieve business objectives and cannot provide absolute assurance against material financial misstatement or loss.

The Board is committed to satisfying the internal control guidance for Directors set out in the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. In accordance with this guidance, the Board assumes ultimate responsibility for risk management and internal controls, including determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives (its "risk appetite") and ensuring an appropriate culture has been embedded throughout the organisation. The Audit Committee also supports the Board in monitoring risk exposure against risk appetite.

The risk management and internal control system is complemented by ongoing monitoring and review, to ensure that the Company is able to adapt to an evolving risk environment.

The Audit Committee report is set out on pages 116 to 123 and provides details of the role and activities of the Audit Committee and its relationship with the internal and external auditors.

Managing and controlling risk

The Group's approach to risk management is regularly reviewed and enhanced. The systems, processes and controls in place accord with the Code and the FRC's guidance. Details on the Group's risk management strategy are set out on pages 28 to 30.

Further information regarding the Group's financial risk objectives and policies can be found in the Finance Director's review on pages 20 to 27. A summary of the principal risks and uncertainties that could impact upon the Group's performance is set out on pages 31 to 36.

Internal financial controls and reporting

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

The budget and other targets are regularly updated via a rolling forecast process and regular business review meetings are held with the involvement of senior management to assess performance. The results of these reviews are in turn reported to, and discussed by, the Board at each meeting. As discussed in the Audit Committee report on pages 116 to 123, the Group engages BM Howarth as internal auditor with additional support, as required, from Ernst & Young. A total of 21 GKN Aerospace sites across the Group were assessed by BM Howarth during 2023.

The Directors can report that based on the sites reviewed in 2023, there has been progress across the Group following the 2023 internal audit programme and that the majority of the recommendations presented in the internal audit report have been or are in the process of being implemented.

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

Ethics and compliance

The Company takes very seriously its responsibilities under the laws and regulations in the countries and jurisdictions in which the Group operates, and has in place appropriate measures to ensure compliance. A compliance framework is in place comprising a suite of Group-wide policies relating to anti-bribery and corruption, anti-money laundering, anti-facilitation of tax evasion, competition, conflict minerals, trade compliance, data privacy, whistleblowing, treasury and financial controls, anti-slavery and human trafficking, document retention, joint ventures, diversity and inclusion, environmental, human rights, supply chain, biodiversity and water. Other than in respect of certain policies where it would not be appropriate for them to have such a broad reach, these policies generally apply to all Directors, employees (whether permanent, fixed-term, or temporary), pension trustees, consultants and other business advisors, contractors, trainees, volunteers, business agents, distributors, joint venture partners or any other person working for or performing a service on behalf of the Company, its subsidiaries and/or associated companies in which the Company or any of its subsidiaries has a majority interest.

Online compliance training continued to be conducted within the business, covering topics such as anti-trust, trade compliance and export controls, data privacy, anti-bribery and corruption, and anti-money laundering, to enhance and supplement the existing compliance regime.

The Company's Modern Slavery Statement is approved by the Board annually and the most recent statement is available on the Company's website at www.melroseplc.net/governance/documents-and-policies. GKN Aerospace (through GKN Aerospace Services Limited) has also published its own Modern Slavery Statement, which is available on GKN Aerospace's website at www.gknaerospace.com/en/utilities/modern-slavery-statement. Both statements have been published in accordance with the requirements under the Modern Slavery Act 2015. To support the Company's belief in the importance of this matter, it has a Group-wide policy on the prevention of modern slavery and human trafficking, which has been rolled out to employees, along with an online compliance training module. Please also refer to the Audit Committee report on page 116 for details of the Company's whistleblowing policies and procedures.

5. Principles P-R: Executive Remuneration

Policies and practices

Melrose's remuneration philosophy has been the same since the business was founded in 2003 and requires that executive remuneration be simple, transparent, support the delivery of the value creation strategy, and pay only for performance. Under the previous "Buy, Improve, Sell" business strategy, the Company's policy was to restrict opportunity in annual salary, bonus and benefits to below the lower quartile of its peers, while heavily weighting potential reward to the long-term employee share plan that is entirely performance based, reflects those principles and is intended to align management's incentive arrangements directly with the interests of shareholders. In compliance with the Code, the 2020 Employee Share Plan promotes long-term sustainable success for shareholders, and is expected to be awarded in shares, further aligning management with shareholders. Whilst the Melrose Automotive Share Plan has a total vesting and holding period of less than five years, value delivered is awarded in shares in Dowlais Group plc in order to reward participants in respect of any increase in the value attributable to the businesses comprising the Dowlais group and to properly recognise the platform built under Melrose ownership.

Melrose became a pureplay aerospace business, marking the end of the "Buy, Improve, Sell" business strategy. Going into 2024, and subject to approval by shareholders of the proposed 2024 Directors' Remuneration Policy, the Company's remuneration structure will be revised to reflect our change in strategic direction. The Company's new strategy remains focused on value creation, founded on continuous operational and financial improvement over the longer term with a positive trajectory underpinned by the strong organic growth prospects within the aerospace sector, alongside attractive opportunities to differentiate its business through cutting-edge proprietary technology. To support this change in strategy, the Board believes that the new executive management team should be remunerated under a structure that resembles more closely Melrose's FTSE 100 peers. In particular, the proposed 2024 Directors' Remuneration Policy will rebalance Melrose's weighting of fixed to variable remuneration, and of medium- to longer-term incentivisation, using a structure more closely aligned with other FTSE 100 companies.

Development of policies

The Remuneration Committee has a formal and transparent procedure for developing the Company's policy on executive remuneration. It engages with shareholders on a regular basis to seek their views, takes those views into account when formulating proposals on executive remuneration, obtains advice from external remuneration advisors, and undertakes benchmarking exercises with respect to executive pay to ensure that the executive remuneration structure remains appropriate. Shareholders have the opportunity to vote on executive remuneration through their binding vote at least every three years on the Directors' remuneration policy and their advisory vote annually on the Directors' remuneration report. As described further in the Directors' Remuneration report on pages 128 to 152, the Chief Executive Officer retains responsibility for setting and managing the remuneration of Melrose senior management, of which the Remuneration Committee has full disclosure. No Director is involved in deciding their own remuneration outcome.

Independent judgement and discretion

The Remuneration Committee exercises independent judgement and discretion when authorising remuneration outcomes, taking account of both Company and individual performance, and wider circumstances. As mentioned above, the Remuneration Committee obtains regular advice from external remuneration advisors in order to ensure that proposals are in line with the Code, and benchmarked against the Company's FTSE 100 peers. The current Directors' remuneration policy provides the Remuneration Committee with the ability to exercise discretion to override formulaic outcomes and, if approved, the renewed Directors' remuneration policy will provide the same ability for the Remuneration Committee to exercise discretion. There were no deviations from the Directors' Remuneration Policy in respect of 2023 and the Remuneration Committee did not exercise any discretion to alter the 2023 outcomes from the application of the performance conditions.

Details regarding Directors' remuneration, both generally and in relation to the requirements of the Code, are set out in the Directors' Remuneration report on pages 128 to 152, which is presented in the following three sections:

- the annual statement from the Chair of the Remuneration Committee, which can be found on pages 128 to 129;
- the Annual Report on Remuneration, which can be found on pages 130 to 145; and
- the proposed 2024 Directors' Remuneration Policy, which can be found on pages 145 to 152.

The current Directors' remuneration policy, which was approved by shareholders at the 2023 AGM, is available on the Company's website[1]. It is intended that a revised 2024 Directors' Remuneration Policy will come into effect at the conclusion of the 2024 AGM. The 2024 Directors' Remuneration Policy is subject to shareholder approval at the 2024 AGM and can be found at pages 145 to 152.

(1) The full details of the 2023 Directors' remuneration policy approved at the 2023 AGM can be found on pages 135 to 144 of the 2022 Annual Report (www.melroseplc.net/investors/results-reports-and-presentations).

Heather Lawrence
Audit Committee Chair

The responsibilities of the Audit Committee (the "Committee") include overseeing financial reporting, risk management and internal financial controls, in addition to making recommendations to the Board regarding the appointment of the Company's internal and external auditors.

Member	No. of meetings[1]
Heather Lawrence (Chair)*	4/4
David Lis*	4/4
Charlotte Twyning	4/4
Gillian Elcock[2]*	2/2
Victoria Jarman[3]*	0/0

(1) Reflects regularly scheduled meetings of the Committee.
(2) Ms Gillian Elcock was appointed as a Non-Executive Director with effect from 21 June 2023. Ms Elcock attended all Committee meetings held during the period between 21 June 2023 and 31 December 2023. Ms Funmi Adegoke resigned as a Non-executive Director and as a member of the Committee on 16 June 2023. Ms Adegoke attended all Committee meetings held up to the point of her resignation.
(3) Ms Victoria Jarman was appointed to the Committee on 6 December 2023. There were no scheduled meetings of the Committee between 6 December 2023 and 31 December 2023.
* Indicates Committee members with financial expertise. In total, 80% of the Committee has financial expertise.

Role and responsibilities

The Committee's role and responsibilities are set out in its terms of reference. These were last reviewed in November 2023 in line with best practice and are available on the Company's website at www.melroseplc.net/governance/documents-and-policies and at the Company's registered office. In discharging its duties, the Committee embraces its role of protecting the interests of all stakeholders with respect to the integrity of financial information published by the Company and the effectiveness of the audit. The responsibilities of the Committee include:

- reviewing and monitoring the integrity of the financial statements of the Group, including the Annual Report, annual financial statements and interim financial statements, and reviewing and reporting to the Board on the significant financial reporting issues and judgements which they contain;
- keeping under review the effectiveness of the Group's financial reporting;
- reviewing the effectiveness of, and monitoring and overseeing, the Group's risk management processes (excluding cyber security and fraud risk, which are retained by the Board), internal financial control systems that identify, assess, manage and monitor financial risks and risk management systems;
- overseeing the adequacy and security of the Company's arrangements for its employees to raise concerns in confidence in accordance with the Company's whistleblowing policy, including about possible wrongdoing in financial reporting or other matters;
- monitoring and evaluating the independence and effectiveness of the external audit function, taking into account relevant UK laws, regulations, the Ethical Standards and other professional requirements and the relationship with the auditor as a whole and approving the external audit plan and fee;
- reviewing, challenging and reporting to the Board on the going concern assumption and the assessment forming the basis of the longer-term viability statement;
- reviewing and, where necessary, challenging the consistency of accounting policies, the methods used to account for significant or unusual transactions, and compliance with accounting standards;
- reviewing the Company's procedures for detecting fraud, and its systems and controls for the prevention of bribery;
- reviewing and, where necessary, challenging the provision of non-audit services by the external auditor;
- developing and overseeing the selection process for the appointment of the external auditor and in respect of an external audit tender, making a recommendation to the Board on the appointment of the external auditor following on from such tender process;
- monitoring and evaluating the independence and effectiveness of the internal audit function including ensuring the internal audit function has the unrestricted scope and resources necessary to enable it to fulfil its mandate and approving the internal audit plan and fee; and
- reviewing and considering the Annual Report and financial statements to ensure that they are fair, balanced and understandable and advising the Board on whether it can state that this is the case.

Composition

The Committee is made up 100% of independent Non-executive Directors. Mrs Heather Lawrence continued to act as Chair of the Committee. She has strong audit experience having acted as audit committee chair of FlyBe Group plc.

Mrs Lawrence, Mr David Lis, Ms Victoria Jarman and Ms Gillian Elcock bring significant and relevant financial experience to their roles on the Committee. Furthermore, each member of the Committee, including Ms Charlotte Twyning, brings strong corporate governance experience to the Committee. Further details of the relevant experience of each member of the Committee are described in the biographies on pages 102 to 103.

The Company Secretary acts as secretary to the Committee.

To enable the Committee to provide robust challenge of the reports submitted to it, the Committee invited the Group Finance Director, the Head of Financial Reporting, and senior representatives of the external and internal auditors to attend its meetings during 2023. The Chair of the Committee also spoke with the Group Finance Director prior to each Committee meeting. The Committee has the right to invite any other Directors and/or employees to attend meetings where this is considered appropriate and during the year, the Chairman of the Board attended the majority of the scheduled Committee meetings. In addition, the Committee meets at least once a year with the external and internal auditors without management present, and the Chair of the Committee speaks with the external and internal auditors prior to each Committee meeting.

Summary of meetings in the year

The Committee is expected to meet not less than three times a year. However, during 2023, the Committee met four times (March, June, September and November). The scheduling of these meetings is designed to be aligned with the financial reporting timetable, thereby enabling the Committee to review the Annual Report and financial statements, the interim financial statements and the audit plan ahead of the year-end audit and to maintain a view of the internal financial controls and processes throughout the year.

Significant activities related to the 2023 financial statements

As part of its duties the Committee undertook the following recurring activities that receive annual scrutiny:

- review of the 2023 Annual Report and financial statements and the interim financial statements, including the going concern assumption for the Group and the assessment forming the basis of the longer-term viability statement. As part of this review, the Committee received reports from the external auditor on their audit of the Annual Report and financial statements and their review of the interim financial statements, as well as papers prepared by management in respect of going concern, longer-term viability and significant accounting and control matters;
- consideration of the 2023 Annual Report and financial statements in the context of being fair, balanced and understandable and a review of the content of papers prepared by management in relation to the 2023 Annual Report and financial statements. The Committee advised the Board that, in its view, the 2023 Annual Report and financial statements when taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- review of the effectiveness of the Group's risk management and internal financial controls and disclosures made in the 2023 Annual Report and financial statements on this matter;
- review of the effectiveness of the Group's internal and external auditors; and
- review of, and agreement to, the scope of work to be undertaken in respect of the 2023 financial statements by the external auditor and the scope of work to be undertaken in 2024 by the internal auditor.

In addition to these matters, the Committee considered the following significant issues in relation to the financial statements during the year:

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
Demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen (collectively 'Dowlais') **Discontinued operations and an asset held for sale** Prior to 2023, the Dowlais businesses were included as continuing operations as demerger actions remained outstanding. On 30 March 2023, following shareholder approval for the demerger, all of the conditions for the Dowlais businesses to be reported as 'held for sale' were met and the assets and liabilities of the Dowlais group were reclassified accordingly. It was considered whether any write down to the carrying value was required, and impairment testing was updated to 30 March 2023. It was concluded that the carrying values were appropriate and at this date there was no contradictory public share valuation evidence. On 20 April 2023, the demerger completed and disposal of the associated net assets took place. Post demerger, as the businesses were material and separate operations, the Dowlais group has been treated as discontinued in the Group's financial statements for 2023 in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, with comparative amounts in the income statement and cash flow restated as required. Comparative amounts for earnings per share have also been restated for the share consolidation. **Distribution to shareholders** The demerger of the Dowlais businesses represented a distribution to shareholders and it has been recognised at fair value (based on Dowlais' public market capitalisation), in accordance with IFRIC 17 *Distributions of Non-cash Assets to Owners*. Considering the various share price data available, the purest valuation approach was determined to be the opening traded share price on the day of flotation because of its proximity to the demerger. The fair value of the distribution to shareholders has been calculated at £2.0 billion using the number of Dowlais shares distributed and an opening price per share of £1.46. Using this short-term market value meant there was a loss on disposal of £1.0 billion when comparing against the carrying value of the Dowlais businesses, net of transaction costs and recycling of cumulative foreign exchange differences. Disclosure has been included in the Group financial statements for 2023, including sensitivity analysis on the distribution value. **Other demerger related matters** Following the demerger, the Group changed its segmental reporting structure so that rather than reporting just Aerospace in total alongside Melrose corporate costs, it now reports the Engines and Structures businesses separately. This change has been aligned with the internal reporting, as required by IFRS 8 *Operating Segments*, and as a consequence prior period segmental information has been restated. To further drive consistency and comply with IAS 36 *Impairment of Assets*, the Group updated its groups of cash generating units ('CGUs') which are used for impairment testing purposes from one (Aerospace in total) to two; Engines and Structures. This change has led to additional disclosure in the Group's financial statements for 2023, with initial testing on both 19 April (old basis) and 20 April (new basis) all being positive. *(Refer to notes 3, 13 and 27 of the financial statements)*	The Committee received an update prepared by management and discussed each aspect of the demerger impact. This included challenge over the conclusion reached by management when reassessing the carrying value of the assets prior to classification as held for sale, the rationale for using the opening share price to derive a fair value of the demerger distribution and the consequential impairment testing outcomes on the change in groups of CGUs. The Committee discussed the audit work performed by Deloitte to assess whether the proposed accounting to be recognised, together with incremental disclosures, were appropriate. Considering all of the above, as well as management responses and Deloitte's views, the Committee was satisfied that the assumptions used were reasonable and that the conclusions reached together with disclosures were appropriately presented.

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
LTIP valuations, Melrose and Dowlais schemes It was determined that changes to share-based payment arrangements were made with the purpose to preserve, rather than enhance, rights of option holders and so no additional charge has been made in addition to the IFRS 2 *Share-based Payments* charge already being recorded. As changes made to the Group's 2020 Melrose Employee Share Plan ("MESP") were a consequence of the demerger, with approval by shareholders, there has been no change to the accounting, with a residual charge of £7 million recorded in the Group's financial statements for the period until 31 May 2023, being the original maturity date. The Melrose Automotive Share Plan ("MASP"), for which 2% of Dowlais' equity is held by a Melrose sponsored employee benefit trust, provides a further aspect to incentive arrangements as any settlement has been advance funded. As any compensation for this arrangement would be issued in Dowlais rather than Melrose equity, the accounting is governed by IAS 19 *Employee Benefits* rather than IFRS 2, which requires the use of expected value calculations. The net outcome means that there was an income statement charge of £3 million in the Group's financial statements for 2023. *(Refer to note 23 of the financial statements)*	The Committee received a summary of the accounting impacts prepared by management and discussed the important implications. This included challenge over the conclusion reached by management when assessing the approach, the assumptions used to derive a fair value of the MASP and the consequential recognition and presentation of the charges calculated. The Committee discussed the audit work performed by Deloitte to assess whether the proposed accounting and disclosures were appropriate. Considering all of the above, as well as management responses and Deloitte's views, the Committee was satisfied that the assumptions used were reasonable and that the conclusions reached together with disclosures were appropriately presented.
Impairment testing of goodwill Impairment testing is inherently subjective as it includes assumptions in the calculation of recoverable amount for each of the groups of CGUs being tested. Assumptions include future cash flows of the relevant groups of CGUs, discount rates that reflect the appropriate risk and long-term growth rates which are consistent with the industry and geography of operations. Due to consequential impacts from continued disruption of supply chains, interest rate rises and other inflationary pressure on input costs, businesses within the Group are continuing to mitigate the impact of volatile customer scheduling through cost reduction and efficiency actions. Given the change in Group strategy during the year, impairment testing has now been performed using a value in use basis which prohibits the inclusion of benefits from future uncommitted restructuring plans. No impairment has been recorded in the Group financial statements for 2023 consistent with the strong performance seen during the year and expectations for the future. *(Refer to notes 3 and 11 of the financial statements)*	The Committee challenged the outcome of the impairment testing in respect of both groups of CGUs. In doing so the Committee considered the following: • a paper prepared by management, which included the key outputs from the impairment models; • trading assumptions, including macroeconomic factors, applied in the models; • the market-based assumptions for long-term growth rates and discount rates; and • the appropriateness of the disclosures in the financial statements in respect of the impairment testing performed. The Committee discussed with Deloitte the audit work performed by them and their conclusion regarding the disclosures presented. Considering all of the above, as well as management responses and Deloitte's views, the Committee was satisfied that the assumptions used were reasonable and that the impairment conclusions together with disclosures were appropriately presented.

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
Accounting for revenue under IFRS 15 The majority of the Group's revenue relates to the sale of products and services where invoices are raised and amounts are recognised when control of the goods is transferred to the customer. However, the Group has one revenue stream which includes recognition of variable consideration – unbilled work done, relating to certain risk and revenue sharing partnerships ("RRSPs") in a small number of Aerospace businesses. As required, management continues to review the key assumptions that have a significant impact on the allocation of overall transaction prices for impacted aerospace engine components. It is particularly important to reassess the operational progress and status of engine programmes. Specifically, in relation to variable consideration for certain RRSPs, revenue is significantly constrained until there is better visibility over the outcome so as to comply with the requirement that amounts are only recognised when it is highly probable that they will not reverse in the future. Following positive commercial and operational progress on certain affected engine programmes during the year, it was concluded that an update to assumptions was appropriate. The changes have had an impact on 2023 results (£57 million, included a retrospective catch up of £30 million) and they will impact future results too. There have been two specific events during the year which have meant further reviews of accounting assumptions and the level of revenue being recognised, both in the year and retrospectively: • The first related to a fleet of the GTF engines which have been impacted by a rare condition in powder metal used to manufacture certain of the engine parts, which are not supplied by the Group. The full potential cash impact to Melrose of approximately £200 million will be incurred over the next three to four years, if it is assumed that this is all a programme cost to be shared by partners in the PW1100G RRSP programme. Melrose's financial assumptions for all of its RRSP programmes are very constrained, recognising that most of the Group's work is done on the delivery of its parts which typically last the life of the engine, appropriately allowing for risks to arise over the full programme duration. The unbilled work done contract asset remains appropriately constrained at 31 December 2023, in accordance with the requirements of IFRS 15. • The second related to an additional programme which has been included in calculations of unbilled work done during the year as a result of a modification to a contract. Whilst the new agreement has not had a material impact on the reported results for the year ended 31 December 2023 or Balance Sheet as at 31 December 2023, the future implications have been assessed under IFRS 15 and are material in future years. The important change is that the Group's involvement on the GEnx RRSP has been extended beyond its current focus on delivery of original equipment to include significantly greater participation in the aftermarket phase. The contract modification will be accounted for prospectively, with pricing implications affecting revenue from 1 January 2024. Following changes to the termination rights, to commercially protect the Group for its increased aftermarket share, the Group now has a contractual right to aftermarket revenue. The amount of variable consideration recognised in the year is £173 million. This is due to a ramp-up in volumes and operational benefits as well as implications of changes in assumptions. *(Refer to notes 3, 4 and 17 of the financial statements)*	The Committee received an update prepared by management and again discussed the implications of IFRS 15, which included an assessment of estimates used in calculating variable consideration and the unbilled work done contract asset for certain RRSPs. The support for changes in estimates, impacting both the amount and timing of revenue recognition, was considered and this was deemed to follow commercial progress on specific programmes. The impact of changes will be more significant in the future. Specifically, the accounting for matters arising in the year relating to the powder metal issues on the PW1100G (GTF) engine and changes to the GEnx engine contract was considered. The conclusions reached by management were debated and challenged. The Committee discussed the audit work performed by Deloitte to assess whether the proposed revenue to be recognised, together with incremental disclosures, was appropriate. The Committee was satisfied that the approach and assumptions used remained both reasonable and appropriate. However, it is understood that it remains reasonably possible that assumptions may change which could lead to the recognition of further unbilled work done in the next year.

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
Classification of adjusting items and use of Alternative Performance Measures ("APMs") The reporting, classification and consistency of adjusting items continues to be an area of focus for the Committee, in particular, given the guidance on APMs provided by the Financial Reporting Council ("FRC") and European Securities and Markets Authority ("ESMA"). The Committee considers this a key consideration when reviewing if the financial statements are fair, balanced and understandable. *(Refer to notes 3 and 6 of the financial statements)*	The Committee has reviewed the nature, classification and consistency of adjusting items, whilst considering the guidance provided by the FRC and ESMA. These items are defined and discussed in the Finance Director's review and detailed in note 6 to the financial statements, together with the glossary to the financial statements. Following a review of management's paper and challenge, the Committee is satisfied that there has not been any change to the substance of the policy. The Committee also considered disclosure of the Group's APMs with respect to applicable guidelines and noted that these are set out in detail in the glossary to the financial statements. Reconciliations of adjusted performance measures to statutory results are set out in note 6 to the financial statements. The Committee found the disclosures to be clear and transparent, assisting shareholders in measuring the operating performance of the Group. The Committee therefore concluded that adjusting items were appropriately captured and disclosed.
Going concern and viability The Committee is required to make an assessment of the going concern assumption for the Group and the basis of the longer-term viability statement before making a recommendation to the Board. The assessment of going concern uses the same forecast data as in many other areas of estimation within the full year accounting and takes into account the covenant tests. *(Refer to note 2 of the financial statements)*	The Committee reviewed and approved management's recommendation to prepare the financial statements on a going concern basis. The key principles debated were the level of committed facility headroom on bank covenants and the flexibility of liquidity arrangements to meet obligations. In addition to base case modelling, which uses approved financial forecasts, a reasonably possible downside was also considered. The Committee considered a paper and financial model prepared by management in respect of the longer-term viability statement to be included in the Annual Report and financial statements as well as analysis conducted by the external auditor. The Committee challenged the assumptions and judgements made by management before concluding that the longer-term viability statement was appropriate.

Risk management and internal control

One of the key roles of the Committee is to review and monitor the Group's risk management, internal financial control systems and processes, and compliance controls. The Committee has a high degree of risk and compliance expertise to enable it to fulfil this role. In particular, Mrs Lawrence and Mr Lis have each held senior roles at various financial institutions. Furthermore, Mrs Lawrence, Mr Lis and Ms Elcock have held various non-executive directorship positions on the boards of UK listed public companies.

During 2023, the Committee continued to keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks and other internal control and risk management systems, and the effectiveness of the Group's risk management system, through regular updates from management. This included a review of the key findings presented by the external and internal auditors having agreed the scope, mandate and review schedule in advance.

Management, with support from Ernst & Young, continued to utilise a third-party hosted interactive dashboard which has been tailored to the requirements of the Group in order to consolidate the Group's risk reporting for the benefit of the Committee and the Group as a whole. The dashboard includes data from GKN Aerospace's risk register, which was reviewed and approved during 2023 by GKN Aerospace's senior management, and key risk owners. The dashboard has supported the continued improvement of the Group's risk management processes, with in-depth reporting and data collection. This has bolstered the Committee's oversight of risk areas, mitigations, controls and trends.

The risk management process also involved objective trend analysis and independent insight from Ernst & Young, and this year included an analysis of the Group's principal risks profile against other aerospace and defence companies based on public disclosures.

The Committee reviewed and challenged the Group's risk management processes, and also reviewed and challenged the interim and annual reports prepared by Melrose senior management relating to the Group's principal risks profile. These reports guided the Committee on relevant updates to the Group's principal risks (including the identification of new principal Group risks and emerging risks), as reported in the Risks and uncertainties section on pages 31 to 36. They also aided the Committee's discussions with the Board on risk appetite, as detailed further on page 29.

Management also reported on the Group's internal control systems supported by the internal audit review. Examples of both Group and divisional controls, including financial, operational and compliance controls, were presented and examined.

The Group's risk management and internal financial control systems were reviewed and the Committee confirmed their effectiveness to the Board. No significant weaknesses were identified.

Whistleblowing

The Committee is tasked with overseeing the adequacy and security of the Company's arrangements for its employees to raise concerns in confidence in accordance with the Company's whistleblowing policy, including about possible wrongdoing in financial reporting or other matters. The Company runs a Group-wide whistleblowing platform, which is overseen by the Committee and supported by the Melrose senior management team, and ultimately reported to the Board. The platform is monitored by the legal, compliance and HR functions. All employees have access to a multi-lingual online portal, together with local hotline numbers that are available 24/7, in order to raise concerns, confidentially and anonymously, about possible wrongdoing in any aspect of the business, including financial and non-financial matters. The most material whistleblowing cases are notified to the Chair of the Committee promptly, and quarterly whistleblowing reports are prepared by Melrose senior management for discussion at each Committee meeting with a view to ultimately reporting such matters to the Board.

Committee evaluation

The UK Corporate Governance Code (the "Code") requires that FTSE 350 companies undertake a formal and rigorous annual evaluation of the performance of the Board, its committees, the Chairman of the Board and individual Directors. In particular, FTSE 350 companies should undertake an externally facilitated Board and committee evaluation once every three years. The last external Melrose Board and committee review was undertaken by Lintstock Ltd in 2020 and so the Company was required to undertake another in 2023. For this purpose, the Company engaged Lintstock who engaged directly with the Directors on: (i) the constitution and performance of the Board and each committee; (ii) the Chairman of the Board; and (iii) individual performance reviews. Lintstock produced a report based on the feedback of Committee members and analysis of the responses, which was presented and discussed at the December Board meeting. Alongside such formal feedback, the Committee continued to facilitate direct ongoing contact between its members and the Chair of the Committee about any relevant matters that the members wished to raise as part of the ongoing review.

External audit

Appointment of new External Auditor

The Committee was pleased to confirm in last year's report that it had undertaken an external auditor tender process and, subject to shareholder approval at the Company's Annual General Meeting on 2 May 2024, PricewaterhouseCoopers ("PwC LLP"), had been selected as the Company's new external auditor for the financial year ending 31 December 2024. The audit engagement partner would also change at the same time.

Steps have been taken in order to transition to PwC LLP as the Company's external auditor, including PwC LLP ensuring that they are fully independent in time for their appointment. PwC LLP has attended all Committee meetings since November 2023 in order to aid a smooth handover process.

For further information on the audit tender process, please refer to pages 113 to 114 of the 2022 Annual Report.

Assessment of effectiveness of incumbent External Auditor

The Committee has reviewed the performance and effectiveness of the incumbent external auditor, Deloitte LLP. For 2023, a series of questions covering key areas of the audit process that the Committee is expected to have an opinion on were considered by the Committee, including:

- the calibre, experience, resources, leadership and technical and industry knowledge of the engagement partner and of the wider external audit team;
- the planning and execution of the audit process;
- the quality and timeliness of communications from the external auditor; and
- the quality of support provided to the Committee by the external audit partner.

Committee members, together with the Group Finance Director and the GKN Aerospace Chief Financial Officer, were requested to provide detailed feedback on the effectiveness of the external auditor. The Chair of the Committee also sought feedback from the internal auditor. The Company Secretary subsequently produced a paper summarising the responses, which was considered by the Committee at length. The Committee subsequently concluded that the quality of the external audit team remained very high, the external audit process was operating effectively, and Deloitte LLP continued to prove effective in its role as external auditor.

Non-audit services

Under the Competition and Markets Authority (the "CMA") and EU regulations (as they form part of retained UK law), there are restrictions on the type and amount of non-audit services provided by Deloitte LLP. These cap the level of permissible non-audit services awarded to the external auditor at 70% of the average audit fee for the previous three years. The cap applies in respect of the current financial year, with audit fees in 2020, 2021 and 2022 being relevant.

A policy on the engagement of the external auditor for the supply of non-audit services is in place to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. The policy outlines which non-audit services are pre-approved (being those which are routine in nature, with a fee that is not significant in the context of the audit or audit-related services), which services require the prior approval of the Committee and which services the auditor is excluded from providing. The general principle is that the audit firm should not be requested to carry out non-audit services on any activity of the Company where the audit firm may, in the future, be required to give an audit opinion. In accordance with best practice FRC guidelines, the Company's policy in relation to non-audit services is kept under regular review and was last updated in 2020 to reflect current market practice.

Despite being well within the CMA guidance, the Committee has taken into account feedback from institutional shareholder services and has continued migrating non-audit work to other firms, including in respect of corporate finance affairs and risk management. It has also obtained reward, tax, consulting advice and advice on the remuneration reporting regulations from PwC LLP. During the course of 2023, these services have been migrated to other firms as part of the transition process to PwC LLP as the Company's new external auditor for the financial year ending 31 December 2024, as detailed further above.

During 2023, no services were provided by Deloitte LLP other than for statutory audit and audit-related assurance services. Deloitte LLP also provided reporting accountant services in relation to the demerger of Dowlais Group plc (the "Demerger"), and were paid £0.2 million for this work. This fee was not subject to the non-audit fee cap calculation.

The Committee closely monitors the amount of non-audit work undertaken by the external auditor and considers using other firms for transaction-related work. However, there are occasions when it is appropriate, because of background knowledge, to use the auditor for non-audit work, such as in the case of the Demerger. In such cases, the Chair of the Committee must first approve such work.

An analysis of the fees earned by the external auditor for audit and non-audit services can be found in note 7 to the consolidated financial statements.

Auditor objectivity and independence

The Committee carries out regular reviews to ensure that auditor objectivity and independence are maintained at all times. As in previous years, the Committee specifically considered the potential threats that each limited non-audit engagement may present to the objectivity and independence of the external auditor. In each case, the Committee was satisfied with the safeguards in place to ensure that the external auditor remained independent from the Company and its objectivity was not, and is not, compromised. No fees were paid to Deloitte LLP on a contingent basis.

At each year-end, the external auditor submits a letter setting out how it believes its independence and objectivity have been maintained. The external auditor is also required to rotate the audit partner responsible for the Group audit every five years and significant subsidiary audits every five years.

Based on these strict procedures, the Committee remains confident that auditor objectivity and independence have been maintained. Furthermore, the incoming external auditor, PwC LLP, has provided the Committee with confirmation of its independence and objectivity in advance of its appointment as external auditor for the financial year ending 31 December 2024.

Internal audit

An internal audit programme is used within the Group. BM Howarth Ltd, an external firm, provides internal audit services to the Group in accordance with an annually agreed Internal Audit Charter and internal audit plan. Where additional or specific resource is required, additional support is provided by Ernst & Young. A rotation programme is in place, such that every site will have an internal audit at least once every three years, with the largest sites being reviewed at least once every two years. The rotation programme allows local management's actions and responses to be followed up on a timely basis. The internal audit programme of planned visits is discussed and agreed with the Committee during the year.

The internal auditor's remit includes assessment of the effectiveness of internal financial control systems, compliance with the Group's Policies and Procedures Manual and a review of GKN Aerospace's balance sheet. A report of key findings and recommendations is presented to Melrose senior management, including the Head of Financial Reporting, followed by a meeting to discuss these key findings and to agree on resulting actions. Internal audit site visits were conducted by BM Howarth across a total of 21 GKN Aerospace sites in 2023.

To supplement the internal audit programme, a targeted sample of sites was selected for a balance sheet review with interviews of site controllers conducted by the internal auditor and senior management, together with self-certification questionnaires which were discussed in detail with the GKN Aerospace chief financial officer at the internal control sign-off meetings.

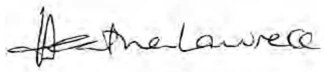
A report of all significant findings is presented by the internal auditor to the Committee at each meeting and implementation of recommendations is followed up at the subsequent Committee meeting.

Any control findings are followed up by the business to ensure a strengthening of the site-based accounting functions, including specific action plans to address any shortcomings identified. In the event that significant deficiencies are found in internal financial controls, these are immediately brought to the attention of the Group Finance Director and the Melrose accounting function so that urgent action plans can be agreed. Follow-up site visits were performed during 2023 which identified significant progress in the improvement of financial controls at sites.

A review of the internal audit process and scope of work covered by the internal auditor is the responsibility of the Committee, to ensure their objectives, level of authority and resources are appropriate for the nature of the businesses under review. This also considers the insights provided, improvements achieved and feedback from a number of sources including key representatives of the Company.

The Committee reviewed the reappointment of BM Howarth as internal auditor following an assessment of the services delivered and approved their reappointment.

The Committee would like to thank the Group finance team, the internal auditor, the external auditor and the Group Company Secretariat for their hard work throughout 2023.



Heather Lawrence
Chair, Audit Committee

7 March 2024

Charlotte Twyning
Nomination Committee Chair

The Nomination Committee (the "Committee") has overall responsibility for making recommendations to the Board on all new Board appointments and for ensuring that the Board and its committees have the appropriate balance of skills, experience, independence, diversity and knowledge to enable them to discharge their respective duties and responsibilities effectively.

Member	No. of meetings[1]
Charlotte Twyning (Chair)	2/2
Justin Dowley	1/2[2]
David Lis	2/2
Victoria Jarman	2/2
Gillian Elcock	1/1[3]

(1) Reflects regularly scheduled meetings of the Committee.
(2) Mr Justin Dowley did not attend the Committee meeting held in November due to a conflicting mandatory commitment. He was in any case briefed on the matters discussed at the meeting, with his feedback being considered by the Committee.
(3) Ms Gillian Elcock was appointed as a member of the Committee with effect from 21 June 2023. Ms Elcock attended all Committee meetings held during the period 21 June 2023 to 31 December 2023. Ms Funmi Adegoke resigned as a Non-executive Director and as a member of the Committee on 16 June 2023. Ms Adegoke attended all Committee meetings held up to the point of her resignation.

Discharge of responsibilities

The Committee discharges its responsibilities through:

- regularly reviewing the size, structure and composition of the Board, including by means of overseeing the annual evaluation processes of the Board and its committees, and providing recommendations to the Board of any adjustments that may be necessary from time to time;
- giving full consideration to succession planning in order to ensure an optimum balance of executive and Non-executive Directors in terms of skills, experience and diversity, and in particular formulating plans for succession for the key roles of Chairman of the Board and Chief Executive Officer;
- reviewing the career planning and talent management programme related to senior executives of the Company to ensure that it meets the needs of the business;
- managing the Board recruitment process and evaluating the skills, knowledge, diversity and experience of potential Board candidates in order to make appropriate nominations to the Board;
- reviewing and approving the Board of Directors' Diversity policy and the Melrose Diversity, Equity and Inclusion policy; and
- keeping up to date and fully informed on strategic issues and commercial changes affecting the Company and the markets in which it operates.

The Committee's terms of reference, which were last reviewed and updated by the Committee in November 2023, are available to view on our website, www.melroseplc.net, and from the Company Secretary at Melrose's registered office.

Committee membership and attendance

The Committee is made up 100% of independent Non-executive Directors and comprises five out of the six Non-executive Directors. As mentioned below, Ms Funmi Adegoke resigned from the Board, and as a member of the Committee, in June 2023. She attended all scheduled meetings up to her resignation. Ms Gillian Elcock joined as a member of the Committee in June 2023. She has attended all scheduled meetings since her appointment.

The Committee is expected to meet not less than twice a year and, during 2023, the Committee held two scheduled meetings. The attendance of its members at these Committee meetings is shown in the table above. The Committee also held a meeting to discuss the executive Board changes, further details of which are included below.

The Company Secretary acts as secretary to the Committee. On occasion, the Committee invites the Chief Executive Officer to attend discussions where his input is required.

Board composition and succession planning

The Committee keeps the membership of the Board under review, including its size and composition, and makes recommendations to the Board on any adjustments it thinks are necessary. The Committee recognises the value in attracting Board members from a diverse range of backgrounds who can contribute a wealth of knowledge, understanding and experience. The Committee works with the Board in order to ensure both of these matters are taken into account to aid effective succession planning across the short, medium and long term.

Melrose is now a pureplay, listed aerospace business. As a result, succession planning for the executive Directors was a key focus for the Committee in 2023. In particular, the Board, with the support of the Committee, approved Mr Simon Peckham and Mr Geoffrey Martin stepping down as Chief Executive and Group Finance Director with effect from 6 March 2024 and 7 March 2024 respectively, to be replaced by Mr Peter Dilnot and Mr Matthew Gregory as Chief Executive Officer and Chief Financial Officer respectively. The Committee considers that these changes provide strong management continuity. Mr Dilnot has served as Melrose Chief Operating Officer since April 2019 as well as serving as Chief Executive Officer of GKN Aerospace from October 2023 onwards. Mr Gregory has served as Chief Finance Officer of GKN Aerospace since September 2022. Mr Peckham, Mr Martin, Mr Christopher Miller and Ms Victoria Jarman will not stand for re-election as Directors at the 2024 AGM.

During the year, Ms Adegoke, Non-executive Director, resigned from the Board following her appointment to an executive role at Halma plc. The Board appointed Ms Elcock as a Non-executive Director of the Board in June 2023 after the completion of a thorough recruitment process conducted by Stonehaven International, an external recruitment consultancy firm unconnected with the Company or its Directors. Ms Elcock has extensive asset management and investment research experience, including in the aerospace and defence sector.

Furthermore, succession planning arrangements for the Board as a whole were reviewed by the Committee in 2023. This included a review and discussion of the skills set of the Directors in light of the change in business strategy of the Company, as well as a review of the tenure, diversity and independence of those already on the Board. This review allowed the Committee to satisfy itself that the right balance of skills, experience and diversity are reflected and being developed, and that the composition of the Board is consistent with the Board of Directors' Diversity policy. It also allowed the Committee to satisfy itself that the Company continues to meet the expectations of the FTSE Women Leaders Review and the Parker Review.

The Committee also took an active interest in discussing and reviewing succession planning arrangements for the Melrose senior management team, including the career planning and talent management programmes currently in operation for them. Again, this is to allow the Committee to ensure that the right balance of skills, experience and diversity are reflected and being developed, that the Melrose senior management team reflects the requirements of the Melrose Diversity, Equity and Inclusion policy, and to ensure that the Company continues to meet the expectations of the FTSE Women Leaders Review with respect to its Executive Committee and direct reports. The Committee is satisfied as to the Company's current succession planning arrangements, and will continue to keep these under review and discussion in 2024.

Non-executive Directors' tenure

The Committee also continued to review the role of Mr Justin Dowley as Melrose's Non-executive Chairman. Although Mr Dowley was appointed to this role in 2019, he first joined the Board as a Non-executive Director in September 2011, meaning he has served on the Board for over nine years. This is a key date in the consideration of his independence under the UK Corporate Governance Code (the "Code").

Recognising the significant events related to the Demerger, in 2022 the Board (upon the Committee's recommendation) had approved that Mr Dowley's tenure be extended for a final two years beyond 2023, subject to annual re-election at the Company's AGM each year. This was to ensure continuity and stability following the completion of the Demerger, and remains important going into 2024 to ensure continuity and stability with the retirement of Mr Peckham, Mr Martin and Mr Miller from the Board. Mr Dowley had received strong shareholder support for his re-election at the 2023 AGM.

In order to aid a smooth transition of the Chairmanship role, during 2023, Mr David Lis, the Senior Independent Director, commenced a search for the new Chairman of the Board ahead of the expiry of Mr Dowley's tenure in 2025. The Committee also has oversight and input into the recruitment process. Mr Lis's tenure as a Non-executive Director and Senior Independent Director is also due to expire in 2025.

Details of the tenure of the remaining Non-executive Directors can be found on pages 102 to 103.

Re-election and election of Directors

The effectiveness and commitment of each of the Directors is reviewed annually as part of the Board performance review upon recommendations from the Committee. The Committee reviewed each Director in turn to satisfy itself as to their individual skills, relevant experience, contributions and time commitments to the long-term sustainable success of the Company. Whilst noting that Mr Peckham, Mr Martin, Mr Miller and Ms Jarman will not be standing for re-election by shareholders at this year's AGM[(1)], the Committee and the Board have each satisfied themselves that each of the remaining Directors, together with Mr Gregory, should stand for re-election or election (as applicable), and the justifications for such (re-)elections are set out on pages 113 to 114 of this Annual Report and in the Notice of Annual General Meeting on pages 240 to 248.

(1) Mr Peckham, Mr Martin and Mr Miller resigned from the Board on 7 March 2024.

Skills

The Board possesses a wide range of knowledge and experience from a variety of sectors. In order to ensure the maximum effectiveness of the Board, the Committee continues to review the balance of skills and experience of Board members. The Committee considers that the current Directors, including the Non-executive Directors, have a diverse range of skills and experience that is necessary both to discharge their duties as Directors of the Company, and to create a culture of collaborative and constructive discussion, which enables the Board to contribute effectively to the delivery of the Company's strategy. The balance of skills across the Board is regularly reviewed by the Committee. As set out on page 99, the current Directors have skills and experience across eight areas that the Committee considers to be key to delivering the Company's strategy: aerospace, aviation, industrial, accounting and finance, legal, investment, corporate governance and sustainability (environmental and social).

Wider succession planning

The Committee does not have direct responsibility for the succession planning arrangements below Board level. Responsibility for the succession planning arrangements of the senior management team is the responsibility of the Chief Executive Officer, although the Committee retains oversight of succession planning for key individuals within this team and has access to them through a combination of site visits, the business review cycle, Board and committee meetings, as well as being provided with relevant information in order to monitor diversity among them.

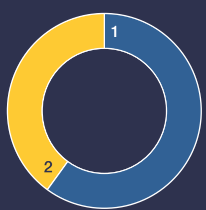
Diversity, equity and inclusion

Melrose is a meritocracy and individual performance is the key determinant in any appointment, irrespective of ethnicity, gender or other characteristic, trait or orientation. However, the Board and the Committee also recognise the importance of diversity, and the Committee keeps its approach to diversity under regular review, including ensuring the development of a diverse Board and reviewing its diversity policies on an annual basis. Melrose encourages diversity at all levels of the Group. In particular, the last five Non-executive Director appointments have been women. Furthermore, two of the committee Chair roles, including the important role of Audit Committee Chair, are held by women. Melrose also continued to meet the Financial Conduct Authority ("FCA") Listing Rules and Parker Review target, and its own Board diversity target, of having one Director from an ethnic minority background on the Board.

The Committee currently takes into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience and knowledge needed to ensure a rounded Board and the benefits each candidate can bring to the overall Board composition. The Committee also takes into account race, ethnicity, country of origin, nationality, cultural background and gender in the selection process to ensure a diverse Board and it also strongly encourages executives to adopt the same approach when making appointments to the Melrose Executive Committee and the wider senior management team. The most important priority of the Committee, however, has been, and will continue to be, to ensure that the best candidate is selected, and this approach will remain in place going forward.

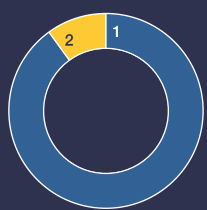
During the year, the Board continued to meet its target of maintaining at least 40% female representation on its Board. As at 31 December 2023, Melrose had 40% female representation on its Board, meaning that Melrose has met its target and the expectations of the FTSE Women Leaders Review and the FCA Listing Rules.

DIVERSITY OVERVIEW(1)



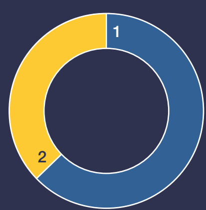
Board gender diversity

1	Male	**60%**
2	Female	**40%**



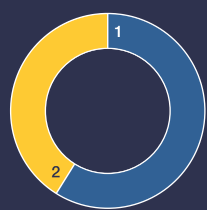
Board ethnic diversity

1	White	**90%**
2	Ethnically diverse	**10%**



Melrose Executive Committee

1	Male	**63%**
2	Female	**37%**



Senior Management and direct reports(2)

1	Male	**59%**
2	Female	**41%**

(1) As at 31 December 2023.
(2) In accordance with the Code, senior management is defined as the executive committee, or the first layer of management below Board level, including the Company Secretary.

The FTSE Women Leaders Review and the FCA Listing Rules also set a target for at least one senior board position, being that of chairman of the board, senior independent director, chief executive or chief financial officer, to be held by a woman (the FTSE Women Leaders Review having set a target date of the end of 2025). The Committee recognises that Melrose does not currently meet this requirement and that it is under review. Whilst there is a need for continuity and stability amongst the Board during the current period of significant strategic change for Melrose, this requirement is being factored into ongoing succession planning discussions.

During the year, the Board updated its senior management diversity target to align with the FTSE Women Leaders Review of having 40% female representation within its Executive Committee and direct reports by the end of 2025. As at 31 December 2023, the Executive Committee and its direct reports consisted of 41% female representation (and 37% female representation specifically at an Executive Committee level). Melrose therefore currently meets its diversity target and the expectation of the FTSE Women Leaders Review.

The Committee notes the recent recommendations of the Parker Review for FTSE 350 companies to set a percentage target for senior management positions that will be occupied by ethnic minorities by the end of 2027, with the target being set by 31 December 2023. Following engagement by the Company Secretariat with a member of the Parker Review Committee, and external advice to track the scope and timing of setting such targets among FTSE 100 peers, both the Committee and Board agreed that it was not feasible for Melrose to set a sufficiently informed ethnic diversity target for senior management by the end of last year. In particular, Melrose has not traditionally collected sensitive data, such as ethnic diversity data, from its employees. However, the Group is proactively assessing the collection of such data across its operations noting that there are legal and regulatory barriers to overcome in certain jurisdictions. Furthermore, as Melrose's change in business strategy has meant that there will be corresponding changes to the senior management population of the Group into the first half of 2024, it would be timely and appropriate to set a target in light of these changes having taken place. The Committee will seek to set a senior management ethnic diversity target during the course of 2024. With the assistance of external lawyers, Melrose has already reviewed its policies and procedures for the collection of ethnic diversity data, and has asked Melrose employees to complete a voluntary equality and diversity form.

The Committee acknowledges that diversity, equity and inclusion is a changing landscape, and reviews its diversity policies on an annual basis, with any recommendations for amendments being approved by the Board. The policies, which can be viewed on the Company's website at www.melroseplc.net/governance/documents-and-policies include a Board of Directors' Diversity policy and a Melrose Diversity, Equity and Inclusion policy. The Board of Directors' Diversity policy sets out the Committee's commitment to ensuring that Board membership and pipeline for succession remains diverse, which is equally applicable to each of the Board's committees. It also sets out the Company's diversity targets for the Board, the details of which are noted above. The Melrose Diversity, Equity and Inclusion policy, which is applicable to all Melrose employees, sets out Melrose's position on diversity, equity and inclusion in its workforce. In particular, it highlights that Melrose aims to create a workforce that is diverse, equitable and inclusive. The principles of the policy apply throughout the Group, and our divisions are encouraged to promote diversity.

Further details of Melrose's commitment to diversity and the various diversity initiatives undertaken within the Group can be found in the Sustainability review on pages 43 to 93. Additionally, further details on diversity and Board skills can be found on page 99 of the Governance overview.

Evaluation

The Code requires that FTSE 350 companies undertake a formal and rigorous annual evaluation of the performance of the Board, its committees, the Chairman of the Board and individual Directors. In particular, FTSE 350 companies should undertake an externally facilitated Board and committee evaluation once every three years. The last externally facilitated Melrose Board and committee review was undertaken by Lintstock Ltd in 2020 and so the Company was required to undertake another in 2023. For this purpose, the Company engaged Lintstock who engaged directly with the Directors on: (i) the constitution and performance of the Board and each committee; (ii) the Chairman of the Board; and (iii) individual performance reviews. Lintstock produced a report based on the feedback of Committee members and analysis of the responses, which was presented and discussed at the December Board meeting. Alongside such formal feedback, the Committee continued to facilitate direct ongoing contact between its members and the Chair of the Committee about any relevant matters that the members wished to raise as part of the ongoing review.

Charlotte Twyning
Chair, Nomination Committee

7 March 2024

David Lis
Remuneration Committee Chair

> Now is the right time to revisit Melrose's remuneration structure to reflect our new "Design, Deliver, Improve" business model."

CHAIR'S ANNUAL STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present our report on Director remuneration (the "Annual Report on Remuneration") at the end of a highly successful year for Melrose, and one of significant strategic change.

During the year, the Board announced its decision to move away from its traditional "Buy, Improve, Sell" business model to operate as a long-term aerospace group.

Given this significant strategic shift, the Remuneration Committee (the "Committee") believes that now is the right time to revisit Melrose's remuneration structure to reflect our new "Design, Deliver, Improve" business model and help drive the long-term performance of the Company.

It is with this background and Company performance during the year that the Committee has taken its decisions in respect of executive Director remuneration arrangements for 2023 and 2024.

Melrose remuneration structure

Our long-standing executive remuneration structure has traditionally been characterised by setting salary, benefits and annual bonuses below the lower quartile of our FTSE 100 peers, with the opportunity for significant reward being weighted towards long-term incentivisation. This approach has been entirely appropriate in complementing our "Buy, Improve, Sell" strategy and has been central to the success that has been delivered for our shareholders. It has also been both well understood and well supported by our investors, as most recently demonstrated by the votes in favour of the 2022 Directors' Remuneration Report and the current Directors' remuneration policy (the "2023 Directors' Remuneration Policy"), at the 2023 Annual General Meeting held on 8 June 2023 (the "2023 AGM").

With Melrose's strategy having shifted from its previous "Buy, Improve, Sell" model to becoming an aerospace business for the long term, now is the appropriate time to realign the Company's executive remuneration structure to reflect our new strategic direction, subject to approval by shareholders of the 2024 Directors' remuneration policy set out below (the "2024 Directors' Remuneration Policy") at the 2024 Annual General Meeting to be held on 2 May 2024 (the "2024 AGM"). Our new strategy remains focused on value creation, founded on continuous operational and financial improvement over the longer term. Our positive trajectory is underpinned by the strong organic growth prospects within the aerospace sector, alongside attractive opportunities to differentiate our business through cutting-edge proprietary technology. To support this change in strategy, the Board believes that the new executive management team should be remunerated under a structure that resembles more closely Melrose's FTSE 100 peers, having undertaken an external benchmarking exercise, which also took account of international aerospace peers comprising companies that are more analogous in make-up to Melrose. In particular, we propose to rebalance Melrose's weighting of fixed to variable remuneration, and of medium- to longer-term incentivisation, using a long-term incentive structure reflective of the majority of FTSE 100 companies.

Operation of the 2023 Directors' Remuneration Policy

During the year, the Chief Executive's and the Group Finance Director's salaries remained well below the lower quartile of our FTSE 100 peers, with annual bonuses capped for Melrose's current executive Directors well below our peers at 100% of salary. The Committee amended the operation of the annual bonus plan as part of the renewal of the 2023 Directors' Remuneration Policy at the 2023 AGM, by increasing the maximum opportunity from 100% to 200% of salary for any newly appointed executive Directors. This decision had been made to provide the Committee with the ability to create a competitive executive remuneration package to attract the best talent in the context of succession planning. However, no new executive Directors were appointed during the year and so no Directors benefitted from this increased annual bonus entitlement.

Executive Directors received limited benefits and a pension contribution capped at 15% of salary, being the same percentage contribution that all Melrose head office employees received. The table on page 132 sets out the most recently available CEO annual remuneration (excluding the LTIP element for comparison) and puts this deliberate strategy in context, highlighting that the single total figure of remuneration for the Chief Executive[1] in 2023 was less than half, or over £1 million less than, the average FTSE 100 CEO annual remuneration in 2022 (excluding the LTIP element).

(1) References in the Directors' Remuneration report to the "Chief Executive" refer to Simon Peckham who stepped down as Chief Executive on 6 March 2024.

As this and the table on page 132 clearly indicate, the opportunity for significant reward has traditionally been heavily weighted to the Company's long-term incentive arrangements, which have been based entirely on value creation. Under the current long-term incentive arrangements, executive Directors have the opportunity to share in the value they create for shareholders above a threshold return over the performance period; however, if they do not deliver the required level of performance to achieve the threshold return, they receive no payout. With the impact of COVID-19 resulting in the previous incentive plan maturing with no award, the current plans represent the only incentive plans with possible benefits for Melrose management since 2017.

The Committee understands that shareholders expect executive remuneration to be aligned with the overall experience of the Company, its shareholders, employees and other stakeholders. As is demonstrated elsewhere in this Directors' Remuneration report – in particular, Comparison to peers (page 132), CEO pay ratio (pages 137 to 138), and Wider workforce considerations (page 140), we believe that the remuneration structure operated by Melrose, and the outcomes produced by the operation of this structure, were appropriate and resulted in a strong alignment between the executive Directors, shareholders and other stakeholders.

It is based on this performance, and in the context of Melrose's change of strategy, that the Committee has taken its decisions in respect of executive Director remuneration arrangements for 2023 and 2024. There were no deviations from the 2023 Directors' Remuneration Policy in respect of 2023 and the Committee did not exercise any discretion to alter the 2023 outcomes from the application of the performance conditions. Full details are set out in the Annual Report on Remuneration on pages 130 to 145 that will be put to an advisory vote at the 2024 AGM.

2024 Directors' Remuneration Policy

We are proposing to introduce the 2024 Directors' Remuneration Policy, subject to approval at the 2024 AGM. The 2024 Directors' Remuneration Policy is proposed to rebalance the Company's remuneration structure to align with its FTSE 100 peers across fixed and variable aspects, to reflect the new long-term aerospace business model, using a structure and mechanics that are more reflective of the majority of FTSE 100 companies.

The main differences between the 2023 Directors' Remuneration Policy and the 2024 Directors' Remuneration Policy are:

- rebalancing the remuneration structure to align with the Company's FTSE 100 peers across fixed and variable aspects, to reflect the new long-term aerospace business model, using a structure and mechanics that are reflective of the majority of FTSE 100 companies;
- reducing the pension contribution rate for the executive Directors from 15% to 10% of base salary in order to bring the contribution to a level consistent with the Group's wider UK workforce as it stands after the demerger of Dowlais Group plc in April 2023 (the "Demerger") and the merging of Melrose and GKN Aerospace into a single standalone business; and
- the introduction of the Melrose Performance Share Plan ("PSP") which will replace the 2020 Melrose Employee Share Plan (the "MESP") as the Group's ongoing long-term incentive plan.

As announced last year, our executive Directors and co-founders, Christopher Miller and Simon Peckham, together with longstanding executive Director Geoffrey Martin, will not stand for re-election at the 2024 AGM.[1] To take forward the Company's new pureplay aerospace strategy, we welcome Peter Dilnot as Chief Executive Officer and Matthew Gregory as Chief Financial Officer. The proposed 2024 Directors' Remuneration Policy would only be applicable to Mr Dilnot and Mr Gregory and not to the departing executive Directors.

Stakeholder engagement

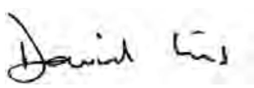
We were pleased that the 2022 Directors' Remuneration Report and the 2023 Directors' Remuneration Policy both received strong shareholder support at the 2023 AGM, receiving voting outcomes of 97.29% and 82.02% respectively.

At Melrose, we always strive for the full support of our shareholders in everything we do. This is critical to our success and is never taken for granted. We have engaged with a wide variety of stakeholders, including through communications to key shareholders together representing over 65% of our register and proxy advisers, on the proposed 2024 Directors' Remuneration Policy, and as at the time of writing some of those discussions are ongoing. It is important to us that we conduct a thorough and open-minded engagement, understanding the focus on executive remuneration in the wider governance community and the views of our key shareholders in particular, many of whom have been long-term investors in Melrose. The engagement process has so far been informative and feedback received has been factored into our proposal. We thank the participants for their time.

Your Board considers that the Melrose remuneration structure that has been adopted to date has been highly successful, appropriate for the value creation strategy, and integral to the long-term performance of the Company under its former "Buy, Improve, Sell" strategy. As Melrose embarks on its next chapter as a pureplay aerospace group, your Board considers that the revised Melrose remuneration structure set out in the 2024 Directors' Remuneration Policy is appropriate for the Company's go-forward strategy, as well as being critical to driving long-term performance and shareholder value creation, and best meets the expectations of our shareholders as a whole.

We encourage you to provide your support for the 2023 Directors' Remuneration Report and the new 2024 Directors' Remuneration Policy at the 2024 AGM.

Yours sincerely



David Lis
Chair, Remuneration Committee

7 March 2024

(1) Mr Peckham, Mr Martin and Mr Miller resigned from the Board on 7 March 2024.

ANNUAL REPORT ON REMUNERATION

In this section of the Directors' Remuneration report, we set out:

- the actual performance and executive remuneration outcomes for the 2023 financial year;
- the application of the 2023 Directors' Remuneration Policy to the 2023 financial year and how the 2023 Directors' Remuneration Policy was operated in 2023; and
- details of how the 2024 Directors' Remuneration Policy is intended to be implemented in 2024.

The 2023 Directors' Remuneration Policy was approved by shareholders at the 2023 AGM with over 82% of votes cast in favour of the resolution. The full details of the current Directors' Remuneration Policy can be found on pages 135 to 144 of the 2022 Annual Report which is available on our website at www.melroseplc.net/investors/results-reports-and-presentations. It is proposed that, subject to approval of shareholders at the AGM on 2 May 2024, the 2023 Directors' Remuneration Policy be updated to align the Company's remuneration principles with the new business strategy of the Company. The 2024 Directors' Remuneration Policy is set out on pages 145 to 152.

Key elements of the Annual Report on Remuneration and where to find them

Element	Page
Single figure of remuneration	131 and 141
Share interests awarded in the 2023 financial year	None(1)
Statement of Director shareholdings and interests	135 and 141
Performance graph	138
CEO pay ratio	137 to 138
Percentage change in remuneration of the CEO	138 to 139
Relative importance of spend on pay	140
Consideration of matters relating to Directors' remuneration	130 to 131
Statement of voting	145
Payments to past directors or for loss of office	141
2024 Directors' Remuneration Policy	145 to 152

(1) No value was vested to participants under incentive plans in the 2023 financial year – please see the single total figure of remuneration for the executive Directors for the 2023 financial year (audited) on page 131.

Melrose's remuneration strategy

Since the Company was first established in 2003, the Committee has pursued a consistent remuneration strategy that has closely aligned the executive Directors with the Company's shareholders, has driven the Company's traditional "Buy, Improve, Sell" model prior to its shift to operating as a pureplay aerospace company, and has been central to its success. This strategy has been based around four key principles – namely, that executive remuneration is simple, transparent, supports the delivery of the value creation strategy, and pays only for performance.

These four key principles are wholly aligned with the UK Corporate Governance Code (the "Code") factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture, as set out on page 144. The Committee ensured that it took all of these elements into account when establishing the 2023 Directors' Remuneration Policy, as well as its application to executive Directors during the period.

2023 key decisions

The Committee remained committed to a responsible approach to executive pay in accordance with the 2023 Directors' Remuneration Policy which was approved at the 2023 AGM, and its four key remuneration principles.

There was no long-term incentive arrangement due to vest in 2023, with the crystallisation date under the MESP being 31 May 2024 following shareholder approval at the general meeting related to the Demerger which took place on 30 March 2023. As such there was no payout in the year.

In line with the prior year, an inflationary increase of 5% was made to the executive Directors' base salaries with effect from 1 January 2023, which was below the salary rises awarded to the wider Melrose head office population. The Chief Executive's and the Group Finance Director's salaries remained below the lower quartile of the FTSE 100, as is demonstrated in the table on page 132. There were also inflationary increases of 5% made to the Non-executive Chairman's fee and the Non-executive Director basic fees with effect from 1 January 2023, again consistent with the salary changes for the executive Directors. There were no changes to the additional fees for holding the position of Senior Independent Director or committee chair positions.

For 2024, an increase of 5% was made to the executive Directors' base salaries with effect from 1 January 2024 as set out on page 136, which was consistent with the increases awarded across the wider UK workforce. There were increases of 5% made to the Non-executive Chairman's fee and Non-executive Director basic fees with effect from 1 January 2024, consistent with the increases determined for the executive Directors' base salaries, as set out on page 142. There were no changes to the additional fees for holding the position of Senior Independent Director or committee chair positions for 2024.

In determining the 2023 remuneration outcomes and the remuneration approach for 2024, the Committee was mindful of the evolving macroeconomic challenges impacting the global economy. As set out in this report, the executive Director salary increases were determined to be appropriate in light of the Company's performance in 2023, whilst recognising and balancing the need to appropriately remunerate and incentivise the executive team to continue to deliver value to shareholders.

In light of the appointments of Mr Peter Dilnot to the role of Chief Executive Officer and Mr Matthew Gregory to the role of Chief Financial Officer with effect from 6 and 7 March 2024 respectively, the Committee has approved new remuneration structures for these roles. The salary changes are set out on page 136, and are intended to be effective from their dates of appointment and prorated accordingly.

The Committee feels that it has been able to balance all relevant stakeholder considerations when setting salaries for 2024 and having benchmarked against FTSE 100 peers based on analysis from external advisers.

Although the annual bonus outcomes for 2023 were finally determined by the Committee in 2024, we refer to them here for completeness, as they are a key decision relating to the reporting period. The financial element of the annual bonus was fully met, and the Committee did not consider that there was any justification for any exercise of discretion to change this outcome. The Committee carefully considered the strategic objectives (including ESG objectives) and the extent to which these were met during 2023. As is detailed further on page 133, the Committee felt that while management's performance had substantially met the strategic objectives it had not done so in full. We have therefore determined to make an award of 15% for the strategic objectives (out of a maximum of 20%), and thus a total award for the annual bonus of 95% of salary. For the reasons set out in this report, the Committee believes that the bonus outcome for 2023 is appropriate, taking into consideration a number of factors, including the Company's strong business performance, and the wider stakeholder experience.

The Committee has reviewed the remuneration outcomes for the year and confirms that the 2023 Directors' Remuneration Policy operated as intended during the year, and felt that the incentive outcomes were in line with the overall performance of the Group. There were no deviations from the 2023 Directors' Remuneration Policy in respect of the year and the Committee did not exercise any discretion to alter the 2023 outcomes from the application of the performance conditions.

Business performance

With the strategic shift to the new, pureplay aerospace business model, 2023 has been a transformational year for Melrose, delivering financial results ahead of expectations. Revenues grew substantially in both the Engines and Structures divisions. There was a 124% increase in adjusted operating profit to £420 million, with margins doubling from 6.3% to a record 12.5% (pre-PLC costs). Leverage reduced to 1.1x, including £93 million of share buybacks completed over the period. Further details on this are set out in the CEO's review on pages 4 to 7 and the Divisional reviews on pages 8 to 11.

This Annual Report and financial statements, and specifically the Group's strategic KPIs on pages 18 to 19, demonstrates the good progress that was made in 2023 towards the successful implementation of the Company's new strategy and business plan as a pureplay aerospace business. The Company's annual bonus plan focuses directly and indirectly on rewarding executive Directors and Melrose senior management for delivering these KPIs.

Single total figure of remuneration for the executive Directors for the 2023 financial year (audited)

The following chart summarises the single figure of remuneration for 2023 in comparison with 2022[1]:

Executive Director	Period	Total salary and fees £000	Taxable benefits £000	Bonus £000	LTIP £000[2]	Pension £000[3]	Total £000	Total Fixed £000	Total Variable £000
Christopher Miller	2023	596	2	n/a[4]	–	89	**688**	**688**	**–**
	2022	567	2	n/a	–	85	**654**	**654**	**–**
Simon Peckham	2023	596	4	566	–	89	**1,256**	**689**	**566**
	2022	567	1	567	–	85	**1,221**	**654**	**567**
Geoffrey Martin	2023	487	14	463	–	73	**1,037**	**574**	**463**
	2022	464	12	464	–	70	**1,008**	**545**	**464**
Peter Dilnot	2023	487	2	463	–	73	**1,025**	**562**	**463**
	2022	464	2	464	–	70	**998**	**535**	**464**

(1) The "Total" figures in the above table may not add up to the sum of the component parts due to rounding.
(2) The 2020 Employee Share Plan, which has a commencement date of 31 May 2020, has a four-year performance period. Accordingly, no value was vested to participants under the 2020 Employee Share Plan in respect of the year to 31 December 2022 or the year to 31 December 2023.
(3) All amounts attributable to pension contributions were paid as a supplement to base salary in lieu of pension arrangements.
(4) The Executive Vice-Chairman does not participate in the annual bonus scheme.

Comparison to peers

As part of an ongoing commitment to full transparency around remuneration structures at Melrose, the Committee has again benchmarked the Melrose Chief Executive's 2023 pay against the most recent available remuneration information from our FTSE 100 peers, being 2022[1], excluding long-term incentives as there was no long-term incentive vesting in 2023 for Melrose's Chief Executive.

As the table below shows, the single total figure of remuneration for the Melrose Chief Executive in 2023 was less than half, and over £1 million less than, the FTSE 100 average in 2022. This demonstrates in practice the Committee's policy to date of deliberately setting salary, benefits and annual bonus for the executive Directors low, with the opportunity for significant reward being heavily weighted towards the Company's long-term incentive arrangements, which are entirely performance based, and which ensures that executive Directors only receive substantial rewards when they have outperformed and created very significant value for shareholders.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Total	1,256	1,950	2,737	3,305

Each of the elements in the single figure table is set out in more detail below, along with the benchmark for the Melrose Chief Executive to the most recent available information for our FTSE 100 peers.

Base Salary

The Chief Executive's salary is fixed at a level which is well below the lower quartile of FTSE 100 peers. Each executive Director received an inflationary increase in base salary of 5% effective from 1 January 2023.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Annual Salary	596	742	933	1,058

Pensions

Executive Directors receive the same 15% of base salary pension contribution[2] as the rest of the Melrose head office employees. The level of the executive Director pension contributions has not changed since Melrose was founded, and no executive Director participates or has ever participated in a Group defined benefit or final salary pension scheme.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Pension Contribution	89	73	121	168
Pension Contribution %	15%	9%	11%	15%

Benefits

Executive Directors receive the same taxable non-pension benefits as the rest of the Melrose employees, being generally private medical insurance and a fuel allowance. The Group Finance Director also received paid train travel to and from London.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Benefits	4	20	75	90

Annual Bonus

Annual bonuses are entirely performance driven. As part of the changes to the 2023 Directors' Remuneration Policy that were approved by shareholders at the 2023 AGM, the maximum bonus opportunity was increased to 200% of salary. However, the 2023 Directors' Remuneration Policy expressly excluded these changes applying to the 2023 annual bonus for the existing executive Directors. No new executive Director appointments were made in 2023 and the annual bonus for 2023 was calculated by the Committee in accordance with the 2020 Directors' Remuneration Policy which stipulates two elements for the current eligible executive Directors, being: 80% based on adjusted diluted earnings per share growth; and 20% based on the achievement of strategic elements. The maximum bonus opportunity for these executive Directors is currently set at 100% of base salary, which is significantly below the lower quartile maximum annual bonus opportunity for other FTSE 100 companies as set out in the table below. The Executive Vice-Chairman does not participate in the annual bonus scheme.

Metric (GBP '000)	Melrose Chief Executive	FTSE 100 Lower Quartile	FTSE 100 Average	FTSE 100 Upper Quartile
Annual Bonus	566	956	1,499	1,921
Maximum bonus opportunity %	100%	176%	214%	223%

(1) The peer group for comparison includes the FTSE 100 constituents as at 31 December 2023, with financial year ends between 1 January 2022 and 31 December 2022, excluding joiners and leavers over the period. For comparison purposes, the included peer information excludes any payments made under long-term incentive arrangements, as none were payable to the Melrose Chief Executive in 2023.
(2) All of the amounts attributable to pension contributions were paid as supplements to base salary in lieu of pension arrangements.

2023 Annual Bonus (audited)

The 2023 Annual Bonus has applied a consistent approach to previous years, in line with the 2023 Directors' Remuneration Policy. The Committee awarded participating executive Directors a bonus of 95% of their 2023 base salary, based on 2023 performance, with the full breakdown of the award calculation set out below.

As is shown by the table, the financial element of the 2023 annual bonus, growth in adjusted diluted earnings per share, was satisfied in full and therefore a full award was made for this part of it, being 80% of the total bonus. The Committee did not seek to exercise any discretion to adjust for this. With respect to the strategic element, having given detailed and thorough consideration to each of the strategic objectives and management's performance against them during 2023, the Committee determined that not all of the strategic objectives had been fully met during 2023 and therefore that the strategic element should be awarded at 15% (out of a maximum of 20%). The Committee determined that no exercise of discretion to adjust this element of the award was required. Full disclosure of the strategic objectives and why the Committee determined that these had been met is provided below. The Committee considers that the payout is consistent with the wider stakeholder experience, including shareholders and employees.

In determining the 2023 annual bonus award, the Committee was mindful of the macroeconomic challenges impacting the global economy, and aware of the guidance published by the Investment Association setting out the issues that remuneration committees should consider as they assess 2023 remuneration outcomes and set remuneration for 2024. In light of the Company's performance during 2023, and that the bonus award (both as a percentage of salary and as an absolute figure) is well below the lower quartile of the FTSE 100, the Committee believes that the annual bonus awarded for 2023 is appropriate and in line with that guidance.

Financial Objectives (80%)					Percentage of maximum bonus earned
	Threshold	Target	Maximum	Actual Performance	
Growth in adjusted diluted earnings per share	**5%**	**10%**	**20%**	**356%(1)**	
% award	20%	40%	80%	80%	
Growth in adjusted diluted earnings per share sub-total:					**80%**

Strategic Objectives (20%)		Percentage of maximum bonus earned
Execution of the demerger of Dowlais Group plc – maximum 5%	The Demerger was completed successfully on 20 April 2023, having been approved by shareholders at the general meeting of the Company held on 30 March 2023. The Demerger enabled the Group to focus on realising the full potential of the GKN Aerospace business for the long term, a re-rating of Melrose as an aerospace business, and the opportunity for significant shareholder value creation over the long term.	5%
Implementation of strategic shift to an aerospace-only business and transition plan – maximum 5%	The strategic shift away from Melrose's traditional "Buy, Improve, Sell" business model to operating as a long-term aerospace group and delivering on the Group's new "Design, Deliver, Improve" business model is transformational for Melrose. Management has successfully transitioned the business to align it with the new business model and further de-risked the operational and financial path towards achieving the Group's 2025 operating margin targets.	5%
Actions to deliver the GKN Aerospace enterprise projects are substantially complete – maximum 5%	Management implemented a series of GKN Aerospace restructuring projects during the year, including entering into a binding agreement for the sale of the Portsmouth and Alabama Fuel Systems businesses, and implementing the actions to deliver an extensive restructuring programme within Structures, including the consolidation and restructuring of the Netherlands footprint to two multiple technology campuses in Hoogeveen and Papendrecht. In the US and Mexico site actions were implemented to enable rationalisation to three centres of excellence at Chihuahua, Orangeburg and Wellington, which is expected to deliver further quality, productivity and cost improvements as volumes increase within our restructured and leaner operating base. Actions have been delivered according to planned milestones and the corresponding benefits are materialising, and underpin the Group's trajectory towards achieving its stated operating margin targets.	2.5%
ESG – maximum 5%	**Enhancing climate strategy and achieving key milestones:** Continued significant investment was made in leading technologies to enable aviation's route to Net Zero by 2050, with over £45 million invested in decarbonising R&D in 2023. An updated climate physical and transition risks analysis was undertaken to inform the Company's sustainability actions, risk mitigation, and strategy as a pureplay aerospace business. Science-based targets for near- and long-term emissions were submitted to SBTi for validation. The Group's 2025 ESG targets relating to Scope 1 and 2 emissions, water intensity, sustainable R&D investment and sustainable products, were successfully met ahead of the 2025 target year, and a sustainability data pre-assurance project was commenced in preparation for formal limited assurance in the future. **Increasing commitment to diversity:** The Company continued to meet its target of maintaining at least 40% female representation at Board level during 2023, meeting the expectations of the FTSE Women Leaders Review and the FCA Listing Rules. During the year, the Board updated its senior management diversity target to align with the FTSE Women Leaders Review target of having at least 40% female representation at Executive Committee and direct reports level by the end of 2025. As at 31 December 2023, this target was met with 41% female representation at Executive Committee and direct reports level.	2.5%
Strategic Objectives sub-total:		**15%**
Total annual bonus for 2023:		**95%**

(1) The 2022 audited results have been restated to account for discontinued businesses (i.e. to account for the Demerger). As a result, adjusted diluted earnings per share for 2022 has been restated from 7.0 pence to 4.1 pence. In order to provide a like for like comparison following the Demerger, the Committee considered it appropriate to use the restated figure for 2022 when calculating growth in adjusted diluted EPS between 2022 and 2023. However, if the Committee had used the original figure for 2022 when calculating growth in adjusted diluted EPS between 2022 and 2023, growth would have been 167%.

The 2023 bonus payments to the former Chief Executive and the outgoing Group Finance Director will be made in cash, as both have exceeded their minimum shareholding requirements. As per the terms of the 2023 Directors' Remuneration Policy, the 2023 annual bonus payments are potentially subject to clawback. In accordance with the terms of the 2023 Directors' Remuneration Policy, 50% of the 2023 bonus (post-tax) payment to Mr Peter Dilnot may be required to be deferred into shares. Such shares will be subject to leaver and clawback conditions. No further performance conditions will apply.

Long-term incentive arrangements (audited)

As at the end of the period, the Company's long-term incentive arrangements comprised the 2020 Melrose Employee Share Plan (the "MESP") and the Melrose Automotive Share Plan (the "MASP").

MESP

Full details of the MESP, including the participation rate percentages of the executive Directors, are set out in the circular dated 29 December 2020[1] as well as in the 2023 Directors' Remuneration Policy approved at the 2023 AGM. Participants in the MESP share in 7.5% of the increase in invested capital above a 5% annual charge, measured at the end of a performance period commencing on 31 May 2020, which the Committee considers to be the appropriate performance condition in light of the Company's traditional business model and strategy. Awards are subject to an annual rolling cap. The awards under the MESP are structured as conditional awards, which are contingent rights to be granted an award of ordinary shares of the Company or a nil cost option (exercisable into ordinary shares of the Company) on the crystallisation date. At the general meeting on 30 March 2023, the MESP was adjusted to split the invested capital between the continuing Melrose Group and Dowlais according to a fixed ratio to match the separation of the businesses under the Demerger, with any increase in value in the Melrose Group being measured against the invested capital relating to Melrose as at 31 December 2022 (with the initial invested capital as at 31 May 2020 having been adjusted and re-stated to 31 December 2022). The performance period was also extended by 12 months to 31 May 2024. Full details of these adjustments were set out in the circular to shareholders dated 3 March 2023.

The conditional awards of the executive Directors under the MESP were made in one grant on 29 December 2020, subject to approval by shareholders, which was granted on 21 January 2021. No long-term incentives were either granted or crystallised during the 2023 financial year under the MESP. The Committee did not adjust any incentive plan share outcome due to share price appreciation as none crystallised during the year being reported on, nor does it intend to adjust the incentive plan share outcome due to share price appreciation on the crystallisation date of the MESP.

As part of an ongoing commitment to full transparency around remuneration structures at Melrose, set out below is a 'snapshot' of the current value of the MESP, as if the crystallisation date was 31 December 2023. As this table demonstrates, as at 31 December 2023, the minimum return hurdle of £153,636,036 on invested capital as at 31 December 2022 had been achieved and therefore value would have accrued to the MESP.

MASP

The MASP is governed by the plan rules tabled and approved at the general meeting that was held on 30 March 2023 (the "MASP Rules"). The MASP measures the creation of shareholder value in the demerged Dowlais group above a threshold invested capital (the "Threshold MASP Crystallisation Value") over a performance period to 31 May 2025, with participants being granted options to acquire ordinary shares in Dowlais for nil consideration, subject to achieving the necessary performance.

Following completion of the Demerger, 2% of the Dowlais shares were placed on trust with an employee share ownership trust ("ESOT") established by Melrose for the purposes of satisfying awards under the MASP. Options over these shares were granted following the MASP Commencement Date and the extent to which the options vest and become exercisable depends on performance, measured by the increase in value of invested capital over the period from and including completion of the Demerger up to (but excluding) the crystallisation date on 31 May 2025 (the "MASP Crystallisation Date") or, where an exceptional corporate event affecting the Company or Dowlais occurs prior to that event (such as a change of control or winding up), an earlier date as determined in accordance with the MASP Rules. On the MASP Crystallisation Date, to the extent the vesting conditions have not been met, the ESOT will transfer the relevant shares back to Dowlais (or its nominee) to be cancelled.

The increase in value of invested capital for the purposes of the MASP is calculated by reference to the average market capitalisation of Dowlais for the 40 Business Days prior to (but excluding) the MASP Crystallisation Date. If the MASP Crystallisation Date had been 31 December 2023, the Threshold MASP Crystallisation Value would not have been met by reference to the average market capitalisation of Dowlais for the 40 Business Days prior to (but excluding) 31 December 2023, and therefore no options would have vested and become exercisable.

Theoretical value under the MESP if crystallised on 31 December 2023 (rather than on the scheduled payment date)	
Invested capital at 31 December 2022[2]	£2,952,358,090
Index adjustment/minimum return	£153,636,036
Invested capital at 31 December 2023	£3,105,994,126
Number of issued ordinary shares on 31 December 2023 (excluding treasury shares)	1,332,713,481
Average price of an ordinary share for 40 business days prior to and including 29 December 2023[3]	535.27p
Deemed market capitalisation of Melrose based on average price of an ordinary share for 40 business days prior to 29 December 2023[3]	£7,133,648,786
Overall change in value for shareholders since 31 December 2022	£4,027,654,660

Theoretical value to management and shareholder dilution calculated at 31 December 2023	
7.5% of change in value	£302,074,099
Total number of new shares issued under the MESP	56,433,704
Theoretical dilution to shareholders due to the MESP	4.06%
Break-even price of an ordinary share at 31 December 2023 for the MESP to start to deliver value	233p

(1) Available at www.melroseplc.net/investors/shareholder-meetings.

(2) While the MESP awards were granted with effect from the deemed commencement date of 31 May 2020, in connection with the Demerger, the invested capital was allocated between the Continuing Melrose Group and the Dowlais Group as at 31 December 2022, as further described in the circular dated 3 March 2023. As a result, the invested capital is shown here as accruing from 31 December 2022, notwithstanding the four-year performance period of the MESP, as adjusted for dividends paid and distributions made on or in respect of the Company's ordinary shares (including pursuant to the Company's share buyback programme) during the period from and including 1 January 2023 to and including 31 December 2023.

(3) Being the last business day of the 2023 financial year.

Minimum shareholding requirements and equity exposure of the Board (audited)

Executive Directors are subject to two concurrent minimum shareholding requirements, the full details of which are set out in the 2023 Directors' Remuneration Policy as approved at the 2023 AGM. In summary, the first is to always hold at least a value of shares equal to 300% of salary, for which they are given a period of five years from appointment to meet. The second requirement is for executive Directors to hold all the shares they acquire pursuant to crystallisation of the MESP (to the extent that crystallisation results in an award of ordinary shares being made), after satisfying tax obligations following the crystallisation of that plan and subject to capital adjustments, for the two-year holding period.

In the event that an executive Director were to leave the Company, he would be subject to a post-cessation minimum shareholding requirement of 300% of salary (or his actual shareholding on cessation, if lower), for a two-year period following the date of cessation. This obligation is enforceable under direct contractual arrangements between the Company and each executive Director.

In reality, the executive Directors have generally held well in excess of this minimum amount, which reflects their long-term stewardship of the Company and long-term investment in the Company's shares. It is the Committee's view that it is important when considering the remuneration paid in the year under the single figure to take a holistic view of how each executive Director's total wealth is linked to the performance of the Company. In the Committee's opinion, the impact on the total wealth of an executive Director is as important as the single figure in any one year; this approach encourages executive Directors to take a long-term view of the sustainable performance of the Company and aligns them with shareholders.

This is demonstrated by the following table, which sets out all subsisting interests in the equity of the Company held by the executive Directors as at 31 December 2023, as well as an indication as to the size of these interests relative to the entire issued share capital of the Company (excluding treasury shares). It also sets out the number of ordinary shares of the Company held by each executive Director at the end of the 2022 and 2023 financial years and the impact on the value of these ordinary shares taking the closing mid-market prices for those dates:

Executive Directors[1]	Applicable shareholding requirement (% salary)[2]	Current shareholding (% salary)[3][4]	Shareholding requirement met?	Shareholding (% ordinary share capital) as at 31 December 2023[5]	Shares beneficially held on 31 December 2022[4]	Shares beneficially held on 31 December 2023[4][6]	Value of shares on 31 December 2022[7] £	Value of shares on 31 December 2023[3] £	Difference in value of shares between 31 December 2022 and 31 December 2023[8] £
Christopher Miller	300%	7,228%	Yes	0.562%	22,777,659	7,592,553	30,635,951	43,080,146	12,444,194
Simon Peckham	300%	1,927%	Yes	0.150%	12,071,895	2,023,965	16,236,699	11,483,977	(4,752,721)
Geoffrey Martin	300%	2,585%	Yes	0.164%	6,655,730	2,218,576	8,951,957	12,588,200	3,636,243
Peter Dilnot	300%	76%	No[9]	0.005%	100,000	65,444	134,500	371,329	236,829

(1) In addition to the share interests set out in the table, each of the executive Directors as at 31 December 2023 has an additional exposure by virtue of their conditional awards under the MESP (see "Long-term incentive arrangements" on page 134).
(2) The shareholding requirement under the 2023 Directors' Remuneration Policy is 300% of base salary.
(3) For these purposes, the value of a share is 567.4 pence, being the closing mid-market price on 29 December 2023, being the last business day of the 2023 financial year, and salary is 2023 base salary as set out in the single figure table on page 131.
(4) For these purposes, the interests of each executive Director listed in the table include any ordinary shares held by a person closely associated with that executive Director within the meaning of the EU Market Abuse Regulation, as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.
(5) Based on the total number of ordinary shares in issue as at 31 December 2023, inclusive of treasury shares.
(6) Following the one for three share consolidation which took place on 19 April 2023, the Company's ordinary share capital changed from 4,054,425,961 ordinary shares of 160/21 pence each to 1,351,475,321 ordinary shares of 160/7 pence each, and consequently there was a commensurate reduction in the number of shares held by all shareholders, including the executive Directors (but not the percentage held).
(7) For these purposes, the value of a share is 134.50 pence, being the closing mid-market price on 30 December 2022, being the last business day of the 2022 financial year.
(8) The figures in this column may not add up to the sum of the component parts due to rounding.
(9) Under the 2023 Directors' Remuneration Policy, executive Directors are required to always hold at least an amount of shares equal to 300% of salary, for which they are given five years from appointment to meet this requirement. Whilst Mr Dilnot does not currently meet the minimum shareholding requirement, it is anticipated that he will hold far in excess of this shareholding as a result of any shares he receives in relation to the MESP in May 2024, subject to the performance conditions having been met.

No executive Director may dispose of any ordinary shares without the consent of the Chairman of the Board, which will not normally be withheld provided the executive Director will continue to hold at least the "minimum number" of ordinary shares referred to in the table above following any such disposal.

There have been no changes in the ordinary shareholdings of the executive Directors between 31 December 2023 and 7 March 2024 (the date of this report).

Please see page 141 for a table setting out the equity interests of the Non-executive Directors as at 31 December 2023.

Key decisions and statement of implementation for 2024

Salary review

The Committee has awarded salary increases to the executive Directors of 5% for 2024, which is consistent with the rate of salary increases made to the wider UK workforce. The executive Director salary increases were determined to be appropriate in light of the Company's performance in 2023, whilst recognising and balancing the need to appropriately remunerate and incentivise the executive team to continue to deliver value to shareholders.

In light of Simon Peckham and Geoffrey Martin stepping down as Chief Executive and Group Finance Director on 6 and 7 March respectively, and the appointments of Mr Peter Dilnot to the role of Chief Executive Officer and Mr Matthew Gregory to the role of Chief Financial Officer with effect from 6 and 7 March 2024 (the "Dates of Appointment") respectively, the Committee has approved new remuneration structures for these roles as set out in the table below, which will be effective from their Dates of Appointment and prorated accordingly. The new remuneration structures were determined to be appropriate to align executive salary and the wider executive remuneration package with that of other FTSE 100 companies. The 2024 Directors' Remuneration Policy is subject to the approval of shareholders at the 2024 AGM.

The Committee therefore feels that it has been able to balance all relevant stakeholder considerations when setting salaries for 2024.

The executive Directors' salaries for 2024 are as follows[1]:

Executive Directors	Position	Salary with effect from 1 January 2024 £000	Salary change with effect from March 2024 £000
Christopher Miller	Executive Vice-Chairman	626	n/a
Simon Peckham	Chief Executive	626	n/a
Geoffrey Martin	Group Finance Director	511	n/a
Peter Dilnot	Chief Operating Officer / moving to Chief Executive Officer	511	975
Matthew Gregory	Chief Financial Officer	n/a	695

(1) Mr Peckham and Mr Martin stepped down as Melrose Chief Executive and Group Finance Director respectively with effect from 6 and 7 March 2024 respectively, to be replaced by Mr Dilnot and Mr Gregory respectively. Mr Peckham, Mr Martin and Mr Miller will not stand for re-election at the 2024 AGM.

Pensions and benefits

For 2024, standard benefits will be provided to the executive Directors in line with the 2024 Directors' Remuneration Policy. However, the pension contribution rate for executive Directors will be reduced from 15% to 10% of base salary for Mr Dilnot and Mr Gregory, in order to bring the contribution to a level consistent with the Group's wider UK workforce as it stands following the Demerger and the merging of Melrose and GKN Aerospace into a single standalone business.

The Committee has approved this reduction in the pension contribution rate and this change is also intended to be effective from Mr Dilnot and Mr Gregory's Dates of Appointment and prorated accordingly.

Annual bonus

As part of the 2024 Directors' Remuneration Policy, which will be put forward for shareholder approval at the 2024 AGM, the maximum bonus opportunity for executive Directors will remain at 200% of base salary. In practice, for 2024, this will be applied such that the maximum opportunity will be 200% of base salary for the new Chief Executive Officer and 150% of base salary for the new Chief Financial Officer.

The bonuses for the Chief Executive Officer and Chief Financial Officer will be prorated for 2024 such that they will be payable for the portion of the year from 6 and 7 March 2024 onwards (being the dates on which the relevant individuals commenced their roles as Chief Executive Officer and Chief Financial Officer, respectively). For the period from 1 January to 5 March 2024, Mr Dilnot will be entitled to a prorated bonus with a maximum opportunity of 100% of his salary for that period and for the period from 1 January to 6 March 2024, Mr Gregory will be entitled to a prorated bonus for his role as Chief Financial Officer of GKN Aerospace.

The annual bonus will be based on financial performance metrics of 70% with the remaining 30% based on strategic and/or personal objectives. The financial performance metric will comprise cash flow and operating profit, which the Committee considers to be the appropriate metrics for the Company. The Committee considers that the details of the strategic measures are commercially sensitive, but will disclose the nature of all measures on a retrospective basis, where appropriate, on a similar basis to the disclosure on page 133 in respect of the annual bonus for the year ending 31 December 2023.

If an executive Director does not satisfy the minimum shareholding requirement, up to 50% of any bonus award after tax will be used to acquire shares to the extent necessary to enable the executive Director to meet his or her minimum shareholding requirement (as further described on page 135).

Long-term incentive arrangements

Given the nature of the MESP (see "Long-term incentive arrangements" on page 134), no grants were made to the executive Directors under the MESP in 2023, nor will any be made to them in 2024. Grants were made to the executive Directors under the MASP in 2023. Details of such grants were set out in the circular published in relation to the Demerger, which is available at www.melroseplc.net/investors/shareholder-meetings.

Subject to shareholder approval at the 2024 AGM, going forward, executive Directors will be granted awards under the Performance Share Plan (the "PSP"). The intention is that following commencement of the PSP, the Chief Executive Officer will be made an award at the maximum level allowed of 300% of salary and the Chief Financial Officer will be made an award at 200% of salary, however, as the PSP will commence following crystallisation of the MESP on 31 May 2024, the 2024 awards will be prorated from the scheme commencement date (so as to be made at 7/12ths of 300% of salary for the Chief Executive Officer, and 7/12ths of 200% of salary for the Chief Financial Officer). Detailed performance measures will be set by the Committee in relation to the initial awards to be made under the PSP and are expected to be subject to three independent performance metrics, comprising growth in fully diluted adjusted EPS (45%), relative TSR performance versus the FTSE 100 (excluding investment trusts) (45%), and strategic objectives (10%).

Unless performance of a participant during the performance period is sufficient to earn 25% of the relevant maximum opportunity, none of the PSP Awards granted to that participant will vest, with 100% of the PSP Awards granted to a participant vesting if maximum performance is achieved.

No payment is required for the grant of a PSP Award.

As soon as reasonably practicable after the end of each performance period, the Committee will conduct a performance assessment. The Committee will determine the extent to which the PSP Awards will then vest, taking into account the extent to which performance conditions have been satisfied. PSP Awards will vest on the vesting date set by the Committee at grant, which will normally be the third anniversary of the grant date. An additional two-year post-vesting holding period applies to PSP Awards made to executive Directors.

Regulatory disclosures

Chief Executive remuneration for previous ten years

In accordance with the regulations governing the reporting of executive Director remuneration, the total figure of remuneration set out in the table below includes the value of long-term incentives vesting in respect of the relevant financial year. This means that the full value of the 2012 Incentive Plan which crystallised in May 2017 is shown for the year ended 31 December 2017, although this represents rewards earned over the previous five years. The 2017 Incentive Plan crystallised in May 2020 for no value. Per the terms of the Company's current long-term incentive arrangements, any awards in relation to the MESP and the MASP are not scheduled until May 2024 and May 2025, respectively, and only then if the performance conditions are met.

Financial year	Chief Executive	Non-LTIP £	LTIP £	Total remuneration £	Annual bonus as a percentage of maximum opportunity	Long-term incentives as a percentage of maximum opportunity
Year ended 31 December 2023	Simon Peckham	1,255,595	–	1,255,595	95%	–
Year ended 31 December 2022	Simon Peckham	1,221,011	–	1,221,011	100%	–
Year ended 31 December 2021	Simon Peckham	1,186,316	–	1,186,316	100%	–
Year ended 31 December 2020	Simon Peckham	680,113	–(1)	680,113	20%	n/a(2)
Year ended 31 December 2019	Simon Peckham	976,000	–	976,000	72%	–
Year ended 31 December 2018	Simon Peckham	1,049,000	–	1,049,000	95%	–
Year ended 31 December 2017	Simon Peckham	994,000	41,770,000(3)	42,764,000	90%	n/a(4)
Year ended 31 December 2016	Simon Peckham	987,725	–	987,725	95%	–
Year ended 31 December 2015	Simon Peckham	928,541	–	928,541	88%	–
Year ended 31 December 2014	Simon Peckham	773,167	–	773,167	58%	–

(1) The 2017 Incentive Plan crystallised in May 2020 for no value.
(2) Although the 2017 Incentive Plan crystallised in May 2020 for no value, because the value that would have been derived on the crystallisation of the 2017 Incentive Shares and options depended upon the shareholder value created over the relevant period, it would not have been possible to express the value derived as a percentage of the maximum opportunity.
(3) The value derived in 2017 from the 2012 Incentive Shares represents the Chief Executive's share, determined in accordance with the terms of those shares, of the shareholder value created over a period of approximately five years. This amount was paid in shares, not cash.
(4) On the crystallisation in May 2017 of the 2012 Incentive Plan, participants as a whole were entitled to 7.5% of the increase in shareholder value from 22 March 2012 to 31 May 2017. Because the value derived on the crystallisation of the 2012 Incentive Shares depended upon the shareholder value created over the relevant period, it is not possible to express the value derived as a percentage of the maximum opportunity.

CEO pay ratio

Our median CEO to employee pay ratio for 2023 continued to be low at 25:1. The following table provides pay ratio data in respect of the Chief Executive's total remuneration compared to the 25th, median and 75th percentile UK employees.

Financial year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Year ended 31 December 2023	Option A	32:1	25:1	21:1
Year ended 31 December 2022	Option A	32:1	26:1	20:1
Year ended 31 December 2021	Option A	34:1	29:1	23:1
Year ended 31 December 2020	Option A	20:1	16:1	13:1
Year ended 31 December 2019	Option A	30:1	24:1	19:1

The employees used for the purposes of calculating the pay ratios in the table above were those employed in the UK by any business within the Group on 31 December 2023 (for the avoidance of doubt, including the Chief Executive), and the remuneration figures were determined with reference to the financial year ending 31 December 2023. Option A was chosen as it is considered to be the most accurate way of identifying the relevant employees. This captures all relevant pay and benefits and aligns to how the single figure table is calculated for the Chief Executive and other Directors. The value of each employee's total pay and benefits was calculated using the single figure methodology consistent with the Chief Executive, with the exception of the annual bonus, which was calculated using 2022 financial year bonuses (which were paid during 2023) where the 2023 financial year data was not available at the last practical date before the finalisation of this report. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to reflect full-time and full-year equivalents based on the employees' contracted hours and the proportion of the year they were employed.

The following table provides salary and total remuneration information in respect of the employees at each quartile (rounded to the nearest £1,000).

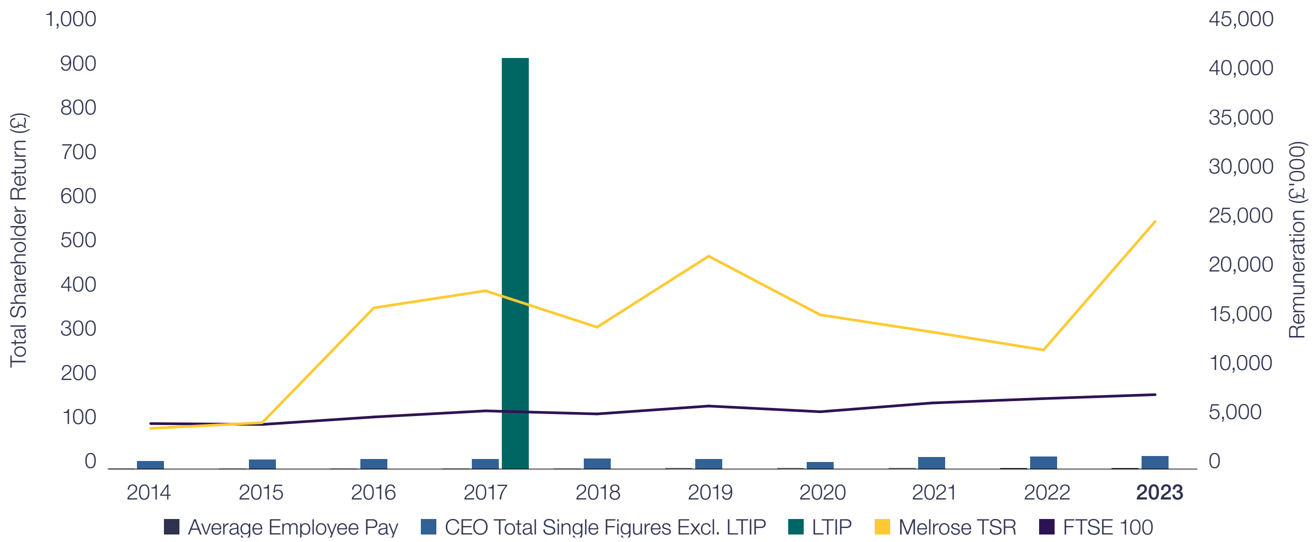
Financial year	Element of pay	25th percentile pay employee	Median employee	75th percentile pay employee
Year ended 31 December 2023	Salary and wages(1)	£35,000	£44,000	£53,000
	Total pay and benefits	£39,000	£50,000	£61,000

(1) Base salary includes overtime and shift allowances/premiums. The individual at the median received shift premium and overtime during the year.

Despite the Demerger resulting in a significant decrease in the Group's employee population (which reduced from an average of 38,772 during 2022 to an average of 14,741 during 2023) all ratios for 2023 remain broadly consistent with those for 2022.

We have considered the pay data for the three employees identified and believe that it fairly reflects pay at the relevant quartiles amongst the UK workforce. The Committee considers that the median pay ratio is consistent with the relative role and responsibilities of the Chief Executive and the identified employee. Base salaries of all employees, including our executive Directors, are set with reference to a range of factors, including market practice, experience and performance in role. The Chief Executive's remuneration package is weighted towards variable pay due to the nature of the role, and this means that the ratio is likely to fluctuate depending on the outcomes of incentive plans in each year, and is indeed likely to be higher in years where long-term incentive arrangements crystallise. The Chief Executive's remuneration package is otherwise very reasonable compared to the Company's FTSE 100 peers, which is also demonstrated on page 132 of this report.

To give context to the Chief Executive's remuneration for the previous ten years and the CEO pay ratio, we have included an illustrative chart tracking CEO pay and average employee pay over the last ten financial years alongside Melrose's TSR performance and the FTSE 100's TSR performance over the same period. The Committee has always been committed to ensuring that the Chief Executive's reward is commensurate with performance. The chart shows a clear alignment between shareholder returns and the Chief Executive's single figure pay.



Percentage change in Directors' remuneration
The table opposite sets out, in relation to base salary, taxable benefits and annual bonus, the percentage increase in pay for each Director compared to the average increase for a group consisting of the Group's senior head office employees. The reporting legislation in this regard requires companies to publish the annual percentage change in the total remuneration of Directors and employees of the Company. The Company itself does not have any employees other than the executive Directors. However, in the interests of providing a relevant comparison to stakeholders, we choose to voluntarily disclose a comparison against the aforementioned group of senior management, which we consider to be an appropriate comparator group because of their level of seniority and the structure of their remuneration packages. The spread of the Company's operations across various countries means that remuneration policies vary to take account of geography such that the Committee considers that selecting a wider group of employees would not provide a meaningful comparison.

We are required to report on this change based on actual amounts received by the Directors. The percentage increases for 2021 versus 2020 and for 2020 versus 2019 were naturally impacted by the COVID-19 pandemic, which included temporary salary and fee reductions and reduced annual bonuses for the executive Directors in 2020.

Element of remuneration	2023 vs 2022			2022 vs 2021			2021 vs 2020			2020 vs 2019		
	Basic salary/fee percentage change[1]	Benefits percentage change/ amount £000[2]	Annual bonus percentage change[3]	Basic salary/fee percentage change[1]	Benefits percentage change/ amount £000[2]	Annual bonus percentage change[3]	Basic salary/fee percentage change[1]	Benefits percentage change/ amount £000[2]	Annual bonus percentage change[3]	Basic salary/fee percentage change[1]	Benefits percentage change/ amount £000[2]	Annual bonus percentage change[3]
Executive Directors												
Christopher Miller	5%	33% / 2	n/a	3%	15% / 2	n/a	12%	-30% / 2	n/a	-6%	-20% / 2	n/a
Simon Peckham	5%	263% / 4	0%	3%	-45% / 1	3%	12%	-26% / 2	415%	-6%	-2% / 3	-71%
Geoffrey Martin	5%	18% / 14	0%	3%	31% / 12	3%	14%	-6% / 9	422%	-6%	7% / 10	-72%
Peter Dilnot[4]	5%	22% / 2	0%	3%	-88% / 2	3%	–	– / 15	–	–	– / –	–
Non-executive Directors												
Justin Dowley	5%	n/a	n/a	3%	n/a	n/a	12%	n/a	n/a	-6%	n/a	n/a
David Lis[5]	5%	n/a	n/a	16%	n/a	n/a	10%	n/a	n/a	-4%	n/a	n/a
Charlotte Twyning[6]	4%	n/a	n/a	22%	n/a	n/a	12%	n/a	n/a	-6%	n/a	n/a
Funmi Adegoke	(48)%	n/a	n/a	3%	n/a	n/a	12%	n/a	n/a	278%	n/a	n/a
Heather Lawrence[7]	14%	n/a	n/a	119%	n/a	n/a	–	–	–	–	–	–
Victoria Jarman[8]	5%	n/a	n/a	77%	n/a	n/a	–	–	–	–	–	–
Gillian Elcock[9]	–	–	–	–	–	–	–	–	–	–	–	–
Senior employees	**8%**	**10%**	**8%**	**4%**	**2%**	**2%**	**6%**	**92%**	**167%**	**-1%**	**11%**	**45%**

(1) The annual percentage change is required to be calculated by reference to actual basic salary or fee (as applicable) paid for the financial year compared to that paid for the prior financial year. For the Non-executive Directors, this fee includes both their basic fee and any additional fee received for holding the position of the Senior Independent Director, and for holding the Chairmanship of the Audit Committee, the Remuneration Committee and/or the Nomination Committee.

(2) Benefits data is calculated on the same basis as the benefits data in the single total figure table. It does not include any pension allowances. Given that the executive Director benefits are minimal, a small change to the amount of those benefits (for example, an annual increase to the premium charged for private medical insurance) will necessarily result in a large increase. To provide comfort that these are not large increases in quantum, the benefits data as provided in the single total figure table is included, for context.

(3) The annual percentage change in bonus is calculated by reference to the bonus payable in respect of the financial year compared to the prior financial year, in each case for the applicable executive Directors and senior employees. Neither the Executive Vice-Chairman nor the Non-executive Directors are eligible to receive an annual bonus.

(4) Peter Dilnot was appointed to the Board with effect from 1 January 2021 and therefore only limited prior year comparisons are possible.

(5) David Lis was appointed as the Senior Independent Director with effect from 5 May 2022. The increase in his basic fee from 2021 to 2022 reflects the additional fee received in respect of being appointed to this role for the period 5 May 2022 to 31 December 2022 which was not applicable to 2021, so is not a meaningful comparison.

(6) Charlotte Twyning was appointed as the Chair of the Nomination Committee with effect from 1 January 2022. The increase in her basic fee from 2021 to 2022 reflects the additional fee received in respect of being appointed to this role for 2022 which was not applicable to 2021, so is not a meaningful comparison.

(7) Heather Lawrence was appointed to the Board with effect from 1 June 2021, and as Chairman of the Audit Committee with effect from 5 May 2022. The increase in her basic fee from 2021 to 2022 reflects the fee actually received for the prorated period of directorship in 2021 for the period 1 June 2021 to 31 December 2021 versus a full year for 2022, and reflects the additional fee received in respect of being appointed to the role of Chair of the Audit Committee for the period 5 May 2022 to 31 December 2022 which was not applicable to 2021, so is not a meaningful comparison.

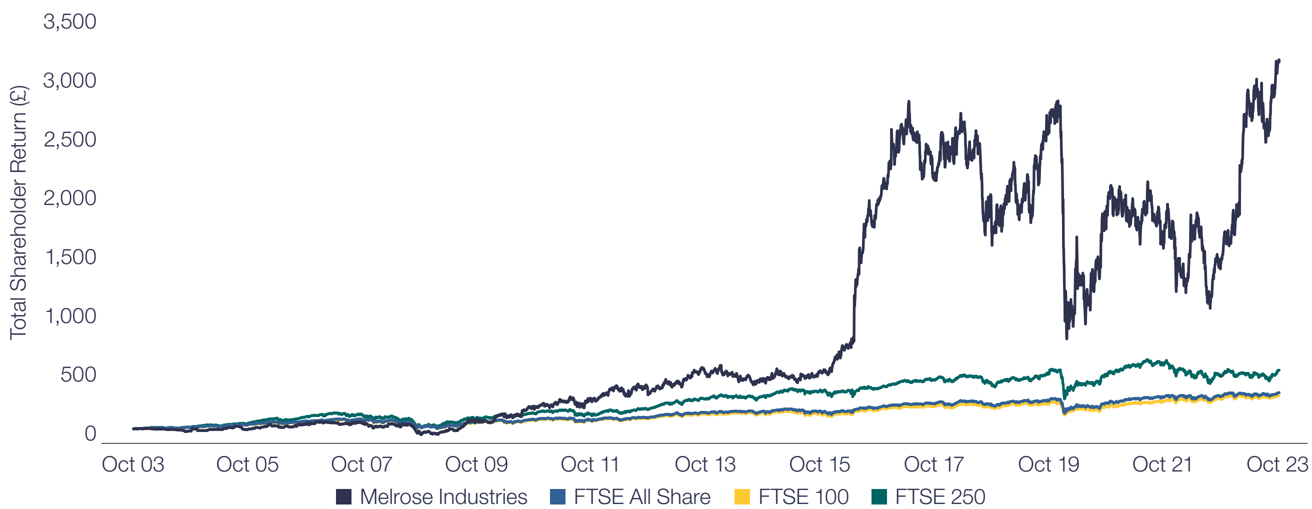
(8) Victoria Jarman was appointed to the Board with effect from 1 June 2021. The increase in her basic fee from 2021 to 2022 reflects the fee actually received for the prorated period of directorship in 2021 for the period 1 June 2021 to 31 December 2021 versus a full year for 2022, so is not a meaningful comparison.

(9) Gillian Elcock was appointed to the Board with effect from 21 June 2023 and therefore no prior year comparison is available.

Total Shareholder Return

The total shareholder return graph below shows the value as at 31 December 2023 of £100 invested in the Company in October 2003, compared with £100 invested in the FTSE 100 Index, the FTSE 250 Index and the FTSE All-Share Index. This shows a TSR of 3,117% (compared to the FTSE 100 Index TSR of 283%) and demonstrates very clearly the long-term performance of the Company.

The Committee considers the FTSE 100 Index, the FTSE 250 Index and the FTSE All-Share Index to be appropriate indices for the year ended 31 December 2023 for the purposes of this comparison because of the comparable size of the companies which comprise the FTSE 100 Index and the FTSE 250 Index and the broad nature of companies which comprise the FTSE All-Share Index. The data shown below assumes that all cash returns to shareholders made by the Company during this period are reinvested in ordinary shares.



Wider workforce considerations

Melrose is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation in a fair manner. The Committee is mindful of wider workforce remuneration and conditions, and uses its awareness of these arrangements to ensure that Melrose executive pay is aligned with the Company's culture and strategy.

The Committee is responsible for setting the remuneration of the executive Directors and the Non-executive Chairman. It does not have responsibility for setting and managing the remuneration of the Melrose and GKN Aerospace senior management teams, or the wider workforce, nor is it responsible for determining wider employee pay. The Melrose Chief Executive is responsible for engaging with the Melrose workforce and GKN Aerospace senior management team in relation to remuneration, and the GKN Aerospace senior management team is responsible for engaging with the GKN Aerospace workforce in relation to remuneration, and each do so throughout the year. The Committee considers such approach to be appropriate on the basis that it still maintains oversight of workforce pay, policies and incentives at a Melrose level and within the GKN Aerospace senior management team, which enables it to ensure that the approach taken to executive remuneration is consistent with the workforce. In addition, the CEO pay ratio continues to remain low. The Committee receives detail on GKN Aerospace senior management remuneration to ensure that this is consistent with the remuneration of the executive Directors. The GKN Aerospace Chief Human Resources Officer also provides an annual confirmation, via the Workforce Advisory Panel, that GKN Aerospace's senior management team remuneration is consistent with the remuneration that the business provides to its wider workforce, and that the incentives it operates align with the business's culture and strategy. This provides the Committee with comfort that it is discharging its obligations under the Code, and that there is consistency and engagement across all levels of the Group. Based on these disclosures, the Committee is satisfied that the approach taken to remuneration at all levels is consistent with the Company's remuneration philosophy.

In 2023, the Committee was particularly aware of the continuing macroeconomic challenges impacting the global economy, including the impact of the war in Ukraine and the resulting impact on energy prices, supply chain issues, the wider cost of living crisis and high inflationary pressures, all of which continue to contribute to a challenging economic environment with general uncertainty. The Committee has sought to ensure that executive pay decisions in respect of 2023 and 2024 have been taken with this background in mind, and with the benefit of the oversight described above and advice from its external remuneration advisors. The Committee took this into consideration when making its decision for the executive Director salary increases for 2024, which were consistent with the increases awarded across the wider UK workforce.

Melrose and GKN Aerospace continue to pay all UK employees at least the real living wage, and offer all employees in the UK the opportunity to work for at least 15 hours per week.

Retirement provisions

The Company provides retirement benefits to Melrose employees and the GKN Aerospace executive team determines the retirement benefits provided to GKN Aerospace employees.

Long-term incentives

Participation in the Melrose long-term incentive arrangements (being the MESP and the MASP and, subject to approval at the 2024 AGM, the PSP) is limited to senior Melrose head office employees. However, a GKN Aerospace long-term incentive plan is in place for senior managers of GKN Aerospace to incentivise them to create value for the Company and our shareholders. Depending on the amount of value created, participants in this incentive plan will receive a cash payment in the event of a sale of the business. If a sale of the business has not occurred within a certain period, the incentive plan will crystallise and any payment to be made to participants will be based on the increase in value of the business during this period.

Relative Importance of Spend on Pay

The following table sets out the percentage change in dividends and the overall expenditure on pay (as a whole across the Group).

Expenditure	Year ended 31 December 2022 £ million	Year ended 31 December 2023 £ million	Percentage change
Remuneration paid to all employees[(1)]	2,127	1,095	(49)%
Distributions to shareholders by way of dividend and share buyback	577[(2)]	173[(3)]	(70)%

(1) The figure is the total staff costs as stated in note 7 to the financial statements. In light of the Demerger, your Board does not consider that the table is meaningful.
(2) The figure for the year ended 31 December 2022 includes the amount returned to shareholders by way of the share buyback in 2022.
(3) The figure for the year ended 31 December 2023 includes the amount returned to shareholders by way of share buyback in 2023.

Non-executive Directors

Single figure table and share interests (audited)

The following table sets out the single figure of remuneration for 2023 in comparison with 2022 for the Company's Non-executive Directors(1):

Non-executive Directors	Period	Total basic fees £000	Total other fees £000(2)	Other (bonus, pension, LTIP, taxable benefits) £000	Total £000	Total Fixed £000	Total Variable £000
Justin Dowley (Chairman)	2023	402	–	n/a	**402**	**402**	**–**
	2022	383	–	n/a	**383**	**383**	**–**
Liz Hewitt (Senior Independent Director to 5 May 2022)(3)	2023	–	–	–	**–**	**–**	**–**
	2022	29	17	n/a	**46**	**46**	**–**
David Lis (Senior Independent Director from 5 May 2022)	2023	86	40	n/a	**126**	**126**	**–**
	2022	82	33	n/a	**115**	**115**	**–**
Charlotte Twyning	2023	86	15	n/a	**101**	**101**	**–**
	2022	82	15	n/a	**97**	**97**	**–**
Funmi Adegoke(4)	2023	43	–	n/a	**43**	**43**	**–**
	2022	82	–	n/a	**82**	**82**	**–**
Heather Lawrence(5)	2023	86	30	n/a	**116**	**116**	**–**
	2022	82	20	n/a	**102**	**102**	**–**
Victoria Jarman	2023	86	–	n/a	**86**	**86**	**–**
	2022	82	–	n/a	**82**	**82**	**–**
Gillian Elcock(6)	2023	43	–	n/a	**43**	**43**	**–**
	2022	–	–	–	**–**	**–**	**–**

(1) The "Total" figures in the above table may not add up to the sum of the component parts due to rounding.
(2) These are additional fees for holding the Chairmanship of the Audit Committee, the Remuneration Committee and the Nomination Committee, and for holding the position of the Senior Independent Director. There are no additional fees payable for membership of a committee. All of our Non-executive Directors are members of at least one committee.
(3) Liz Hewitt retired as a Non-executive Director of the Company on 5 May 2022 and the fees referred to above for 2022 reflect her fees for the period 1 January 2022 to 5 May 2022.
(4) Funmi Adegoke resigned as a Non-executive Director of the Company on 16 June 2023 and the fees referred to above for 2023 reflect her fees for the period 1 January 2023 to 16 June 2023.
(5) Heather Lawrence was appointed as Chair of the Audit Committee on 5 May 2022 and her "Total other fees" for 2022 reflect her Audit Committee Chair fee for the period 5 May 2022 to 31 December 2022.
(6) Gillian Elcock was appointed as a Non-executive Director of the Company with effect from 21 June 2023 and the fees referred to above for 2023 reflect her fees for the period 21 June 2023 to 31 December 2023.

Payments to past directors or for loss of office (audited)

Ms Funmi Adegoke resigned from her position as Non-executive Director on 16 June 2023. She received her Non-executive Director fees from 1 January 2023 up to and including 16 June 2023. Non-executive Directors do not receive any taxable benefits, pension contributions or variable remuneration. Other than the amounts disclosed above, no other remuneration payment was made to Ms Adegoke in the year and therefore no payment was made for loss of office.

No other payments to past Directors or for loss of office have been made to former Directors during the year.

Share interests

The following table sets out the subsisting interests in the equity of the Company held by the Non-executive Directors as at 31 December 2023, as well as an indication as to the size of these interests relative to the entire issued share capital of the Company, including treasury shares:

Non-executive Directors	Ordinary shares held as at 31 December 2023(1)	Shareholding (% ordinary share capital) as at 31 December 2023(2)
Justin Dowley	514,123	0.0380%
David Lis	117,950	0.0087%
Charlotte Twyning	42,896	0.0032%
Heather Lawrence	7,500	0.0005%
Victoria Jarman	11,166	0.0008%
Gillian Elcock	–	–
Total	**693,635**	**0.0512%**

(1) For these purposes, the interests of each Non-executive Director listed in the table include any ordinary shares held by a person closely associated with that Non-executive Director within the meaning of the EU Market Abuse Regulation, as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.
(2) Based on the total number of ordinary shares in issue as at 31 December 2023, inclusive of treasury shares.

There have been no changes in the ordinary shareholdings of the Non-executive Directors between 31 December 2023 and 7 March 2024 (the date of this report).

Non-executive Directors' fees

Non-executive Directors' basic fees and the Non-executive Chairman's fee have been increased by 5% with effect from 1 January 2024, in line with increases made to the executive Directors. We note that while all Non-executive Directors serve on at least one of the Company's committees (and most serve on multiple committees), there are no additional committee membership fees. As noted in the single figure table above, the Company remains of the view that it is not appropriate for our Non-executive Directors to receive any taxable benefits, pension contributions or variable remuneration.

The Non-executive Director fee levels for 2023 and 2024 are set out in the table below.

Fee element	Fee with effect from 1 January 2023 £	Fee with effect from 1 January 2024 £
Non-executive Chairman fee	401,650	421,800
Basic Non-executive Director fee	86,100	90,500
Additional fee for holding the position of the Senior Independent Director	20,000	20,000
Additional fee for holding the Chairmanship of the Audit Committee	30,000	30,000
Additional fee for holding the Chairmanship of the Remuneration Committee	20,000	20,000
Additional fee for holding the Chairmanship of the Nomination Committee	15,000	15,000

Service contracts and letters of appointment

Consistent with the best practice guidance provided by the Code, the Company's policy is for executive Directors to be employed on the terms of service agreements, which may be terminated by either the executive Director or the Company on the giving of 12 months' written notice (subject to certain exceptions).

The executive Directors' service contracts do not provide for predetermined compensation in the event of termination. Any payments made would be subject to normal contractual principles, including mitigation as appropriate. The length of service for any one executive Director is not defined and is subject to the requirement for annual re-election under both the Code and the Company's Articles of Association.

There is no unexpired term as each of the executive Directors' contracts is on a rolling basis.

The Non-executive Directors do not have service contracts but have letters of appointment for an initial term of three years, which may be renewed by mutual agreement. Generally, a Non-executive Director may be appointed for one or two periods of three years after the initial three-year period has expired, subject to re-election by shareholders at each AGM. The terms of appointment do not contain any contractual provisions regarding a notice period or the right to receive compensation in the event of early termination.

Each executive Director's service contract and each Non-executive Director's letter of appointment are available for inspection at the Company's registered office during normal business hours.

Details of the Non-executive Directors' current terms of appointment are set out below:

Non-executive Directors	First appointment	Expires*
Justin Dowley (Chairman)	1 September 2011	2025
David Lis (Senior Independent Director)	12 May 2016	2025
Charlotte Twyning	1 October 2018	2027
Heather Lawrence	1 June 2021	2027
Victoria Jarman	1 June 2021	2024
Gillian Elcock	21 June 2023	2026

* Subject to annual re-election.

Governance

Responsibilities

The Board has delegated to the Committee responsibility for overseeing the remuneration of the Chairman of the Board and the executive Directors.

The Committee's responsibilities include:

- establishing and maintaining an executive Director remuneration policy that is appropriate, consistent and reflective of Melrose's remuneration philosophy;
- determining the remuneration policy for the executive Directors;
- setting and managing remuneration packages of the executive Directors and the Chairman of the Board in accordance with the Directors' remuneration policy;
- overseeing the remuneration of Melrose senior management to enable the Committee to consider their consistency with the executive Director remuneration packages; and
- operating the Company's long-term incentive arrangements.

As described on page 140, although it retains oversight, the Committee is not responsible for setting and managing the remuneration of the Melrose and GKN Aerospace senior management teams, or the wider workforce, nor is it responsible for determining wider employee pay. The Melrose Chief Executive is responsible for engaging with the Melrose workforce and GKN Aerospace senior management team in relation to remuneration, and the GKN Aerospace senior management team is responsible for engaging with the GKN Aerospace workforce in relation to remuneration. Responsibility for determining the remuneration of the Non-executive Directors (other than the Chairman of the Board) sits with the Board. No Director plays a part in any decision about his or her own remuneration.

The Committee's terms of reference, which were last reviewed and updated by the Committee in November 2023, are available on our website, www.melroseplc.net/governance/documents-and-policies, and from the Company Secretary at Melrose's registered office.

Evaluation

The Code requires that FTSE 350 companies undertake a formal and rigorous annual review of the performance of the Board, its committees, the Chairman of the Board and individual Directors. In particular, FTSE 350 companies should undertake an externally facilitated Board and committee performance review once every three years. The last external Melrose Board and committee review was undertaken by Lintstock Ltd in 2020, so the Company was required to undertake another in 2023. For this purpose, the Company engaged Lintstock Ltd who engaged directly with the Directors on: (i) the constitution and performance of the Board and each committee; (ii) the Chairman of the Board; and (iii) individual performance reviews. Lintstock Ltd produced a report based on the feedback of Committee members and analysis of the responses, which was presented and discussed at the December Board meeting. Alongside such formal feedback, the Committee continued to facilitate direct ongoing contact between its members and the Chair of the Committee about any relevant matters that the members wished to raise as part of the ongoing review.

Committee Membership and Attendance at meetings

All members of the Committee are independent Non-executive Directors within the definition of the Code. None of the Committee members have any personal financial interest (other than as shareholders in the Company) in matters to be decided, nor do they have any conflicts of interest from cross-directorships or any day-to-day involvement in running the business.

The attendance of the Non-executive Directors at the scheduled meetings of the Committee in 2023 was as follows:

Member	No. of meetings[1]
David Lis (Chairman)	2/2
Justin Dowley[2]	1/2
Charlotte Twyning	2/2
Victoria Jarman	2/2
Gillian Elcock[3]	0/0

(1) Reflects regularly scheduled meetings of the Committee that took place in 2023.
(2) Mr Dowley did not attend the Committee meeting held in November due to a conflicting mandatory commitment. He was in any case briefed on the matters discussed at the meeting, with his feedback being considered by the Committee.
(3) Ms Elcock was appointed to the Committee on 6 December 2023. There were no scheduled meetings of the Committee between 6 December 2023 and 31 December 2023.

Compliance with legislation and the Code

We apply the principles of, and are fully compliant with, the key provisions of the Code and the Financial Conduct Authority's Listing Rules and Disclosure Guidance and Transparency Rules, including in relation to minimum shareholding requirements, post-cessation minimum shareholding requirements, pension alignment, malus and clawback, and discretion to override formulaic outcomes.

The Directors confirm that this report has also been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

As mentioned on page 130, the four principles of the existing Melrose remuneration structure are wholly aligned with the Code factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture, as set out in the table on page 144. The Committee ensured that it took all of these elements into account when establishing the 2023 Directors' Remuneration Policy, as well as its application to executive Directors during the period. In addition, the Committee has taken the Code factors into account when establishing the 2024 Directors' Remuneration Policy, as set out on page 151.

Factor	How the Remuneration Committee has addressed and link to the Company's traditional strategy
Clarity	The Company's performance remuneration has been based on supporting the implementation of the Company's strategy, which has traditionally been primarily to create sustainable long-term shareholder value. This has provided clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid. The Company has sought to present its remuneration arrangements to investors in the clearest and most transparent way possible. We have also remained committed to maintaining an open and transparent dialogue with our investors, both through formal engagement processes and ad-hoc discussions, and through the disclosures in our annual reports.
Simplicity	The fixed elements of remuneration have been limited to base salary, pension contribution and benefits, which have all been below the lower quartile of FTSE 100 peers for the Chief Executive and the Group Finance Director and in the case of pension contributions, the same as the rest of the Melrose head office employees, and therefore aligned with the workforce. There have only been two variable elements of remuneration: the annual bonus and the long-term incentive arrangements (currently comprising the MESP and MASP), both of which have been based on simple and transparent metrics. The operation of the Annual Bonus Plan has been linked to financial performance metrics (at least 50%) and the achievement of strategic and ESG factors. The Company has operated long-term incentive arrangements for the Melrose Group, which simply reward the creation of shareholder value over a performance period above a minimum level of return for shareholders. In the Committee's view, this has provided a very simple incentive framework which can be understood by all of the Company's stakeholders.
Risk	The 2023 Directors' Remuneration Policy included the following elements to mitigate against the risk of target-based incentives: • setting defined limits on the maximum award that could be earned, including capping the annual bonus to a maximum of 200% of base salary, with the current executive Directors having their annual bonus capped at a maximum of 100% of base salary, and the application of the annual rolling cap to the MESP; • requiring the deferral of up to 50% of the annual bonus award into ordinary shares of the Company in certain circumstances and requiring that all of the ordinary shares awarded in relation to the MESP (other than any ordinary shares sold in order to make adequate provision for any tax liability arising in connection with the crystallisation) be held for a two-year holding period following the crystallisation date; • the post-cessation minimum shareholding requirements, which required executive Directors to maintain the minimum shareholding for a period of two years after leaving the Company; • aligning the performance conditions with the traditional "Buy, Improve, Sell" strategy of the Company; and • ensuring there was sufficient flexibility for the Committee to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes.
Predictability	Fixed remuneration for the Chief Executive and the Group Finance Director have been set below the lower quartile of FTSE 100 peers to limit fixed costs for the Group, to provide certainty and to incentivise executive Directors. Variable remuneration has been limited to: (i) the annual bonus, which has been capped at 200% of salary, and 100% of salary for the current executive Directors, and has been performance-driven based on financial growth, and strategic and ESG factors; and (ii) the long-term incentive arrangements, currently being the MESP and the MASP. The method of calculation, limits and discretions under the 2023 Directors' Remuneration Policy have been clearly set out.
Proportionality	The restricted fixed remuneration and capped Annual Bonus Plan has been compensated by the opportunity for potentially significant reward entirely dependent on performance pursuant to the MESP and the MASP, that have supported the Company's traditional value creation strategy.
Alignment to culture	The focus on responsible stewardship and long-term sustainable performance has been, and remains, a key part of the Company's culture. This has been supported by the 2023 Directors' Remuneration Policy, which has facilitated Committee oversight of workforce pay, policies and incentives and deliberately restricted the annual salaries, bonuses and benefits for the current Chief Executive and the Group Finance Director to the lower quartile of the FTSE 100.

Advisors to the Remuneration Committee

During the year, the Committee received reward advice and advice on the remuneration reporting regulations from PricewaterhouseCoopers LLP ("PwC LLP"), Ernst & Young LLP ("EY LLP") and Alvarez & Marsal Tax LLP ("A&M"). PwC LLP stood down as the Committee's remuneration consultants effective 30 June 2023, in anticipation of PwC becoming the external auditors for the Melrose Group for the reporting period ending 31 December 2024. PwC LLP's fees for its advice during the year up to 30 June 2023 was £32,300 excluding VAT, which was charged on a time/cost basis.

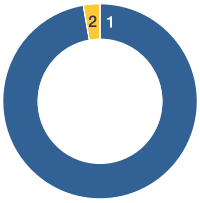
The Committee appointed EY LLP to act as its remuneration consultants in replacement of PwC LLP for the remainder of the period under review. EY LLP's fees for this advice was £7,000 excluding VAT, which was charged on a time/cost basis. During the year, EY LLP also provided the Company with tax, accounting and consulting advice. The Committee is satisfied that the advice provided by EY LLP in relation to remuneration matters is objective and independent.

The Committee also appointed A&M on 21 November 2023 to act as its remuneration consultants alongside EY LLP for the remainder of the period. A&M's fees for this advice was £7,607 excluding VAT, which was charged on a time/cost basis. The Committee is satisfied that the advice provided by A&M in relation to remuneration matters is objective and independent.

The Company Secretary acts as secretary to the Committee and attends Committee meetings. Where appropriate and other than external remuneration advisors, the Committee invites the view of senior personnel, such as the Chief Executive and Chief Financial Officer, and interacts with other Board members.

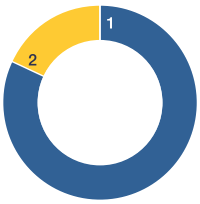
Statement of voting at general meetings
The charts below set out the votes on the: (i) 2022 Directors' Remuneration Report, (ii) 2023 Directors' Remuneration Policy at the 2023 AGM, (iii) Demerger resolution setting out (amongst other matters) adjustments to the Company's long-term incentive arrangements, and (iv) MESP at the January 2021 general meeting.

Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2022 (8 June 2023)



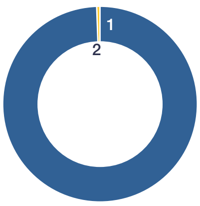
1	Votes cast for the resolution	**97.29%**
2	Votes cast against the resolution	**2.71%**
	Votes withheld 57,803,529	

Resolution to approve the 2023 Directors' Remuneration Policy (8 June 2023)



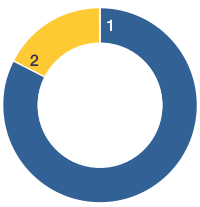
1	Votes cast for the resolution	**82.02%**
2	Votes cast against the resolution	**17.98%**
	Votes withheld 75,539,706	

Resolution to approve Dowlais demerger, share consolidation and adjustments to 2020 Melrose Employee Share Plan (30 March 2023)



1	Votes cast for the resolution	**99.69%**
2	Votes cast against the resolution	**0.31%**
	Votes withheld 8,718,447	

Resolution to approve and implement the 2020 Melrose Employee Share Plan (21 January 2021)



1	Votes cast for the resolution	**82.64%**
2	Votes cast against the resolution	**17.36%**
	Votes withheld 228,313,488	

This Annual Report on Remuneration will be put to an advisory vote at the 2024 AGM on 2 May 2024.

2024 DIRECTORS' REMUNERATION POLICY

This Directors' remuneration policy (the "2024 Directors' Remuneration Policy") shall, subject to shareholder approval at the 2024 Annual General Meeting ("2024 AGM"), take binding effect from the conclusion of that meeting. The Company's current Directors' remuneration policy (the "2023 Directors' Remuneration Policy") was approved by shareholders at the AGM in 2023, following the demerger of Dowlais Group plc.

The main differences between the 2023 Directors' Remuneration Policy and the 2024 Directors' Remuneration Policy set out below are as follows:

- rebalancing the remuneration structure to align with the Company's FTSE 100 peers across fixed and variable aspects, to reflect the new long-term aerospace business model, using a structure and mechanics that are reflective of the majority of FTSE 100 companies;
- reducing the pension contribution rate for the executive Directors from 15% to 10% of base salary in order to bring the contribution to a level consistent with the Group's wider UK workforce as it stands after the Demerger and the merging of Melrose and GKN Aerospace into a single standalone business; and
- the introduction of the Melrose Performance Share Plan ("PSP") which will replace the MESP as the Group's ongoing long-term incentive plan.

This remuneration structure and the 2024 Directors' Remuneration Policy aims to attract, retain and motivate the right talent for the business, helping to ensure continued success and growth and allowing for flexibility to remain competitive. The 2024 Directors' Remuneration Policy aims to continue to align the interests of the executive Directors with the long-term interests of shareholders, incentivising and rewarding the achievement of long-term sustainable returns for shareholders by ensuring executive Directors' remuneration is simple, transparent, supports value creation and pays only for performance. Details are set out below.

How did the Remuneration Committee determine the 2024 Directors' Remuneration Policy?

In determining the 2024 Directors' Remuneration Policy, the Remuneration Committee:

- considered the Company's change of strategy, and how the 2023 Directors' Remuneration Policy should be adapted to align with the new strategy;
- benchmarked the proposed 2024 Directors' Remuneration Policy against the FTSE 100 in respect of both fixed and variable elements of remuneration;
- considered feedback from shareholders and investor bodies on the proposed 2024 Directors' Remuneration Policy;
- sought advice from its independent remuneration consultants on the impact of the UK Corporate Governance Code (the "Code"), applicable law and regulations and current investor sentiment;
- considered wider workforce remuneration to ensure the approach to executive remuneration is consistent; and
- consulted with the executive Directors and other relevant members of Melrose senior management on the proposed changes to the 2023 Directors' Remuneration Policy (although noting, for the avoidance of doubt, that no executive Director played a part in any decision about his or her own remuneration).

The Remuneration Committee was mindful in its deliberations on the 2024 Directors' Remuneration Policy of any potential conflicts of interest and sought to minimise them by seeking independent advice from its external advisors, and by undertaking a consultation with key shareholders and investor bodies.

Salary, bonus and benefits

Elements	Details
Base Salary	
Purpose and link to strategy	Core element of fixed remuneration, reflecting the size and scope of the role and the shift of strategy to operating as a long-term aerospace business, designed to attract and retain executive Directors of the calibre required for the Group.
Operation	Normally reviewed annually and fixed for 12 months from 1 January, although salaries may be reviewed more frequently or at different times of the year if the Remuneration Committee determines this to be appropriate. The individual's contribution and overall performance is one of the considerations in determining the level of any salary increase. Salaries are paid in cash and levels are determined by the Remuneration Committee taking into account a range of factors including: • role, experience and performance; • prevailing market conditions; • external benchmarks for similar roles at comparable companies; and • salary increases awarded for other employees in the Group.
Opportunity	No maximum salary has been set under the 2024 Directors' Remuneration Policy. Salary increases will normally take into account the average increase awarded to other Melrose employees and the wider workforce within the relevant geographic area. However, increases beyond those of the wider workforce within the relevant geographic area may be made to salary levels in certain circumstances as required, for example to reflect: • an increase in scope of role or responsibility; • an increase in scope of role or responsibility; • a material sustained change in the size and/or complexity of the Group; • performance in role; and • where salary was initially set at a discount to the market rate on appointment.
Annual Bonus	
Purpose and link to strategy	Rewards performance against annual targets which support the strategic direction of the Company.
Operation	Targets are set annually at the beginning of the relevant year and payout is determined by the Remuneration Committee after the year-end based on performance against those targets. The Remuneration Committee has discretion to vary the bonus payout (upwards or downwards) should any formulaic output not produce a fair result for either the individual executive Director or the Company, taking account of overall business performance. If an executive Director does not satisfy the minimum shareholding requirement (see below), up to 50% of any bonus award after tax will be used to acquire shares ("deferred share awards") to the extent necessary to enable the executive Director to meet his or her minimum shareholding requirement. The deferred share awards will be required to be retained and will remain subject to the risk of forfeiture on cessation of employment until the earlier of the executive Director meeting his or her minimum shareholding requirement and two years after the relevant bonus award. Annual bonus awards are discretionary and are subject to malus and clawback provisions (see notes to this table).
Opportunity	Maximum opportunity is 200% of base salary.
Performance metric	The Remuneration Committee will have regard to various performance metrics (which will be determined by the Remuneration Committee) measured over the relevant financial year, when determining bonuses. At least 50% of the award will be based on financial measures, which may include cash flow and operating profit and the balance will be based on strategic measures, which may include personal objectives and the integration of appropriate ESG measures to align with the Company's strategic objectives, in each case as determined by the Remuneration Committee. • **Financial metrics:** The element of the bonus subject to a financial metric will be determined between 0% and 100% for performance between "threshold" performance (the minimum level of performance that results in any level of payout), "target" performance, and "maximum" performance, with a linear line for achievement between the threshold and the maximum. • **Strategic element:** The strategic element of an award will be determined to the extent assessed by the Remuneration Committee between 0% and 100% based on the Remuneration Committee's assessment of a range of strategic measures. Stretching performance targets are set each year for the annual bonus, to reflect the key financial and strategic objectives of the Company and to reward for delivery against these targets. When setting the targets, the Remuneration Committee will take into account a number of different reference points, including the Company's plans and strategy and the market environment.
Retirement benefits	
Purpose and link to strategy	Provides market competitive post-employment benefits (or cash equivalent) to recruit and retain executive Directors of the calibre required for the Group.
Operation	The executive Directors may elect to receive a Company contribution to an individual defined contribution pension arrangement or a supplement to base salary in lieu of a pension arrangement. Any new executive Director will be entitled to receive an equivalent pension contribution.
Opportunity	10% of base salary, being a percentage of salary that is consistent with the rate payable to the Group's wider UK workforce, thereby providing alignment with the wider UK workforce.
Rationale for change	The Remuneration Committee is proposing to reduce the executive Directors' pension contribution from 15% to 10% of salary in order to bring this to a level consistent with the wider UK workforce as it stands following the demerger of Dowlais Group plc, and the subsequent merger of Melrose with GKN Aerospace to form a single pureplay listed aerospace business.

Elements	Details
Other benefits	
Purpose and link to strategy	Ensures the overall package is competitive to enable the Company to recruit and retain executive Directors of the calibre required for the Group.
Operation	Executive Directors receive benefits consistent with other Melrose employees and market practice, which may include private medical insurance, life insurance and group income protection. Other benefits may be provided based on individual circumstances.
Opportunity	Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits that executive Directors may receive, the value of benefits is set at a level that the Remuneration Committee considers appropriate against the market and to support the ongoing strategy of the Company.
Long-term incentive arrangements – PSP	
Purpose and link to strategy	Incentivises, retains and motivates executive Directors to achieve long-term sustainable returns for shareholders. Retention of key, high calibre employees over three-year performance periods and encouraging long-term shareholding, through the post-vesting holding requirement, and commitment to the Company.
Operation	Annual grant in the form of conditional share awards or nil or nominal cost options (the "PSP Awards") under the PSP to be approved by shareholders at the 2024 AGM. PSP Awards normally vest after a performance period of at least three years, subject to the satisfaction of the performance conditions and continued employment and will normally be settled in shares. An additional two-year post-vesting holding period applies to PSP Awards made to executive Directors. Dividend equivalents may be payable in respect of dividends which accrue during the vesting period and, for unexercised options during the holding period and will be paid in shares or cash. Malus and clawback provisions apply to the PSP Awards (see notes to this table). The Remuneration Committee will operate the PSP in accordance with the rules of the PSP.
Opportunity	The maximum PSP Award in respect of a financial year is 300% of salary.
Performance measures	Vesting of PSP Awards is determined by the Remuneration Committee by reference to a period of at least three years, based on challenging performance measures that the Remuneration Committee considers to be aligned with the delivery of the Group's strategy and the creation of long-term shareholder value. The performance measures are determined annually by the Remuneration Committee and may include internal financial measures, TSR or non-financial measures such as ESG or other strategic targets. Unless performance of a participant during the performance period is sufficient to earn 25% of the relevant maximum opportunity, none of the PSP Awards granted to that participant will vest, with 100% of the PSP Awards granted to a participant vesting if maximum performance is achieved. The Remuneration Committee may adjust upwards or downwards (including to zero) the extent to which a PSP Award shall vest if it considers that the extent to which the PSP Award would otherwise vest is not a fair reflection of the performance of the Company or the executive Director's performance, taking account of overall business performance.

Material changes proposed for 2024 Directors' Remuneration Policy for Long-term incentive arrangements

As no further conditional awards or options can be granted under the plans previously operated by the Group (the 2020 Melrose Employee Share Plan (the "MESP") or the Melrose Automotive Share Plan (the "MASP")), these plans are no longer included in the Remuneration Policy (though awards and options already issued and payments due to participants under the MESP and the MASP may continue to be satisfied, as further described below). The 2024 Directors' Remuneration Policy now covers the PSP to be approved by shareholders at the 2024 AGM.

Shareholding obligations

Executive Directors are subject to minimum and post-cessation shareholding requirements as set out below. They are also subject to holding periods under the terms of the MESP and, once effective, the PSP.

Component of remuneration	Purpose and link to strategy	Operation	Opportunity	Performance measures
Minimum shareholding requirements	To align the interests of executive Directors with shareholders.	There is a minimum shareholding requirement for executive Directors of 300% of salary. New executive Directors will be given a period of five years from appointment to build up this shareholding.	Not applicable	Not applicable
Post-cessation minimum shareholding requirements	To ensure alignment of interests following the departure of an executive Director.	The executive Directors are required to retain a shareholding equal to 300% of base salary, or their actual shareholding at the date of departure, if lower, for a period of two years after cessation of employment.	Not applicable	Not applicable

Non-executive Directors

Non-executive Director fees are set out as follows:

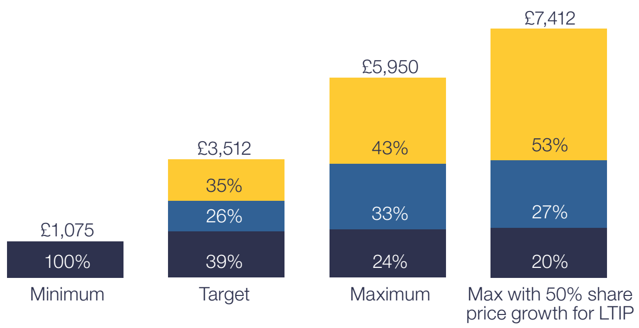
Purpose and link to strategy	Operation	Opportunity	Performance measures
Set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and expertise	Fees are reviewed periodically and amended to reflect market positioning and any change in responsibilities. Fees for Non-executive Directors are determined by the Board.	Fees are based on the level of fees paid to non-executive directors serving on boards of similar-sized UK-listed companies and the time commitment and contribution expected for the role. Non-executive Directors receive a basic fee and a further fee for the Chairmanship of a Board Committee or for holding the office of Senior Independent Director. Non-executive Directors may be eligible to receive benefits such as use of secretarial support, reimbursement of travel costs and other benefits that may be appropriate. This may include the settlement by the Group of any associated tax liabilities in relation to these expenses.	Not applicable

Illustration of the application of the 2024 Directors' Remuneration Policy

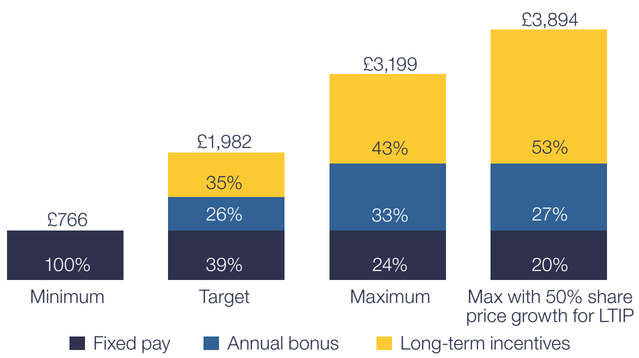
In illustrating the potential reward under the 2024 Directors' Remuneration Policy, the following assumptions have been made:

- As the purpose of the scenario charts is to show an indication of the level of remuneration that executive Directors would receive under the 2024 Directors' Remuneration Policy in the first year from commencement of the policy, scenario charts have only been included for the two executive Directors who will be in place in their new roles from conclusion of the 2024 AGM when the 2024 Directors' Remuneration Policy will apply, i.e. for Peter Dilnot as Chief Executive Officer and for Matthew Gregory as Chief Financial Officer. These scenario charts have been prepared on a proforma basis, as though Peter Dilnot and Matthew Gregory had started their new roles on 1 January 2024 calendar year (rather than from 6 and 7 March 2024 respectively, when they were appointed to their new roles and from when their new remuneration arrangements will in fact apply). No scenario charts have been provided for the three current executive Directors stepping down from their roles as executive Directors at the 2024 AGM.
- **Minimum performance:** fixed elements of remuneration only (base salary applicable to their new roles), benefits as provided from appointment to their new roles, and a pension contribution of 10% of base salary).
- **Performance in line with expectations:** fixed elements of remuneration as above, plus bonus of 50% of maximum bonus available (such maximum being 200% of salary for Peter Dilnot and 150% of salary for Matthew Gregory) and a PSP Award at 50% of the maximum PSP Award available (such maximum being 300% of salary for Peter Dilnot and 200% of salary for Matthew Gregory).
- **Maximum performance:** fixed elements of remuneration as above, plus maximum bonus and maximum PSP Award.
- **Maximum performance +50% share price growth:** as for Maximum performance but with a 50% increase in the share price.

Peter Dilnot – Chief Executive Officer (£'000)



Matthew Gregory – Chief Financial Officer (£'000)



NOTES TO THE REMUNERATION POLICY TABLE

Operation of the annual bonus plan and the PSP

The Remuneration Committee will operate the annual bonus plan and the PSP in accordance with their respective rules and in accordance with the Listing Rules and HMRC requirements where relevant.

Within these rules, the Remuneration Committee is required to retain a number of discretions to ensure an effective operation and administration of these plans. These discretions are consistent with standard market practice and, in respect of the executive Directors include (but are not limited to):

- when awards are granted and/or paid;
- the size of an award and/or a payment (subject to the limits stated in the policy table above);
- how to determine the level of vesting;
- how to deal with a change of control or restructuring of the Group;
- how to determine a good/bad leaver for incentive plan purposes and whether to accelerate vesting and/or waive in part or in full any pro rating and/or any holding period;
- how to determine whether or not adjustments are required in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends); and
- reviewing the performance conditions (range of targets, measures and weightings) for the annual bonus plan and PSP from year to year.

If certain events occur, such as a material acquisition or the divestment of a Group business, the original performance conditions may no longer be appropriate. Therefore, the Remuneration Committee retains the discretion to make adjustments to the targets and/or set different measures and alter weightings as they deem necessary to ensure the conditions achieve their original purpose, are appropriate in the revised circumstances and, in any event, are not materially less difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the Directors' remuneration report.

The Remuneration Committee may adjust upwards or downwards (including to zero) the extent to which annual bonus shall be paid and/or PSP Award shall vest if it considers that the extent to which the annual bonus would be paid and/or the PSP Award would otherwise vest is not a fair reflection of the performance of the Company or the executive Director's performance, taking account of overall business performance.

Malus and Clawback provisions

Annual bonus

The Remuneration Committee may apply the malus or clawback provisions in the event of: (1) material misstatement of financial results that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (2) in the case of clawback only, material miscalculation of any performance measure on which the bonus earned was calculated; (3) gross misconduct by the relevant executive Director; (4) events or behaviour of an executive Director that have led to the censure of the Company by a significant regulatory authority or have had a significant detrimental impact on the reputation of the Company, provided that the Board is satisfied that the relevant executive Director was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to them; and/or (5) the Company becoming insolvent or otherwise suffering a corporate failure so that the bonus earned is materially reduced, provided that the Board determines, following an appropriate review of accountability, that the executive Director should be held responsible (in whole or in part) for that insolvency or corporate failure at any time up until the second year following payment of the bonus.

PSP

In the event of: (1) material misstatement of financial results that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (2) gross misconduct by the relevant executive Director; (3) events or behaviour of an executive Director that have led to the censure of the Company by a significant regulatory authority or have had a significant detrimental impact on the reputation of the Company, provided that the Board is satisfied that the relevant executive Director was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to them; and/or (4) the Company becoming insolvent or otherwise suffering a corporate failure so that the value of the Company's shares is materially reduced, provided that the Board determines, following an appropriate review of accountability, that the executive Director should be held responsible (in whole or in part) for that insolvency or corporate failure prior to the relevant vesting date, the PSP Awards held by the executive Director may be cancelled in whole or in part for nil consideration.

In the event of: (1) material misstatement of financial results that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (2) material miscalculation of any performance measure on which the vesting of the PSP Awards was based; (3) gross misconduct by the relevant executive Director; (4) events or behaviour of an executive Director that have led to the censure of the Company by a significant regulatory authority or have had a significant detrimental impact on the reputation of the Company, provided that the Board is satisfied that the relevant executive Director was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to them; and/or (5) the Company becoming insolvent or otherwise suffering a corporate failure so that the value of the Company's shares is materially reduced, provided that the Board determines, following an appropriate review of accountability, that the executive Director should be held responsible (in whole or in part) for that insolvency or corporate failure, following the relevant vesting date but prior to the date falling three years after the relevant vesting date, the executive Director may be required to transfer (for nil consideration) the number of Ordinary Shares arising from the vesting of the relevant PSP Award, less the number of shares sold to fund the tax liability arising from the vesting of the relevant PSP Award and/or to pay to the Company the amount of any cash received (whether in lieu of the issue of shares, or as a result of the sale of any such shares) on or following the vesting of the relevant PSP Award less the amount of any tax arising from the vesting of the relevant PSP Award.

Balance between fixed and variable pay

The performance-related elements of remuneration are dependent upon the achievement of outcomes that are important drivers of sustainable growth for the business and therefore the creation of value for shareholders.

Choice of performance metrics

The annual bonus performance measures are selected each year to reflect the financial and strategic performance measures which the Remuneration Committee considers to be aligned with the delivery of the strategic priorities and which directly reinforce the short- to medium-term performance framework. The PSP performance measures are selected to provide a balance between external and internal measures of performance, reflect the Group's long-term strategic key performance indicators, as well as measure absolute and relative performance. Adjusted EPS is a measure of the growth and profitability of the Group that also reflects management performance, and is a measure used by investors in deciding whether to invest in the Company. TSR aligns performance with shareholders' interests. The strategic measures are selected on an annual basis to support achievement of the Company's objectives and business plan by focusing on the most appropriate targeted strategic priorities, including the integration of appropriate ESG measures.

Targets applying to the bonus and PSP are set annually, based on a number of internal and external reference points. Bonus targets are set by reference to the annual targets agreed by the Board. PSP targets reflect prevailing industry context, expectations of what will constitute appropriately challenging performance levels and factors specific to the Company.

Recruitment remuneration policy

When agreeing a remuneration package for the appointment of a new executive Director, the Remuneration Committee will apply the following principles:

- the package will be sufficient to attract the calibre of executive Director required to deliver the Company's strategy; and
- the Remuneration Committee will seek to ensure that no more is paid than is necessary.

In addition to the policy elements set out in this 2024 Directors' Remuneration Policy, the Remuneration Committee retains discretion to make appropriate remuneration decisions outside of this to meet the individual circumstances of the recruitment, including discretion to include any other remuneration component or award, with the intention that the outcome of the relevant remuneration package for the new executive Director be broadly equivalent in all material respects to the remuneration packages of existing executive Directors who are governed by the policy. The Remuneration Committee has never used this discretion since the Company was founded in 2003, and does not intend to use this discretion to make a non-performance related incentive payment (for example, a "golden hello") during the period covered by this 2024 Directors' Remuneration Policy. Nonetheless, the Remuneration Committee considers it important to retain the ability to exercise such discretion in exceptional circumstances, notwithstanding that no such exceptional circumstances have arisen in the past.

In this regard, elements that the Remuneration Committee may consider for the purposes of a remuneration package for the recruitment of a new executive Director include but are not limited to the following:

Element	Approach
Base salary	Salary levels will be set based on the experience, knowledge and skills of the individual and in the context of market rates for equivalent roles in companies of a similar size and complexity. The Remuneration Committee would also consider Group relativities when setting base salary levels. The Remuneration Committee may set initial base salaries below the perceived market rate with the aim to make multi-year staged increases (or a one-off increase) to achieve the desired market position over time. Where necessary these increases may be above those of the wider workforce within the relevant geographic area, but would be subject to continued development in the role.
Incentive remuneration opportunity	The Remuneration Committee's intention is that a new executive Director's incentive remuneration opportunity will consist of: • an annual bonus opportunity which can be set up to a maximum of 200% of base salary (i.e. no more than the maximum opportunity under the policy); and • awards under the PSP which can be set up to a maximum of 300% of base salary (i.e. no more than the maximum opportunity under the policy).
Compensation for forfeited remuneration arrangements	The Remuneration Committee may make awards on hiring an external candidate to buy out remuneration arrangements forfeited on leaving a previous employer. In doing so, the Remuneration Committee will have regard to relevant factors, including any performance conditions attached to such arrangements, the form of those awards (e.g. cash or shares) and the time frame of such awards. While such awards are excluded from the maximum level of variable remuneration referred to above, the Remuneration Committee's intention is that the value awarded (as determined by the Remuneration Committee on a fair and reasonable basis) would be no higher than the expected value of the forfeited arrangements. Where considered appropriate, buyout awards will be subject to forfeiture or clawback on early departure.
Notice period	The notice period will be the same as the Company's ordinary policy of 12 months.
Relocation costs	Where necessary, the Company will pay appropriate relocation costs. The Remuneration Committee will seek to ensure that no more is paid than is necessary.
Retirement benefits	The maximum contribution of 10% of salary referred to on page 146 will apply to any new executive Director. This is consistent with the contribution level provided to the Group's wider UK workforce.

Incentive awards and 'buyout' awards may be granted under the PSP or under arrangements as permitted under the Listing Rules, which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of a Director. Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue in accordance with their subsisting terms.

The remuneration package for a newly appointed non-executive Director would normally be in line with the structure set out in the policy table for Non-executive Directors.

Service contracts and policy on payments for cessation of employment

The Company's policy is for executive Directors to be employed on the terms of service agreements, which may be terminated by either the executive Director or the Company on the giving of 12 months' written notice (subject to certain exceptions).

The principles on which the determination of payments for cessation of employment will be approached are summarised below and on page 151.

Certain treatment is dependent on whether an executive Director is classified as a 'Good Leaver' on cessation of employment, which will occur if that executive Director ceases employment in the following circumstances: death; permanent ill-health; disability; retirement with the agreement of the Company; resignation in connection with a change of control; or otherwise at the discretion of the Remuneration Committee. An executive Director will be a 'Bad Leaver' if they cease employment other than as a Good Leaver.

Payment in lieu of notice

If the Company terminates an executive Director's employment with immediate effect, a payment in lieu of notice may be made. This may include base salary, pension contributions and benefits.

Annual bonus

Bonus in year of cessation

Performance conditions will be measured at the normal bonus measurement date for Good Leavers only, with the bonus normally to be prorated for the period worked during the financial year and paid in cash. No bonus will be payable to any executive Director other than a Good Leaver for the year of cessation.

Deferred share awards

Good Leavers will be entitled to retain deferred share awards. For an executive Director other than a Good Leaver, any deferred share awards which remain subject to the risk of forfeiture on cessation of employment will usually be forfeited.

Discretion

The Remuneration Committee has the following elements of discretion with respect to the annual bonus and deferred share awards in the event of cessation of employment:

- to determine whether to prorate a cash bonus for time. The Remuneration Committee's normal policy is that it will prorate for time. It is the Remuneration Committee's intention to be able to use discretion to not prorate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and
- to vest any deferred share award at the end of the original deferral period or at the date of cessation and, for an executive Director who is a Bad Leaver, to allow the deferred share award not to be subject to forfeiture on cessation.

PSP

If an executive Director ceases to be employed by the Company before the relevant vesting date, the treatment of the PSP Awards held by such executive Director will be determined depending on their classification as a 'Good Leaver' or a 'Bad Leaver' as defined and summarised below.

Good Leavers
If an executive Director holding PSP Awards ceases employment in circumstances where he is a Good Leaver before the relevant vesting date, unless the Remuneration Committee decides otherwise, the PSP Award shall continue and vest on the original vesting date and the PSP Award normally will be reduced on a pro-rata basis to reflect the number of whole days from the start of the Performance Period to the date of termination of employment as a proportion of the total number of days in the Performance Period although the Remuneration Committee will have discretion to accelerate vesting to the date of cessation and/or to waive in part or in full any pro-rating.

Bad Leavers
If an executive Director holding PSP Awards ceases employment in circumstances where he is a Bad Leaver before the vesting date, unless the Remuneration Committee decides otherwise, all of their unvested PSP Awards will lapse as of the date on which their employment terminates.

If an executive Director ceases to be employed by the Company after vesting date for whatever reason, they shall be entitled to retain any outstanding vested PSP Awards held by them pursuant to the PSP Rules.

Other payments
The Remuneration Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of an executive Director's employment. In appropriate circumstances, payments may also be made in respect of legal fees.

The overall amount of any payment made in respect of a loss of office will not exceed the aggregate of any payment in lieu of notice and any payment made in respect of annual bonus, as referred to on page 150. Entitlements in respect of the PSP will be dealt with in accordance with the PSP Rules and, were the Company to make an award on recruitment of an executive Director to buy out remuneration arrangements forfeited on leaving a previous employer, the leaver provisions for that award would be determined at the time of grant.

Other elements
The 2024 Directors' Remuneration Policy aims to align the interests of the executive Directors with the long-term interests of shareholders, incentivising and rewarding long-term sustainable growth of the Company, but is also wholly aligned with the Code factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture, as set out in the table below. The Remuneration Committee ensured that it took all these elements into account when establishing the 2024 Directors' Remuneration Policy, as well as its application to executive Directors. The table below sets out how the Remuneration Committee has addressed each factor of the Code and its link to strategy.

Factor	How the Remuneration Committee has addressed and link to the Company's strategy
Clarity	The Company's performance remuneration is based on supporting the implementation of the Company's new strategy as an aerospace business. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid. The Company seeks to present its remuneration arrangements to investors in the clearest and most transparent way possible. We also remain committed to maintaining an open and transparent dialogue with our investors, both through formal engagement processes and ad-hoc discussions, and through the disclosures in our annual reports.
Simplicity	The fixed elements of remuneration are limited to base salary, pension contribution and benefits. There are two variable elements of remuneration: the annual bonus and the PSP, both of which are based on simple and transparent metrics. In the Remuneration Committee's view, this provides a very simple incentive framework which can be understood by all participants and all of the Company's stakeholders.
Risk	The 2024 Directors' Remuneration Policy includes the following elements to mitigate against the risk of target-based incentives: • setting defined limits on the maximum award that could be earned under both the annual bonus and the PSP; • requiring the deferral of up to 50% of the annual bonus award (after tax) into ordinary shares of the Company in certain circumstances and requiring that all of the shares awarded in relation to the PSP (other than any ordinary shares sold in order to make adequate provision for any tax liability arising in connection with the crystallisation) be held for a two-year holding period following the vesting date; • the post-cessation minimum shareholding requirements, which require executive Directors to maintain the minimum shareholding for a period of two years after leaving the Company; • aligning the performance conditions with the new strategy of the Company, which is to be purely an aerospace business; and • ensuring there is sufficient flexibility for the Remuneration Committee to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes.
Predictability	Fixed remuneration for the executive Directors limits fixed costs for the Group, to provide certainty and to incentivise executive Directors through the variable elements. Variable remuneration is limited to: (i) the annual bonus; and (ii) the PSP. The method of calculation, limits and discretions under the 2024 Directors' Remuneration Policy in respect of the variable elements have been clearly set out. See the scenario charts on page 148 for an illustration of how remuneration outcomes may vary under different performance scenarios.
Proportionality	The link between individual variable awards and the delivery of strategy and long-term performance of the Group is clear. In addition, as detailed on pages 146 to 147, the Remuneration Committee may exercise discretion to adjust upwards or downwards (including to zero) the extent to which annual bonus shall be paid and/or PSP Award shall vest if it considers that the extent to which the annual bonus would be paid and/or the PSP Award would otherwise vest is not a fair reflection of the performance of the Company or the executive Director's performance, taking account of overall business performance.
Alignment to culture	The focus on responsible stewardship and long-term sustainable performance is a key part of the Company's culture. This is supported by the 2024 Directors' Remuneration Policy, which: (i) facilitates Committee oversight of workforce pay, policies and incentives; (ii) provides that executive Director pension contributions comprise a percentage of salary that is consistent with the percentage applicable to the Group's wider UK workforce; and (iii) sets the annual salaries, bonuses and benefits for the Chief Executive Officer and the Chief Financial Officer broadly in line with the median of companies of a comparable size.

Differences between the Company's policy on Directors' remuneration and its policy on remuneration for other employees
Remuneration arrangements throughout the Group are determined based on the same principle that rewards should be sufficient as is necessary to attract and retain high calibre talent, without paying more than is necessary and should be achieved for delivery of the Company's strategy.

The Company has operations in various countries, with Group employees of differing levels of seniority. Accordingly, though based on the over-arching principle above, reward policies vary to take account of these factors.

Statement of consideration of employment conditions elsewhere in the Company
Salary, benefits and performance-related awards provided to employees are taken into account when setting policy for executive Directors' remuneration. Although there is no direct consultation by the Remuneration Committee with employees on Directors' remuneration, the Melrose Chief Executive is responsible for engaging with the Melrose workforce in relation to remuneration, and does so throughout the year. However, the pay and employment conditions of the wider workforce were taken into consideration by the Remuneration Committee when making decisions on Directors' remuneration in 2023, which will continue to be the case for the periods governed by the 2024 Directors' Remuneration Policy.

Statement of consideration of shareholder views
The Company is committed to regular and ongoing engagement and seeks the views of key shareholders and other stakeholders on the application of the Directors' Remuneration Policy and in advance of amending its Directors' Remuneration Policy. The Chairman's Annual Statement at pages 128 to 129 sets out how this was done in practice for the 2024 Directors' Remuneration Policy. The policy is set to reflect the Company's commercial strategy.

Payments outside the policy in this report
The Remuneration Committee retains discretion to make any remuneration payments and payments for termination of employment outside this policy:

- where the terms of the payment were agreed before the policy came into effect;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration of the individual becoming a Director of the Company; and/or
- to satisfy contractual commitments under legacy remuneration arrangements, including pursuant to the MASP and the MESP.

For these purposes, "payments" includes the satisfaction of awards of variable remuneration and, in relation to an award or option over shares, the terms of the payment are "agreed" at the time the award or option is granted, as subsequently varied in accordance with the 2023 Directors' Remuneration Policy prior to the 2024 Directors' Remuneration Policy coming into force. Any such payment shall include: (i) the conversion of any MESP Conditional Award or the satisfaction of the exercise of any MESP Nil Cost Option under the MESP Rules (or the settlement of any such MESP Conditional Award or MESP Nil Cost Option in exchange for a cash payment, as described in the MESP Rules), or the exercise of any MASP Option under the MASP Rules; and (ii) the delivery of the value attributable to the shares issued upon the conversion of any MESP Conditional Award or the exercise of any MESP Nil Cost Option in accordance with the MESP Rules, or the delivery of the value attributable to the MASP Shares issued upon the exercise of any MASP Option in accordance with the MASP Rules.

For the purposes of limbs (i) and (ii) of the immediately preceding paragraph, capitalised terms have the meaning ascribed in the Directors Remuneration Policy 2023.

This report was approved by the Board and signed on its behalf by:

David Lis

David Lis
Chairman, Remuneration Committee

7 March 2024

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Directors have also chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 7 March 2024 and is signed on its behalf by:

Geoffrey Martin

Geoffrey Martin
Group Finance Director

7 March 2024

Peter Dilnot
Chief Executive Officer

7 March 2024

FINANCIAL STATEMENTS

IN THIS SECTION

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MELROSE INDUSTRIES PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion:

- the financial statements of Melrose Industries PLC (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Cash Flows;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the related notes 1 to 30 and the related notes 1 to 8 to the Parent Company Balance Sheet.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition in respect of certain material Risk and Revenue Sharing Partnerships ("RRSPs"); • Classification of adjusting items; and • Demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses.	Within this report, key audit matters are identified as follows: ! Newly identified ↑ Increased level of risk ↔ Similar level of risk ↓ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £20 million which was determined using a blended approach with multiple benchmarks including adjusted profit before tax and revenue from continuing operations.	
Scoping	We selected nine reporting units where we requested component auditors to perform a full scope audit of the site components' financial information. We also selected two corporate components for a full scope audit of their financial information. We also requested component auditors to audit specific account balances and transactions ("SAB") at a further 20 reporting units. Coverage from full scope and SAB scope components totals 83% of the group's revenue, 84% of adjusted operating profit and 85% of net assets.	
Significant changes in our approach	Two key audit matters identified in our prior year report pertaining to impairment of goodwill and acquired intangibles, and completeness of loss-making contract provisions have not been identified in the current year as the balances have been derecognised as a result of the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses. One new key audit matter in respect of accounting for the demerger has been identified in the current period. The number of components we subjected to audit procedures decreased in comparison to the prior period due to a reduction in components of the group following the demerger.	

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- obtained an understanding of the financing facilities including nature of facilities, repayment terms and covenants;
- assessed the impact of risk and uncertainties on the business model and future cash flow forecasts (including consideration of climate change scenarios);
- considered as part of our assessment the nature of the group, its business model and related risks including where relevant the impact of the recent economic downturn, including increased levels of inflation, the requirements of the applicable financial reporting framework and the system of internal control;
- evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions. This was done through detailed assessment of the operating and non-operating cash flows for reasonableness and consistency with the underlying forecasts and plans for individual businesses;
- assessed the sufficiency of headroom available in the forecasts (cash and covenants) with respect to the risks and uncertainties;
- assessed management's sensitivity analysis in order to evaluate whether the reasonable worst-case sensitivities capture all the reasonably possible downside risks and uncertainties; and
- assessed the appropriateness of the disclosures provided in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Revenue recognition in respect of certain material RRSPs

Key audit matter description	The group has recognised total revenue of £3,350 million in 2023 (2022: £2,954 million). There are judgements taken within the revenue recognition of certain material RRSPs in the Engines operating segment. The risk specifically focuses on the timing at which performance obligations are met, as well as the valuation of revenue recognised. This is because of the level of estimation and judgement required when applying the principles set out in IFRS 15 Revenue from contracts with customers, and recognising revenue from the RRSPs where the pricing for the same parts varies across the contract. There is judgement in how the overall price is allocated across the units supplied where the group has a contractual right to aftermarket revenues because the requirements of IFRS 15 constrain the variable consideration recognised (referred to as 'unbilled work done' in the group financial statements). The amount of revenue recognised from the RRSPs during the year was £680 million (2022: £547 million), which included variable consideration of £173 million (2022: £106 million). Furthermore, the revenue recognition models used by management for RRSPs involve a number of significant assumptions based on any modifications to the contracts including: programme share or changes in pricing, and historical data and trends, any new events such as manufacturing defects on current engines in service, engineering requirements to support programmes and the expected life of mature engines. Any changes to these assumptions require a higher level of judgement and estimation. This increases the risk that revenue recognition may not be appropriate. Further details are included in notes 4 (including new events during the year) and 17 to the group financial statements, and also in note 3 to the group financial statements in relation to the key sources of estimation uncertainty for the variable consideration. Refer also to page 120 of the Audit Committee report.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the recognition of revenue for RRSPs. For each RRSP with material variable consideration, we recalculated the amount of revenue recognised to assess that it has been calculated in accordance with IFRS 15, the contractual agreement, and the latest correspondence with the customer. In particular, we have: • agreed the percentage of revenue entitlement to the customer contract; • reviewed correspondence with the customer in the period, in particular entitlement reports; • challenged estimations made by management at the year-end by taking account of historical settlements and checking historical estimation accuracy; • challenged the assumptions used in arriving at the element of variable consideration recognised. This was done by performing a number of procedures listed below; • performed an assessment of the timing at which control is transferred and revenue is recognised by identifying the performance obligations from the contract and checking the recognition triggers; • obtained and reviewed the contract modifications, including programme share or changes in pricing, and assessed that they have been appropriately included in the RRSP models; and • tested underlying data included in the trend analysis above and performed independent industry research for evidence that may contradict management's assumptions on margin and engine life. In assessing the key assumptions in the revenue recognition model, we performed specific procedures that included: • obtaining an understanding of the relevant controls in place within the Engines operating segment, that hold RRSPs, to review the underlying data; • assessing the position papers prepared by management, and the model prepared; • considering specific events in the year, and the ongoing performance of the relevant programmes; • assessing the accuracy of the underlying data used in the determination of the assumptions, including usage profiles, industry data and customer correspondence; and • assessing the disclosure provided in the group financial statements in relation to the changes in these assumptions against the requirements of IFRS 15.
Key observations	We are satisfied that the key assumptions made in determining the value of revenue recognised on RRSPs with variable consideration are within an acceptable range including the impact of the specific events in the current year and that the overall position is reasonable. We consider the disclosure provided in the financial statements in relation to the changes in the key assumptions is appropriate and consistent with the requirements of IFRS 15.

5.2. Classification of adjusting items

Key audit matter description	In addition to the statutory results, the group continues to present adjusted profit measures which are before the impact of adjusting items. Judgements made by management regarding the classification of adjusting costs and income therefore have a significant impact on the presentation of the group's results. In total, adjustments of £333 million have been made to the statutory operating profit of £57 million to derive adjusted operating profit of £390 million. Adjusting items included: • amortisation of acquisition-related intangible assets (£260 million); • restructuring costs (£149 million); • equity settled compensation scheme charges (£38 million); • acquisition and disposal related charges (£3 million); • credit from movement in derivatives and associated financial assets and liabilities (£114 million); and • net credit from releases and changes in discount rate of fair value items (£3 million). We identified a key audit matter in respect of the classification of items recorded as adjusting. While the key measure used by management to monitor performance is adjusted operating profit, adjusted profit before tax is also a key measure used in communication with shareholders. There is a risk that costs or income may be classified as adjusting which are trading or recurring items, and therefore distort the reported adjusted profit, whether due to manipulation or error. Consistency in the identification and presentation of the adjusted costs or income is important for the comparability of year-on-year reporting. Explanations of each adjustment are set out in note 6 to the group financial statements, and also in note 3 to the group financial statements in relation to the critical judgements involved in determining adjusting items. Refer also to page 121 of the Audit Committee report.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the classification of adjusting items in the financial statements. We evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within adjusted results. Specifically, we: • assessed the consistency of items included year on year, the content and application of management's accounting policy, challenging the nature of these items in comparison to European Securities and Markets Authority (ESMA) guidance and FRC guidance, and challenging in particular the inclusion of those items that recur annually; • tested a sample of adjusting items by agreeing to source documentation and evaluating their nature in order to assess whether they are disclosed in accordance with the group's accounting policy, and also to assess consistency of adjusting items between periods in the group financial statements; • focussed our challenge on certain categories within adjusting items where we assessed that increased level of judgement had been applied by management, and there was increased risk for fraud or error. This included additional testing of restructuring costs and movements in fair value adjustments; • agreed the amounts recorded through to underlying financial records and other audit support to test that the amounts disclosed were complete and accurate; • for releases to fair value adjustments, we challenged this classification and assessed whether events and conditions existed to cause a release of the provision recognised as part of acquisition accounting; • for restructuring costs, assessed whether the recognised costs meet the recognition criteria set out in IAS 37 Provisions; and • assessed whether the disclosures within the group financial statements provide sufficient detail for the reader to understand the nature of these items and how adjusted results reconcile to statutory results.
Key observations	The value of adjusting items results in a material difference between the statutory and adjusted results. Whilst we note that the majority of adjusting items recur from period to period, their classification and presentation is consistent with the group's policy and the amounts are appropriate.

5.3. Demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses

Key audit matter description	On 30 March 2023, Melrose shareholders approved the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses through the flotation of Dowlais Group PLC ("Dowlais") on the London Stock Exchange. As a consequence, the assets and liabilities of Dowlais were reclassified as held for distribution in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* On 20 April 2023, the group completed the demerger of Dowlais. The results of the Dowlais businesses to the demerger date have been presented as discontinued operations and the comparative results have been restated on a consistent basis. At the demerger date the assets and liabilities of the Dowlais businesses have been derecognised from the balance sheet. The demerger distribution has been measured at fair value in accordance with IFRIC 17 *Distributions of Non-cash Assets to Owners.* The difference between the derecognised net assets of £3,142 million and the fair value of the demerger distribution of £1,973 million was recognised in the consolidated income statement as a loss on demerger. The cumulative translation differences arising on translation of those demerged foreign currency net assets (credit of £152 million), previously included in other comprehensive income, have also been recognised in the consolidated income statement. As a result of the demerger, certain adjustments were made to the group's equity settled compensation scheme. The group retained one percent of Dowlais issued equity after the demerger. We identified the demerger of Dowlais businesses as a key audit matter because of the significant judgements and estimates related to: • calculating the loss on demerger especially the measurement of the demerger distribution; • evaluating the adjustments made to the group's equity settled compensation scheme and determining the appropriate accounting treatment; • remeasuring the retained stake upon demerger; • validating the assets and liabilities derecognised; and • cumulative translation difference arising on translation of the foreign currency net assets of the demerged businesses. Further details are included in note 1, 13 and 23 to the group financial statements, and also in note 3 to the group financial statements in relation to the critical judgement for the measurement of the demerger distribution. Refer also to page 118 of the Audit Committee report.

How the scope of our audit responded to the key audit matter	We assessed the group's accounting conclusions, underlying analysis and calculation, and challenged the reasonableness of the underlying judgements. Specifically, our work included, but was not limited to:
	• inspecting legal agreements in relation to the demerger of the Dowlais businesses for accuracy and completeness of transactions to the demerger date;
	• evaluating the group's accounting conclusions for the demerger steps including assessing:
	  • the classification and remeasurement the Dowlais businesses as held for distribution and presentation results of the Dowlais businesses as discontinued operations under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
	  • the measurement the demerger dividend and calculation of the loss on demerger under IFRIC 17 *Distributions of Non-cash Assets to Owners*;
	  • the accounting for the adjustments made to the group's equity settled compensation scheme under IFRS 2 *Share-based Payment and IAS 19 Employee Benefits*; and
	  • the measurement and accounting for the retained stake upon demerger under IFRS 9 Financial Instruments and IFRS 10 *Consolidated Financial Statements*.
	• involving our valuation specialists to challenge the judgement applied in determining the fair value of the demerger distribution, and benchmark it against available market data and comparable organisations.
	• recalculating the loss on demerger including validating the assets and liabilities derecognised, and cumulative translation difference arising on translation of the foreign currency net assets of the demerged businesses.
	• assessing whether the disclosures within the group financial statements provide sufficient detail for the reader to understand the transactions related to the demerger of Dowlais and the accounting judgements made.

Key observations	We are satisfied that the group's accounting conclusions and disclosures in respect of the demerger of Dowlais businesses are appropriate.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£20 million (2022: £30 million)	£10 million (2022: £15 million)
Basis for determining materiality	We considered the following benchmarks: • adjusted profit before tax; and • revenue.	We determined materiality based on net assets, which was then capped at 50% (2022: 50%) of group materiality in order to address the risk of aggregation when combined with other businesses.
Rationale for the benchmarks applied	In determining our relevant benchmarks for materiality, we considered a number of different metrics used by investors and other readers of the financial statements. Materiality for the current year represented: • 6.0% of adjusted profit before tax (2022: 7.8%); and • 0.6% of revenue (2022: 0.4%).	In our professional judgement we believe that use of a balance sheet measure is appropriate for a holding company. This is with reference to the net asset position of the company when compared to the net asset position of the group.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2022: 65%) of group materiality	70% (2022: 65%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • the assessment of the complexity of the group and nature of the group's business model; • the group's control environment and its variation across the group; and • our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.0 million (2022: £1.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

In order to determine the scoping of components we consider the nature of the group and its structure. Following the demerger there are two operating segments in the continuing operations of the group:

- Engines; and
- Structures.

In addition to the operating segments above, the group has a number of central cost centres which report to the Board and include head office companies for corporate functions and costs.

Each operating segment consists of a number of components and manages operations on a geographical and functional basis. There are 72 components in total (2022: 192), each of which is responsible for maintaining their own accounting records and controls and using an integrated consolidation system to report to UK head office. Our group audit scope focused on audit work at 31 components (2022: 48), of which:

- 5 relate to components that form part of the Engines operating segment;
- 15 relate to components that form part of the Structures operating segment; and
- 11 relate to central and corporate cost centres.

Each component was set a specific component materiality, considering its relative size and any component-specific risk factors such as significant estimates and judgements, internal audit findings and history of error. The component materialities applied were in the range £7 million to £10 million.

We selected 11 reporting units where we requested component auditors to perform a full scope audit of the components' financial information. We also requested component auditors to audit specified account balances and transactions at a further 20 reporting units. Coverage from full scope and SAB scope components totals 83% of the group's revenue (2022: 79%), 84% of adjusted operating profit (2022: 81%) and 85% of net assets (2022: 84%).

Engines

In respect of the Engines operating segment, 2 components were subject to a full scope audit and 3 components were subject to SAB scope audit. These 5 components together accounted for 91% of the Engines operating segment's revenue and 94% of the Engines operating segment's adjusted operating profit.

Structures

In respect of the Structures operating segment, 7 components were subject to a full audit and 8 components were subject to SAB scope audit. These 15 components together accounted for 79% of the Structures operating segment's revenue and 70% of the Structures operating segment's adjusted operating profit.

Corporate cost centres

In respect of the corporate cost centres, 2 components were subject to a full audit and 9 components were subject to a SAB scope audit.

Parent company

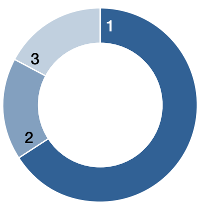
The audit of the parent company was performed by the group engagement team based at the parent company's head office.

Residual balances

All entities not subject to the audit procedures above were subject to analytical procedures by the group engagement team.

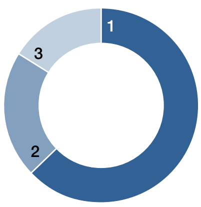
Whilst we understood the relevant controls in key areas, given the number and diverse nature of the components of the group, we tested and took controls reliance in certain limited areas of the audit only.

Revenue



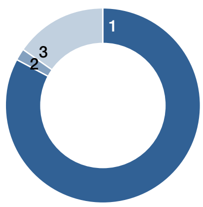
1	Full audit scope	66%
2	Specified audit procedures	17%
3	Review at group level	17%

Adjusted operating profit



1	Full audit scope	63%
2	Specified audit procedures	21%
3	Review at group level	16%

Net assets



1	Full audit scope	83%
2	Specified audit procedures	2%
3	Review at group level	15%

7.2. Our consideration of the control environment

The Group is reliant on the effectiveness of a number of IT applications and controls to ensure that financial transactions are processed and recorded completely and accurately. As part of our audit we have obtained an understanding of certain key controls, such as general IT controls for relevant IT systems, controls over significant estimates and key financial reporting controls. We further tested revenue controls for significant and material components and relied on these controls for specific components and revenue streams.

7.3. Our consideration of climate-related risks
The Group continues to develop its assessment of the potential impacts of climate change and the transition to a low carbon economy ("climate change"), as explained in the Sustainability Report on page 43.

We obtained an understanding of management's process for considering the impact of climate-related risks. We evaluated these risks to assess whether they were complete and consistent with our understanding of the entity and our wider risk assessment procedures where they have the potential to directly or indirectly impact key judgements and estimates within the group financial statements. Our audit considered those risks that could be material to the key judgements and estimates made in the assessment of the carrying value of non-current assets and impact on future cashflows, as per note 2.

We also considered whether the Task Force on Climate-related Financial Disclosures ("TCFD") as well as the mandatory UK Government's Climate-related Financial Disclosure ("CFD") in the Annual Report were consistent with our understanding of the business and the financial statements with involvement of sustainability specialists.

7.4. Working with other auditors
We continued our site visit plan over the course of the year, which meant senior members of the audit team visited all significant components. Regular communication also took place with component audit teams and component management teams using conference and video calls, with a particular focus on locations where work was performed on significant audit risks.

In addition to the above, the group audit partners including the senior statutory auditor held planning and close meetings covering all businesses at head office and operating segment level. Each operating segment has a dedicated senior member of the group audit team responsible for the supervision and direction of components, including where appropriate sector-specific expertise. We included the component audit teams in our team briefing, discussed and reviewed their risk assessment, and reviewed documentation of the findings from their work. We also reviewed the audit work papers supporting component teams' reporting to us remotely using shared desktop technology.

8. Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, legal counsel, operational staff, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sectors;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: classification of adjusting items and revenue recognition in respect of certain material RRSPs. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the UK Bribery Act and the environmental regulations in the jurisdictions the group operates in.

11.2. Audit response to risks identified

As a result of performing the above, we identified classification of adjusting items and revenue recognition in respect of certain material RRSPs as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 27;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 27;
- the directors' statement on fair, balanced and understandable set out on page 153;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 29;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 121; and
- the section describing the work of the audit committee set out on page 117.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors in 2003 to audit the financial statements for the year ending 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 21 years, covering the years ending 31 December 2003 to 31 December 2023.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

Edward Hanson (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

7 March 2024

CONSOLIDATED INCOME STATEMENT

Continuing operations	Notes	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Revenue	4, 5	**3,350**	2,954
Cost of sales		**(2,696)**	(2,533)
Gross profit		**654**	421
Operating expenses		**(597)**	(691)
Operating profit/(loss)	5, 6	**57**	(270)
Finance costs	7	**(79)**	(83)
Finance income	7	**14**	25
Loss before tax		**(8)**	(328)
Tax	8	**9**	99
Profit/(loss) after tax for the year from continuing operations		**1**	(229)
Discontinued operations			
Loss for the year from discontinued operations	13	**(1,020)**	(74)
Loss after tax for the year		**(1,019)**	(303)
Attributable to:			
Owners of the parent		**(1,019)**	(308)
Non-controlling interests	13	**–**	5
		(1,019)	(303)
Earnings per share			
Continuing operations			
– Basic	10	**0.1p**	(16.3)p
– Diluted	10	**0.1p**	(16.3)p
Continuing and discontinued operations			
– Basic	10	**(75.5)p**	(21.9)p
– Diluted	10	**(75.5)p**	(21.9)p
Adjusted[2] results from continuing operations			
Adjusted operating profit	5, 6	**390**	147
Adjusted profit before tax	6	**331**	62
Adjusted profit after tax	6	**263**	58
Adjusted basic earnings per share	10	**19.5p**	4.1p
Adjusted diluted earnings per share	10	**18.7p**	4.1p

(1) Results for the year ended 31 December 2022 have been restated for discontinued operations (see note 1).
(2) Defined in the summary of material accounting policies (see note 2).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Loss after tax for the year		**(1,019)**	(303)
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement loss on retirement benefit obligations	24	**(119)**	(32)
Fair value gain/(loss) on investments in equity instruments	12	**35**	(34)
Income tax credit/(charge) relating to items that will not be reclassified	8	**29**	(1)
		(55)	(67)
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		**(195)**	593
Share of other comprehensive (expense)/income from equity accounted investments	15	**(12)**	13
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	13	**(152)**	(11)
Derivative gains/(losses) on hedge relationships		**2**	(39)
Transfer to Income Statement on hedge relationships		**–**	2
Income tax (charge)/credit relating to items that may be reclassified	8	**(8)**	5
		(365)	563
Other comprehensive (expense)/income for the year		**(420)**	496
Total comprehensive (expense)/income for the year		**(1,439)**	193
Attributable to:			
Owners of the parent		**(1,439)**	187
Non-controlling interests		**–**	6
		(1,439)	193

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Operating activities			
Net cash used in operating activities from continuing operations	27	**(7)**	(39)
Net cash from operating activities from discontinued operations	27	**36**	243
Net cash from operating activities		**29**	204
Investing activities			
Disposal of businesses, net of cash disposed	13	**(320)**	478
Settlement receipt from loans held with demerged entities	13	**1,205**	–
Purchase of property, plant and equipment		**(95)**	(69)
Proceeds from disposal of property, plant and equipment		**4**	45
Purchase of computer software and capitalised development costs		**(11)**	(7)
Disposal of equity accounted investments	15	**3**	–
Acquisition of subsidiaries, net of cash acquired		**–**	(4)
Settlement of derivatives used in net investment hedging		**–**	(109)
Equity accounted investment additions	15	**–**	(3)
Interest received		**2**	1
Net cash from investing activities from continuing operations		**788**	332
Net cash used in investing activities from discontinued operations	27	**(67)**	(140)
Net cash from investing activities		**721**	192
Financing activities			
Repayment of borrowings		**(1,371)**	(598)
Drawings on borrowing facilities		**628**	632
Costs of raising debt finance	20	**(11)**	–
Repayment of principal under lease obligations		**(32)**	(29)
Purchase of own shares, including associated costs	9	**(93)**	(504)
Dividends paid to owners of the parent	9	**(81)**	(77)
Net cash used in financing activities from continuing operations		**(960)**	(576)
Net cash used in financing activities from discontinued operations	27	**(6)**	(23)
Net cash used in financing activities		**(966)**	(599)
Net decrease in cash and cash equivalents, net of bank overdrafts		**(216)**	(203)
Cash and cash equivalents, net of bank overdrafts at the beginning of the year	27	**292**	468
Effect of foreign exchange rate changes	27	**(19)**	27
Cash and cash equivalents, net of bank overdrafts at the end of the year	27	**57**	292

(1) Results for the year ended 31 December 2022 have been restated for discontinued operations (see note 1).

As at 31 December 2023, the Group had net debt of £572 million (31 December 2022: £1,139 million). A definition and reconciliation of the movement in net debt is shown in note 27.

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2023 £m	31 December 2022 £m
Non-current assets			
Goodwill and other intangible assets	11	**3,351**	6,846
Property, plant and equipment	14	**777**	2,599
Investments	12	**114**	62
Interests in equity accounted investments	15	**7**	435
Deferred tax assets	22	**527**	373
Derivative financial assets	25	**46**	36
Other receivables	17	**789**	670
Retirement benefit surplus	24	**–**	93
		5,611	11,114
Current assets			
Inventories	16	**510**	1,025
Trade and other receivables	17	**713**	1,426
Derivative financial assets	25	**13**	38
Current tax assets		**6**	29
Cash and cash equivalents	18	**58**	355
Assets classified as held for sale	13	**18**	–
		1,318	2,873
Total assets	5	**6,929**	13,987
Current liabilities			
Trade and other payables	19	**1,179**	2,347
Interest-bearing loans and borrowings	20	**54**	63
Lease obligations	28	**40**	60
Derivative financial liabilities	25	**42**	86
Current tax liabilities		**20**	141
Provisions	21	**188**	281
Liabilities associated with assets held for sale	13	**10**	–
		1,533	2,978
Net current liabilities		**(215)**	(105)
Non-current liabilities			
Other payables	19	**358**	431
Interest-bearing loans and borrowings	20	**576**	1,433
Lease obligations	28	**152**	306
Derivative financial liabilities	25	**64**	141
Deferred tax liabilities	22	**482**	619
Retirement benefit obligations	24	**99**	581
Provisions	21	**98**	330
		1,829	3,841
Total liabilities	5	**3,362**	6,819
Net assets		**3,567**	7,168
Equity			
Issued share capital	26	**309**	309
Share premium account		**3,271**	3,271
Merger reserve		**109**	109
Capital redemption reserve		**753**	753
Other reserves		**(2,330)**	(2,330)
Translation and hedging reserve	26	**273**	638
Retained earnings		**1,182**	4,379
Equity attributable to owners of the parent		**3,567**	7,129
Non-controlling interests		**–**	39
Total equity		**3,567**	7,168

The Financial Statements were approved and authorised for issue by the Board of Directors on 7 March 2024 and were signed on its behalf by:

Geoffrey Martin

Geoffrey Martin

Group Finance Director
7 March 2024

Peter Dilnot

Peter Dilnot

Chief Executive Officer
7 March 2024

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Translation and hedging reserve £m	Retained earnings £m	**Equity attributable to owners of the parent £m**	Non-controlling interests £m	**Total equity £m**
At 1 January 2022	333	3,271	109	729	(2,330)	76	5,319	**7,507**	33	**7,540**
(Loss)/profit for the year	–	–	–	–	–	–	(308)	**(308)**	5	**(303)**
Other comprehensive income/(expense)	–	–	–	–	–	562	(67)	**495**	1	**496**
Total comprehensive income/(expense)	–	–	–	–	–	562	(375)	**187**	6	**193**
Purchase of own shares[1]	(24)	–	–	24	–	–	(504)	**(504)**	–	**(504)**
Dividends paid	–	–	–	–	–	–	(77)	**(77)**	–	**(77)**
Equity-settled share-based payments	–	–	–	–	–	–	16	**16**	–	**16**
At 31 December 2022	309	3,271	109	753	(2,330)	638	4,379	**7,129**	39	**7,168**
Loss for the year	–	–	–	–	–	–	(1,019)	**(1,019)**	–	**(1,019)**
Other comprehensive expense	–	–	–	–	–	(365)	(55)	**(420)**	–	**(420)**
Total comprehensive expense	–	–	–	–	–	(365)	(1,074)	**(1,439)**	–	**(1,439)**
Purchase of own shares[1]	–	–	–	–	–	–	(93)	**(93)**	–	**(93)**
Dividends paid	–	–	–	–	–	–	(81)	**(81)**	–	**(81)**
Demerger distribution (note 13)	–	–	–	–	–	–	(1,973)	**(1,973)**	–	**(1,973)**
Derecognition of non-controlling interests on demerger (note 13)	–	–	–	–	–	–	–	**–**	(39)	**(39)**
Equity-settled share-based payments	–	–	–	–	–	–	2	**2**	–	**2**
Deferred tax on equity-settled share-based payments (note 8)	–	–	–	–	–	–	22	**22**	–	**22**
At 31 December 2023	**309**	**3,271**	**109**	**753**	**(2,330)**	**273**	**1,182**	**3,567**	**–**	**3,567**

(1) Further information is set out in note 1.

Further information on issued share capital and reserves is set out in note 26.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

Melrose Industries PLC ("the Company") is a public company limited by shares. The Company is incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on the back cover. The nature of the Group's operations and its principal activities by operating segment are set out in note 5 and in the Divisional reviews on pages 8 to 13. The Consolidated Financial Statements of the Group for the year ended 31 December 2023 were authorised in accordance with a resolution of the Directors of Melrose Industries PLC on 7 March 2024.

These Financial Statements are presented in pounds Sterling which is the currency of the primary economic environment in which the Company is based. Foreign operations are included in accordance with the policies set out in note 2.

Corporate structure

Capital structure

On 19 April 2023, a share consolidation took place whereby shareholders received one new share in the Company for every three existing shares held. In accordance with IAS 33: Earnings per Share, a one for three adjustment is required to the weighted average number of shares in existence prior to the share consolidation and the prior year has been restated accordingly.

On 2 October 2023, the Group commenced a £500 million share buyback programme which is expected to complete by the end of September 2024. At 31 December 2023, 18,761,840 shares had been purchased at an average price of 494 pence per share with cash spent of £93 million, inclusive of costs of £1 million. These are held as treasury shares and the costs of the purchase have been recognised in retained earnings. No liability has been recognised in respect of the remaining share buyback programme as there is no contractual obligation. In 2022, the Group completed a share buyback programme with 318,003,512 shares repurchased and subsequently cancelled, with cash spent of £504 million, inclusive of costs of £4 million.

Discontinued operations, disposals and assets held for sale

On 20 April 2023, the Group completed the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses through the flotation of Dowlais Group plc ("Dowlais") on the London Stock Exchange. The results of the Dowlais businesses have been classified within discontinued operations for both years presented; with the Income Statement, the Statement of Cash Flows and their associated notes being restated accordingly. See note 13 for further detail.

Dowlais became a related party to the Group on demerger.

On 12 December 2023, the Group agreed a disposal of its Fuel Systems business, a non-core part of the Structures segment. At 31 December 2023, the disposal was expected to complete within the next twelve months and accordingly the assets and liabilities of the business have been classified as held for sale as at 31 December 2023. The disposal completed on 1 March 2024.

In addition, discontinued operations for 2022 include the results of the Ergotron business which was classified as held for sale as at 30 June 2022, and was subsequently disposed on 6 July 2022.

1.1 New Standards, Amendments and Interpretations affecting amounts, presentation or disclosure reported in the current year

In the current financial year, the Group has adopted the following new and revised Standards, Amendments and Interpretations. Their adoption has not had a significant impact on the amounts reported in these Financial Statements:

- Amendments to IAS 1: Presentation of Financial Statements and making materiality judgements – disclosure of accounting policies
- Amendments to IAS 12: Income taxes – deferred tax related to assets and liabilities arising from a single transaction
- Amendments to IAS 12: Income taxes – international tax reform – pillar two model rules
- Amendments to IAS 8: Accounting polices, changes in accounting estimates and errors – definition of accounting estimates

1.2 New Standards, Amendments and Interpretations in issue but not yet effective

At 31 December 2023, the following Standards, Amendments and Interpretations were in issue but not yet effective:

- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 1: Classification of liabilities as current or non-current and non-current liabilities with covenants
- Amendments to IAS 7 and IFRS 7: Supplier finance arrangements
- Amendments to IFRS 16: Lease liability in a sale and leaseback

The Directors do not expect that the adoption of the above Standards, Amendments and Interpretations will have a material impact on the Financial Statements of the Group in future periods.

2. Summary of material accounting policies

Basis of accounting

The Consolidated Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and International Financial Reporting Standards ("IFRSs") as issued by the IASB. The Consolidated Financial Statements have been prepared on an historical cost basis, except for the revaluation of certain financial instruments and investments which are recognised at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Alternative Performance Measures

The Group presents Alternative Performance Measures ("APMs") in addition to the statutory results of the Group. These are presented in accordance with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA").

APMs used by the Group are set out in the glossary to these Financial Statements on pages 232 to 239 and the reconciling items between statutory and adjusted results are listed below and described in more detail in note 6.

2. Summary of material accounting policies continued

Adjusted profit measures exclude 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 an acquisition.

On this basis, the following are the principal items included within adjusting items impacting operating profit:

- Amortisation of intangible assets that are acquired in a business combination, excluding computer software and development costs;
- Significant restructuring project costs and other associated costs, including losses incurred following the announcement of closure for identified businesses, arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- Acquisition and disposal related gains and losses;
- Impairment charges that are considered to be significant in nature and/or value to the trading performance of the business;
- Movement in derivative financial instruments not designated in hedging relationships, including revaluation of associated financial assets and liabilities;
- The charge for the Melrose equity-settled compensation scheme, including its associated employer's tax charge; and
- The net release of fair value items booked on acquisitions.

Further to the adjusting items above, adjusting items impacting profit before tax include:

- Acceleration of unamortised debt issue costs written off as a consequence of Group refinancing;
- Significant settlement gains and losses associated with debt instruments including interest rate swaps following acquisition or disposal related activity or non-trading transactions, which are not considered by the Group to be part of normal financing costs;
- Finance costs in respect of the Group's net debt strategically allocated to a demerger group of businesses at the start of the year and subsequently settled on demerger; and
- The fair value changes on cross-currency swaps, entered into by GKN prior to acquisition, relating to cost of hedging which are not deferred in equity.

In addition to the items above, adjusting items impacting profit after tax include:

- The net effect on tax of significant restructuring from strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- The net effect of significant new tax legislation; and
- The tax effects of adjustments to profit before tax.

The Board considers the adjusted results to be an important measure used to monitor how the businesses are performing as this provides a meaningful reflection of how the businesses are managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods, when all businesses are held for a complete reporting period.

The adjusted measures are used to partly determine the variable element of remuneration of senior management throughout the Group and are also in alignment with performance measures used by certain external stakeholders. The adjusted measures are also taken into account when valuing individual businesses.

Adjusted profit is not a defined term under IFRS and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided.

Basis of consolidation

The Group's Financial Statements include the results of the parent undertaking and all of its subsidiary undertakings. In addition, the Group's share of the results and equity of joint ventures and associated undertakings (together "equity accounted investments") are included. The results of businesses acquired during the period are included from the effective date of acquisition and, for those sold during the period, to the effective date of disposal. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders is initially measured at the non-controlling interests' proportion of the share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Going concern

The Consolidated Financial Statements have been prepared on a going concern basis as the Directors consider that adequate resources exist for the Company to continue in operational existence for the foreseeable future.

The Group's liquidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity headroom of £1.0 billion at 31 December 2023 and sufficient headroom throughout the going concern forecast period. Forecast covenant compliance is considered further below.

2. Summary of material accounting policies continued

Covenants

The Group's banking facility has two financial covenants being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half yearly in June and December. As a result of the demerger on 20 April 2023, the Group renegotiated its banking arrangements. No testing of the interest cover covenant was required at 31 December 2023. The interest cover covenant will be tested from 30 June 2024. Covenant calculations are detailed in the glossary to these Consolidated Financial Statements.

The financial covenants during the period of assessment for going concern are as follows:

	31 December 2023	30 June 2024	31 December 2024
Net debt to adjusted EBITDA	**3.5x**	3.5x	3.5x
Interest cover	**n/a**	4.0x	4.0x

Testing

The Group has modelled two scenarios in its assessment of going concern. A base case and a reasonably possible sensitised case.

The base case takes into account end markets and operational factors, including supply chain challenges, throughout the going concern period and has been monitored against the actual results and cash generation in the year. Climate scenario analysis was used to model the impact of climate change on the Group's cash flow position. Climate is deemed to not have a material impact over the period of 12 months for the assessment of going concern or 36 months for assessment of viability of the Group.

The reasonably possible sensitised case models more conservative sales assumptions for 2024 and the first half of 2025. The sensitised assumptions are specific to each business taking into account their markets, but on average represents a c.10% reduction to the Group's forecast revenue in each of 2024 and the first half of 2025 respectively. The sensitised revenues have had a consequential impact on profit and cash flow, along with a further downside sensitivity applied to increase working capital by approximately 2% of revenue. Given that there is liquidity headroom of £1.0 billion and the Group's leverage was 1.1x, comfortably below the covenant test at 31 December 2023, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, even with significant reductions, no covenant is breached at the forecast testing dates being 30 June 2024 and 31 December 2024, and the Group will not require any additional sources of finance. Testing at 30 June 2025 is also favourable, assuming arrangements similar in nature with existing agreements.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of acquisition is measured at the fair value of assets transferred, the liabilities incurred or assumed at the date of exchange of control and equity instruments issued by the Group in exchange for control of the acquiree. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Costs directly attributable to business combinations are recognised as an expense in the Income Statement as incurred.

The acquired identifiable assets and liabilities are measured at their fair value at the date of acquisition except those where specific guidance is provided by IFRSs. Non-current assets and directly attributable liabilities that are classified as held for sale in accordance with IFRS 5: Non-current assets held for sale and discontinued operations, are recognised and measured at fair value less costs to sell. Also, deferred tax assets and liabilities are recognised and measured in accordance with IAS 12: Income taxes, liabilities and assets related to employee benefit arrangements are recognised and measured in accordance with IAS 19 (revised): Employee benefits and liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payments awards are measured in accordance with IFRS 2: Share-based payment. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts where appropriate. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

Goodwill on acquisition is initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

As at the acquisition date, any goodwill acquired is allocated to the cash-generating units acquired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the Income Statement and is not subsequently reversed. When there is a disposal of a cash-generating unit, goodwill relating to the operation disposed of is taken into account in determining the gain or loss on disposal of that operation. The amount of goodwill allocated to a partial disposal is measured on the basis of the relative values of the operation disposed of and the operation retained.

2. Summary of material accounting policies continued

Equity accounted investments

A joint venture is an entity which is not a subsidiary undertaking but where the interest of the Group is that of a partner in a business over which the Group exercises joint control with its partners over the financial and operating policies. In all cases voting rights are 50% or lower.

Associated undertakings are entities that are neither a subsidiary nor a joint venture, but where the Group has a significant influence. The results, assets and liabilities of equity accounted investments are accounted for using the equity method of accounting. The Group's share of equity includes goodwill arising on acquisition.

When a Group entity transacts with an equity accounted investment of the Group, profits and losses resulting from the transactions with the equity accounted investments are recognised in the Group's Consolidated Financial Statements only to the extent of interests in equity accounted investments that are not related to the Group.

Revenue

Revenues are recognised either at the point of transfer of control of goods and services, or recognised over time on an activity basis using the costs incurred as the measure of the activity. Costs are recognised as they are incurred.

The nature of agreements into which the Group enters means that certain of the Group's arrangements with its customers have multiple elements that can include any combination of:

- Sale of products and services;
- Risk and revenue sharing partnerships ("RRSPs");
- Design and build; and
- Construction contracts.

Contracts are reviewed to identify each performance obligation relating to a distinct good or service and the associated consideration. The Group allocates revenue to multiple element arrangements based on the identified performance obligations within the contracts in line with the policies below. A performance obligation is identified if the customer can benefit from the good or service on its own or together with other readily available resources, and it can be separately identified within the contract. This review is performed by reference to the specific contract terms.

Sale of products and services

This revenue stream accounts for the majority of Group sales. Contracts in the Automotive, Powder Metallurgy and Other Industrial segments operate almost exclusively on this basis, and it also covers a high proportion of the Aerospace segment's revenues.

Invoices for goods are raised and revenue is recognised when control of the goods is transferred to the customer. Dependent upon contractual terms this may be at the point of despatch, acceptance by the customer or, in Aerospace, certification by the customer. The revenue recognised is the transaction price as it is the observable selling price per product.

Cash discounts, volume rebates and other customer incentive programmes are based on certain percentages agreed with the Group's customers, which are typically earned by the customer over an annual period. These are allocated to performance obligations and are recorded as a reduction in revenue at the point of sale based on the estimated future outcome. Due to the nature of these arrangements an estimate is made based on historical results to date, estimated future results across the contract period and the contractual provisions of the customer agreement.

Many businesses in the Powder Metallurgy and Automotive segments recognise an element of revenue via a surcharge or similar raw material cost recovery mechanism. The surcharge is generally based on prior period movement in raw material price indices applied to current period deliveries.

Risk and revenue sharing partnerships ("RRSPs")

This revenue stream whilst material affects a small number of businesses, exclusively in the Engines segment. Revenue is recognised under RRSPs for both the sale of product as detailed above and sales of services, which are recognised by reference to the stage of completion based on the performance obligations in the contract. In most RRSP contracts, there are two separate phases where the Group earns revenue; sale of products principally to engine manufacturers and aftermarket support.

The assessment of the stage of completion is dependent on the nature of the contract and the performance obligations within it.

The value of revenue is based on the standalone selling price for each element of the contract.

Revenue is recognised at the point control passes to the customer. For products and services, this has been identified as the point of despatch, acceptance by the customer or certification by the customer. Where the amount of revenue recognised is not yet due for collection under the terms of the contract, it will be recognised as variable consideration within the unbilled work done contract asset ("unbilled work done"). Revenue is not recognised where recovery is not probable due to potential significant reversals in the future. This can be affected by assessment of future volumes including aftermarket expectations which are impacted by technology development, fuel price and competition.

Participation fees are payments made to engine manufacturers and original equipment manufacturers relating to RRSPs and long-term agreements. They are recognised as contract assets to the extent they can be recovered from future sales. Where participation fees have been paid under the RRSP, the amortisation is recognised as a revenue reduction under IFRS 15, as performance obligations are satisfied.

2. Summary of material accounting policies continued

Generally, during the design and development phase of a typical RRSP contract, the Group performs contractually agreed-upon tasks for a customer. It is usual for the Intellectual Property Rights ("IPRs") that underpin technology advancement or know-how to remain with the Group such that the customer cannot benefit from the IPRs either on their own or together with other resources that are readily available to the customer. Where IPRs are transferred to the customer the Group has determined this is not separately identifiable from other promises in the contract due to an exclusivity clause for the supply of product. Accordingly, it has been determined that the Group's promise to transfer goods to its customer is a performance obligation that is separately identifiable and this uses development and know-how as an input.

Design and build

Generally, revenue is only recognised on the sale of product as detailed above, however, on occasions cash is received in advance of work performed to compensate the Group for costs incurred in design and development activities. The Group performs an assessment of its performance obligations to understand multiple elements. Where it is determined there is only one type of performance obligation, being the delivery of product, any cash advance is factored into the revenue allocated across the deliveries required under the contract.

Where the performance obligation has not been satisfied amounts received are recognised as a contract liability. If there is more than one performance obligation, revenue is allocated to each one based on a standalone selling price for each element of the contract.

Due to the nature of design and build contracts, there can be significant 'learning curves' while the Group optimises its production processes. During the early phase of these contracts, all costs including any start-up losses are taken directly to the Income Statement, as they do not meet the criteria for fulfilment costs.

Construction contracts

Where multiple performance obligations are identified, revenue is recognised as each performance obligation is met. This requires an assessment of total revenue to identify the allocation across the performance obligations, based on the standalone selling price for each obligation.

In cases where one of the following criteria is met, revenue is recognised over time:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance;
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

Due to the nature of the criteria above, only certain contracts in the Group qualify for over time recognition. On this basis revenue is recognised using the input method, which uses costs incurred and the assessed margin across the contract. The input method is used to measure progress as it best depicts the transfer of control to the customer. The margin and associated revenue are calculated based on the estimated transaction price and expected total costs, with considerations made for the associated contract risks.

If any of the above criteria are not met, revenue is recognised at a point in time when control transfers to the customer which, in line with the sale of goods and services above, is the point of delivery or customer acceptance dependent on the terms of the contract.

Unbilled work done addresses contract matters, such as price or scope amendments, which are included based on the expected value or most likely amount. A constraint is included unless it is highly probable that the revenue will not significantly reverse in the future. This constraint is calculated based on a cautious expectation of the life of certain RRSPs. Variations in contract work, claims and incentive payments are included in revenue from construction contracts based on an estimate of the expected value the Group expects to receive. Variations are included when the customer has agreed to the variation or acknowledged liability for the variation in principle. Claims are included when negotiations with the customer have reached an advanced stage such that it is virtually certain that the customer will accept the claim.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bring the asset into operation, and any material borrowing costs on qualifying assets. Qualifying assets are defined as an asset or programme where the period of capitalisation is more than 12 months. Purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Where assets are in the course of construction at the balance sheet date, they are classified as capital work-in-progress. Transfers are made to other asset categories when they are available for use, at which point depreciation commences.

Right-of-use assets arise under IFRS 16 and are depreciated over the shorter of the estimated life and the lease term.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold land	nil
Freehold buildings and long leasehold property	over expected economic life not exceeding 50 years
Short leasehold property	over the term of the lease
Plant and equipment	3-15 years

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

2. Summary of material accounting policies continued

The carrying values of property, plant and equipment are reviewed annually for indicators of impairment, or if events or changes in circumstances indicate that the carrying value may not be recoverable. If such indication exists an impairment test is performed and, where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, estimated future cash flows, considering the implications of climate change (see note 11 for further detail), are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds or costs and the carrying amount of the item) is included in the Income Statement in the period that the item is derecognised.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

On acquisition of businesses, separately identifiable intangible assets are initially recorded at their fair value at the acquisition date.

Access to the use of brands and intellectual property are valued using a “relief from royalty” method which determines the net present value of future additional cash flows arising from the use of the intangible asset.

Customer relationships and contracts are valued on the basis of the net present value of the future additional cash flows arising from customer relationships with appropriate allowance for attrition of customers.

Technology assets are valued using a replacement cost approach, or a “relief from royalty” method.

Amortisation of intangible assets is recorded in administration expenses in the Income Statement and is calculated on a straight-line basis over the estimated useful lives of the asset as follows:

Customer relationships and contracts	20 years or less
Brands and intellectual property	20 years or less
Technology	20 years or less
Computer software	5 years or less
Development costs	20 years or less

Where computer software is not integral to an item of property, plant or equipment, its costs are capitalised and categorised as intangible assets. Computer software is initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Where these have been acquired other than through a business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets (other than computer software and development costs) are tested for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are measured on a similar basis to property, plant and equipment. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred.

Costs relating to clearly defined and identifiable development projects are capitalised when there is a technical degree of exploitation, adequacy of resources and a potential market or development possibility in the undertaking that are recognisable; and where it is the intention to produce, market or execute the project. A correlation must also exist between the costs incurred and future benefits and those costs can be measured reliably. Capitalised costs are expensed on a straight-line basis over their useful lives of 20 years or less. Costs not meeting such criteria are expensed as incurred.

Inventories

Inventories are valued at the lower of cost and net realisable value and are measured using a first in, first out or weighted average cost basis. Cost includes all direct expenditure and appropriate production overhead expenditure incurred in bringing goods to their current state under normal operating conditions. Net realisable value is based on estimated selling price less costs expected to be incurred to completion and disposal. Provisions are made for obsolescence or other expected losses where necessary.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with banks and similar institutions, and short-term deposits which are readily convertible to cash and are subject to insignificant risks of changes in value.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2. Summary of material accounting policies continued

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the Income Statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Government refundable advances

Government refundable advances are reported in “Trade and other payables” in the Balance Sheet. Refundable advances include amounts advanced by a government, accrued interest and directly attributable costs. Refundable advances are provided to the Group to part-finance expenditures on specific development programmes. The advances are provided on a risk sharing basis, i.e. repayment levels are determined subject to the success of the related programme. Balances are held at amortised cost and interest is calculated using the effective interest rate method.

Leases

Where a lease arrangement is identified, a liability to the lessor is included in the Balance Sheet as a lease obligation calculated at the present value of minimum lease payments. A corresponding right-of-use asset is recorded in property, plant and equipment. The discount rate used to calculate the lease liability is the Group’s incremental borrowing rate, unless there is a rate implicit in the lease. The incremental borrowing rate is used for the majority of leases. Incremental borrowing rates are based on the term, currency, country and start date of the lease and reflect the rate the Group would pay for a loan with similar terms and security.

Following initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. Where there is a change in future lease payments due to a rent review, change in index or rate, or a change in the Group’s assessment of whether it is reasonably certain to exercise a purchase, extension or break option, the lease obligation is remeasured. A corresponding adjustment is made to the associated right-of-use asset.

Right-of-use assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Lease payments are apportioned between finance costs and a reduction in the lease obligation so as to reflect the interest on the remaining balance of the obligation. Finance charges are recorded in the Income Statement within finance costs.

Leases with a term of 12 months or less and leases for low value are not recorded on the Balance Sheet and lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Expenses relating to variable lease payments which are not included in the lease liability, due to being based on a variable other than an index or rate, are recognised as an expense in the Income Statement.

Financial instruments – assets

Classification and measurement

All financial assets are classified as either those which are measured at fair value, through profit or loss or Other Comprehensive Income, and those measured at amortised cost.

Financial assets are initially recognised at fair value. For those which are not subsequently measured at fair value through profit or loss, this includes directly attributable transaction costs. Trade and other receivables, contract assets and amounts due from equity accounted investments are subsequently measured at amortised cost.

Recognition and derecognition of financial assets

Financial assets are recognised in the Group’s Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Impairment of financial assets

For trade receivables and contract assets, the simplified approach permitted under IFRS 9 is applied. The simplified approach requires that at the point of initial recognition the expected credit loss across the life of the receivable must be recognised. As these balances do not contain a significant financing element, the simplified approach relating to expected lifetime losses is applicable under IFRS 9. Cash and cash equivalents and other receivables are also subject to impairment requirements.

Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

2. Summary of material accounting policies continued

Investments

The Group has investments in listed shares and unlisted shares, that are not traded in an active market, which are classified as financial assets, measured at fair value. Fair value for listed shares is calculated by reference to quoted market price. Fair value for unlisted shares is determined by assessment of expected future dividends discounted to net present value. Any changes in fair value are recognised in Other Comprehensive Income and accumulated in retained earnings. Dividends from investments are recognised in the Income Statement when the Group's right to receive the dividend is established.

Trade and other receivables

Trade and other receivables are measured and carried at amortised cost using the effective interest method, less any impairment. For trade receivables, the carrying amount is reduced by an allowance for expected lifetime losses. Subsequent recoveries of amounts previously written off are credited against the allowance account and changes in the carrying amount of the allowance account are recognised in the Income Statement.

Trade receivables that are assessed not to be impaired individually are also assessed for impairment on a collective basis. In measuring the expected credit losses, the Group considers all reasonable and supportable information such as the Group's past experience at collecting receipts, any increase in the number of delayed receipts in the portfolio past the average credit period, and forward looking information such as forecasts of future economic decisions.

Other receivables are also considered for impairment and if required the carrying amount is reduced by any loss arising which is recorded in the Income Statement, although for the Group this is not material.

Financial instruments – liabilities

Recognition and derecognition of financial liabilities

Financial liabilities are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instruments and are initially measured at fair value, net of transaction costs. The Group derecognises financial liabilities when the Group's obligations are discharged, significantly modified, cancelled or they expire.

Classification and measurement

Non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest rate basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that discounts estimated future cash payments throughout the expected life of the financial liability, or, where appropriate, a shorter period to the gross carrying amount of the financial liability.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and commodity risks, arising from operating and financing activities. The Group does not hold or issue derivative financial instruments for speculative trading purposes. Details of derivative financial instruments are disclosed in note 25 of the Financial Statements.

Derivative financial instruments are recognised and stated at fair value in the Group's Balance Sheet. Their fair value is recalculated at each reporting date. The accounting treatment for the resulting gain or loss will depend on whether the derivative meets the criteria to qualify for hedge accounting and are designated as such.

Where derivatives do not meet the criteria to qualify for hedge accounting, any gains or losses on the revaluation to fair value at the period end are recognised immediately in the Income Statement. Where derivatives do meet the criteria to qualify for hedge accounting, recognition of any resulting gain or loss on revaluation depends on the nature of the hedge relationship and the item being hedged.

Derivative financial instruments with maturity dates of less than one year from the period end date are classified as current in the Balance Sheet. Derivatives embedded in non-derivative host contracts are recognised at their fair value in the Group's Balance Sheet when the nature, characteristics and risks of the derivative are not closely related to the host contract. Gains and losses arising on the remeasurement of these embedded derivatives at each balance sheet date are recognised in the Income Statement.

Hedge accounting

In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents that the hedge will be highly effective, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

The Group designates certain hedging instruments as either cash flow hedges or hedges of net investments in foreign operations.

2. Summary of material accounting policies continued

Cash flow hedge

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to the variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted cash flow.

The Group designates the full change in the fair value of a foreign exchange forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving foreign exchange forward contracts.

The effective portion of any gain or loss from revaluing the derivative financial instrument is recognised in the Statement of Comprehensive Income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts previously recognised in the Statement of Comprehensive Income and accumulated in equity are recycled to the Income Statement in the periods when the hedged item is recognised in the Income Statement or when the forecast transaction is no longer expected to occur. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedges of net investments in foreign operations

Derivative financial instruments and certain loan instruments, are classified as net investment hedges when they hedge the Group's net investment in foreign operations. The effective element of any foreign exchange gain or loss from revaluing the hedging instruments at a reporting period end is recognised in the Statement of Comprehensive Income. Any ineffective element is recognised immediately in the Income Statement.

The Group designates only the spot rate component of cross currency swaps in net investment hedges. The changes in the fair value of the aligned forward and currency basis elements are recognised in other comprehensive income and accumulated in equity. If the hedged item is time-period related, then the amount accumulated in equity is reclassified to profit or loss on an appropriate basis.

Gains and losses accumulated in equity are recognised immediately in the Income Statement when the foreign operation is disposed.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.
Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37: Provisions, contingent liabilities and contingent assets and the amount initially recognised less cumulative amount of revenue recognised in accordance with the principles of IFRS 15: Revenue from contracts with customers.

Pensions and other retirement benefits

The Group operates defined benefit pension plans and defined contribution plans, some of which require contributions to be made to administered funds separate from the Group.

For the defined benefit pension and retirement benefit plans, plan assets are measured at fair value and plan liabilities are measured on an actuarial basis and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities. Any assets resulting from this calculation are limited to past service cost plus the present value of available refunds and reductions in future contributions to the plan. The present value of the defined benefit obligation, and the related current service cost and past service cost, are measured using the projected unit credit method.

The service cost of providing pension and other retirement benefits to employees for the period is charged to the Income Statement.

Net interest expense on net defined benefit obligations is determined by applying discount rates used to measure defined benefit obligations at the beginning of the year to net defined benefit obligations at the beginning of the year. The net interest expense is recognised within finance costs.

Remeasurement gains and losses comprise actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest). Remeasurement gains and losses, and taxation thereon, are recognised in full in the Statement of Comprehensive Income in the period in which they occur and are not subsequently recycled.

Actuarial gains and losses may result from differences between the actuarial assumptions underlying the plan obligations and actual experience during the period or changes in the actuarial assumptions used in the valuation of the plan obligations.

For defined contribution plans, contributions payable are charged to the Income Statement as an operating expense when employees have rendered services entitling them to the contributions.

Foreign currencies

The individual Financial Statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the Consolidated Financial Statements.

2. Summary of material accounting policies continued

In preparing the Financial Statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Income Statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Income Statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in the Statement of Comprehensive Income and accumulated in equity (attributed to non-controlling interests as appropriate). Such translation differences are recognised as income or as expenses in the period in which the related operation is disposed of. Any exchange differences that have previously been attributed to non-controlling interests are derecognised but they are not reclassified to the Income Statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate prevailing at the balance sheet date.

Taxation

The tax expense is based on the taxable profits for the period and represents the sum of the tax paid or currently payable and deferred tax.

Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

A tax provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent advice.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises on the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- where the timing of the reversal of the temporary differences associated with investments in subsidiaries and interests in equity accounted investments can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carry-forward of unused tax assets and unused tax losses can be utilised except:

- where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in equity accounted investments, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the relevant balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tax relating to items recognised directly in other comprehensive income is recognised in the Statement of Comprehensive Income and not in the Income Statement.

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- where receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

2. Summary of material accounting policies continued

Share-based payments

The Group has applied the requirements of IFRS 2: Share-based payment. The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instrument excluding the effect of non-market based vesting conditions at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Non-current assets and disposal groups

Non-current assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and businesses are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset or business is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Government grants

Government grants are not recognised in the Income Statement until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Government grants are recognised in the Income Statement on a systematic basis over the periods in which the Group recognises the related costs for which the grants are intended to compensate.

Specifically, government grants where the primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred government grants in the Balance Sheet and transferred to the Income Statement on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the Income Statement in the period in which they become receivable.

Climate change

In preparing the Consolidated Financial Statements, the Directors have considered the impact of climate change with specific regard to the risks identified in the Task Force on Climate-related Financial Disclosures ("TCFD") report on page 58 as well as the Group's Transition Plan including emission targets.

The Directors have considered the impact of climate change in respect to the following areas and have determined that there is no material impact on the financial reporting judgements and estimates:

- Group's going concern assessment (note 2);
- Estimated future cash flows used in impairment assessments, where applicable, of the carrying value of non-current assets (such as goodwill) (note 11);
- Inventory valuation with respect to climate related shift in demand (note 16);
- Recoverability of trade receivables and contract assets related to unbilled work done on risk and revenue sharing partnerships, which consider the future expectations of airframe and engine manufacturers as well as airline customer behaviours (note 17); and
- Forecasts of future profitability to assess the recoverability of deferred tax assets in the UK, The Netherlands and US (note 22).

The Group's Transition Plan sets out the actions the Directors intend to take in the transition to a net zero economy, how they plan to execute on the interim and long-term emissions reduction targets, and how they plan to achieve Net Zero by 2050. The Transition Plan also sets out how climate considerations are integrated into strategic thinking and future planning, such as major capital expenditure, acquisitions, and disposals. The main short-term and medium-term objectives to meet this target are:

- Reduce absolute Scope 1 and 2 emissions 50% by 2030 from a 2020 baseline. This will be met by sourcing at least 50% of the Group's electricity from renewable sources by 2025 (where renewable energy is commercially and reasonably available in the relevant jurisdiction) through either continued investment in onsite renewable energy as well as procurement of power purchase agreements and renewable energy certificates. The Group will also continue to invest in energy efficiency measures to reduce overall energy consumption. The estimated investment needed to meet these scope 1 and 2 emission improvements are incorporated into current financial planning and forecasting.
- The Group is uniquely positioned at the early stages of an aircraft life cycle to play a role in eradicating emissions for the entire sector and ultimately unlocking its potential to positively contribute to a low carbon economy. The targets to achieve 80% of total Research and Development ("R&D") expenditure on climate-related R&D per year to contribute to aerospace decarbonisation by 2025 and achieve 100% of new products which contribute to aerospace decarbonisation by 2025 demonstrate the emphasis Melrose places on developing innovative and breakthrough technologies such as battery electric and hydrogen propulsion. During the year £48 million was spent on climate related R&D. Future investments required to meet these targets are incorporated into our forecasts.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Critical judgements

In the course of preparing the Financial Statements, critical judgements within the scope of paragraph 122 of IAS 1: Presentation of Financial Statements have been made during the process of applying the Group's accounting policies.

a) Adjusting items

Judgements are required as to whether items are disclosed as adjusting, with consideration given to both quantitative and qualitative factors. Further information about the determination of adjusting items in the year ended 31 December 2023 is included in note 2.

b) Demerger distribution

On 20 April 2023, the Group completed the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses through the flotation of Dowlais Group plc ("Dowlais") on the London Stock Exchange.

The demerger distribution of £1,973 million has been measured at fair value in accordance with IFRIC 17: Distributions of Non-cash Assets to Owners and represents the number of Dowlais shares distributed to equity holders of 1,351,475,321 multiplied by the opening share price on 20 April 2023 of 146 pence. It was considered that the opening share price provided a fair representation of the value of the demerger distribution as it was the share price closest to the time of demerger. If a different share price had been used, for example a closing price on day one or first week of trading average, the demerger distribution value would have been impacted. For each 1p change in the share price, the demerger distribution would have been impacted by £14 million.

There are no other critical judgements other than those involving estimates, that have had a significant effect on the amounts recognised in the Financial Statements. Those involving estimates are set out below.

Key sources of estimation uncertainty

Assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

c) Assumptions used to determine the carrying amount of the Group's net retirement benefit obligations

The Group's pension plans are significant in size. The defined benefit obligations in respect of the plans are discounted at rates set by reference to market yields on high quality corporate bonds. Significant estimation is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds to include are the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. In addition, assumptions are made in determining mortality and inflation rates to be used when valuing the plan's defined benefit obligations. At 31 December 2023, the retirement benefit obligation was a net deficit of £99 million (31 December 2022: £488 million).

Further details of the assumptions applied and a sensitivity analysis on the principal assumptions used to determine the defined benefit liabilities of the Group's obligations are shown in note 24. Whilst actual movements might be different to sensitivities shown, these are a reasonably possible change that could occur.

d) Estimates of future revenues and costs of long-term contractual arrangements

The Group has certain large, complex contracts where significant judgements and estimates are required in order to allocate total associated consideration.

A key judgement is the measurement of unbilled work done, in particular relating to certain risk and revenue sharing partnerships ("RRSPs"). A detailed review of the Group's RRSP contracts determined where terms and conditions result in unbilled work done and this is further set out in note 17. Distinguishing between a contractual right and the economic compulsion of partners with regard to the sale of original equipment ("OE") components and aftermarket activities relies on an interpretation of complex legal agreements. This specific point governs whether unbilled work done is recognised on the sale of OE components and this can significantly impact the level of profitability from one period to the next. Further disclosure is set out in note 4.

The forecast revenues and costs in respect of RRSP contracts are inherently imprecise and significant estimates are required to assess the pattern of future maintenance activity, the costs to be incurred and escalation of revenue and costs. The estimates take account of the uncertainties, constraining the expected level of revenue as appropriate. Measurement of unbilled work done is driven by forecasting aftermarket revenue per delivered engine which is in turn contingent on overall programme success, levels of discounting that might be offered by the engine manufacturers (the Group's customers), engineering requirements needed for optimal performance of the engine and the allocation of revenue to individual units. In addition, where programmes are at an early stage the wider implications of any competing engines as well as complications outside of the Group can be difficult to assess. Any of these inputs could change in the next year as programmes evolve and due to the size and scale of these contracts, almost any modification could result in material changes in future periods.

3. Critical accounting judgements and key sources of estimation uncertainty continued

The unbilled work done contract asset calculated is the best estimate of revenue allocated to completed performance obligations using input assumptions and constraints as detailed further in note 17. As the impacted RRSP contracts mature, there are reasonably possible changes to assumptions, such as engineering requirements to support programmes and the expected life of certain engines which could lead to the unbilled work done contract asset on the Balance Sheet of £595 million (31 December 2022: £450 million) increasing to between £655 million and £695 million. This would lead to recognition of additional revenue and profit in the next year of between £60 million and £100 million.

4. Revenue

An analysis of the Group's revenue is as follows:

Continuing operations	Year ended 31 December 2023 £m	Restated[(1)] Year ended 31 December 2022 £m
Revenue recognised at a point in time	**2,388**	2,030
Revenue recognised over time	**962**	924
Revenue	**3,350**	2,954

(1) Revenue has been restated for discontinued operations (see note 1).

As set out in the accounting policies in note 2, the Group has four primary revenue streams. There is little judgement or estimation in the revenue recognition of three of these areas; (i) sale of products and services, (ii) design and build and (iii) construction contracts. However, in the fourth area, as disclosed in note 3d, there is estimation involved in accounting for certain RRSP contracts. RRSP contracts generally include the sale of products and services as well as certain aspects of design and build arrangements. Further details are set out below.

Risk and revenue sharing partnerships

The Group has approximately £16 billion (31 December 2022: £13 billion) in respect of contractual transaction prices including a constrained estimate of unbilled work done, on five (31 December 2022: four) engine programmes, out of a wider population of such programmes, which has been allocated to contracted performance obligations not satisfied at 31 December 2023. These performance obligations will be satisfied and revenue will be recognised over a period of up to 30 years (2022: 30 years).

An additional programme has been included during the year as a result of a modification to a contract. This was announced on 6 November 2023 following a major new agreement with GE Aerospace. The agreement expands the Group's participation on the GEnx RRSP programme and also secures new technology work packages, aftermarket repair of engines structures and further production of fan cases for a range of GE engines. Whilst the new agreement has not had a material impact on the reported results for the year ended 31 December 2023 or Balance Sheet as at 31 December 2023, the implications have been assessed under IFRS 15 and are material in future years. The key effects are:

- The Group's involvement on the GEnx RRSP has been extended beyond its current focus on OE to include significantly greater participation in the aftermarket phase. The contract modification will be accounted for prospectively, with pricing implications affecting revenue from 1 January 2024. Following changes to the termination rights, to commercially protect the Group for its increased aftermarket share, the Group now has a contractual right to aftermarket revenue.
- The new agreement will also: 1) support GE Aerospace's progress towards its cost and carbon emissions reduction targets with new proprietary technology for the GEnx programme, specifically additive fabrications replacing existing processes, 2) allow the Group to join GE Aerospace's global aftermarket repair network on the GEnx programme with specialised repair content for complex structural components and 3) extend existing contracts to now deliver 100% of GEnx, CF6 and GE90 fan cases, as well as 50% of GE9X fan case assembly.

The amount of revenue recognised from RRSP contracts during the year was £680 million (2022: £547 million), which included an increase in the unbilled work done contract asset of £173 million (2022: £106 million). Within this there is revenue from the delivery of product which is recognised at a point in time of £629 million (2022: £517 million) and revenue from provision of service which is recognised over time of £51 million (2022: £30 million). Due to the nature of certain of these RRSP arrangements, there is an associated unbilled work done contract asset including movements during the year which is disclosed in note 17.

The nature of products and services delivered in RRSP contracts varies depending on the individual terms. Typically, they include a design and development phase (which has been determined not to be a distinct performance obligation and so no revenue is recognised) and two other phases where the Group does have performance obligations and earns revenue:

i) Sale of structural OE engine components, such as turbine cases, principally to engine manufacturers, where revenue is recognised at a point in time; and

ii) Aftermarket support which can include: sale of spare parts where revenue is recognised at a point in time and stand ready services for life of engine obligations to maintain permanent technical, and other programme related, support functions. Obligations can occur at any time during the engine life and include: engineering and technical support for engine configuration changes and provision of aftermarket inventory support solutions.

4. Revenue continued

RRSP revenue recognised over time

The nature of these RRSP contracts on long-term engine programmes means that, as a partner, the Engines segment can share revenue earned from maintenance, repair and overhaul services which are provided by the engine manufacturers (the Group's customers) or their sub-contractors, but not the Group. The Group has a stand ready obligation to contribute to certain of the partnerships which typically results in the provision of services such as technical and other programme support activities over the whole life of the engine. These services occur over the life of the engine and due to the nature of compensation from customer arrangements, which is often flight hour based, as well as costs which are less predictable, revenue is recognised over time using the engine manufacturer's actual overhaul costs as an input method. This method is considered appropriate as it best reflects the customers' receipt and consumption of benefit from the Group's stand ready performance obligation.

The total contract revenue includes amounts from: expected sales of OE engine components, expected sales of spare parts and aftermarket revenue per delivered engine for stand ready services for the life of engine obligations. The total contract revenue is allocated to all of the performance obligations.

During the year, £30 million (2022: £nil) of revenue has been recognised relating to performance obligations satisfied by the Group in previous years as risks have reduced and the constraint reassessed. There has been a further £27 million (2022: £19 million) of revenue recognised from changes in assumptions which will also impact the revenue allocation between future years. Assumption changes were made following operational progress by engine manufacturers with their customers, providing more certainty over future costs and volumes for the RRSP partners.

The Group participates on the Pratt & Whitney ("PW") 1100G RRSP programme which produces a geared turbofan ("GTF") engine. A specific fleet of the GTF engines have been impacted by a rare condition in powder metal used to manufacture certain of the engine parts, which are not supplied by the Group. GKN Aerospace has a 4% programme share on the GTF PW1100G variant impacted by this issue. According to RTX (PW's parent company), the full potential cash impact to Melrose of approximately £200 million will be incurred over the next three to four years, if it is assumed that this is all a programme cost to be shared by partners in the PW1100G RRSP programme.

Melrose's financial assumptions for all of its RRSP programmes are very constrained recognising that most of the Group's work is done on the delivery of its parts which typically last the life of the engine, appropriately allowing for risks to arise over the full programme duration. As a result, there is no net impact on the Group's results for the year ended 31 December 2023 and the unbilled work done contract asset remains appropriately constrained at 31 December 2023, in accordance with the requirements of IFRS 15. This position has been determined based on an assessment of risk, confidence in progress on the programme during the year and future expectations.

5. Segment information

Segment information is presented in accordance with IFRS 8: Operating Segments, which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reported to the Group's Chief Operating Decision Maker ("CODM"), which has been deemed to be the Group's Board, in order to allocate resources to the segments and assess their performance.

Following the demerger of the Automotive, Powder Metallurgy and Other Industrial segments during the year their results are classified within discontinued operations and the comparative results for 2022 have been restated accordingly. In addition, the results of the Aerospace business are now viewed by the CODM as separated into Engines and Structures. The incremental information is provided below with comparative results for 2022 also re-presented accordingly.

The operating segments are as follows:

Engines – An industry leading global tier one supplier to the aerospace engines market, including structural engineered components; parts repair; commercial and aftermarket contracts.

Structures – A multi-technology global tier one supplier of both civil and defence air frames, including lightweight composite and metallic structures; electrical distribution systems and components.

In addition, there is a corporate cost centre which is also reported to the Board. The corporate cost centre contains the Melrose Group head office costs and charges related to the divisional management long-term incentive plans.

Reportable segment results include items directly attributable to a segment as well as those which can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis in a manner similar to transactions with third parties.

The Group's geographical segments are determined by the location of the Group's non-current assets and, for revenue, the location of external customers. Inter-segment sales are not material and have not been disclosed.

The following tables present the results and certain asset and liability information regarding the Group's operating segments and corporate cost centre for the year ended 31 December 2023.

a) Segment revenues

The Group derives its revenue from the transfer of goods and services over time and at a point in time. The Group has assessed that the disaggregation of revenue recognised from contracts with customers by operating segment is appropriate as this is the information regularly reviewed by the CODM in evaluating financial performance. The Group also believes that presenting this disaggregation of revenue based on the timing of transfer of goods or services provides useful information as to the nature and timing of revenue from contracts with customers.

5. Segment information continued

Year ended 31 December 2023 Continuing operations	Engines £m	Structures £m	Total £m
Timing of revenue recognition			
At a point in time	931	1,457	2,388
Over time	262	700	962
Revenue	**1,193**	**2,157**	**3,350**

Year ended 31 December 2022 – restated(1) Continuing operations	Engines £m	Structures £m	Total £m
Timing of revenue recognition			
At a point in time	806	1,224	2,030
Over time	229	695	924
Revenue	**1,035**	**1,919**	**2,954**

(1) Revenue has been restated for discontinued operations (see note 1) and the re-presentation of the Engines and Structures segments.

b) Segment operating profit

Year ended 31 December 2023 Continuing operations	Engines £m	Structures £m	Corporate(1) £m	Total £m
Adjusted operating profit/(loss)	**310**	**110**	**(30)**	**390**
Items not included in adjusted operating profit(2):				
Amortisation of intangible assets acquired in business combinations	(135)	(125)	–	(260)
Restructuring costs	(26)	(111)	(12)	(149)
Melrose equity-settled compensation scheme charges	–	–	(38)	(38)
Acquisition and disposal related gains and losses	–	–	(3)	(3)
Movement in derivatives and associated financial assets and liabilities	(3)	(6)	123	114
Net release and changes in discount rates of fair value items	1	2	–	3
Operating profit/(loss)	**147**	**(130)**	**40**	**57**
Finance costs				(79)
Finance income				14
Loss before tax				**(8)**
Tax				9
Profit after tax for the year from continuing operations				**1**

Year ended 31 December 2022 – restated(3) Continuing operations	Engines £m	Structures £m	Corporate(1) £m	Total £m
Adjusted operating profit/(loss)	**162**	**24**	**(39)**	**147**
Items not included in adjusted operating profit(2):				
Amortisation of intangible assets acquired in business combinations	(135)	(125)	–	(260)
Restructuring costs	(25)	(63)	(2)	(90)
Movement in derivatives and associated financial assets and liabilities	20	1	(100)	(79)
Melrose equity-settled compensation scheme charges	–	–	(15)	(15)
Net release and changes in discount rates of fair value items	3	9	–	12
Acquisition and disposal related gains and losses	(5)	–	20	15
Operating profit/(loss)	**20**	**(154)**	**(136)**	**(270)**
Finance costs				(83)
Finance income				25
Loss before tax				**(328)**
Tax				99
Loss after tax for the year from continuing operations				**(229)**

(1) Corporate adjusted operating loss of £30 million (2022: £39 million), includes £1 million (2022: £3 million) of costs in respect of divisional management long-term incentive plans.
(2) Further details on adjusting items are discussed in note 6.
(3) Operating profit has been restated for discontinued operations (see note 1) and the re-presentation of the Engines and Structures segments.

5. Segment information continued

c) Segment total assets and liabilities

	Total assets		Total liabilities	
	31 December 2023 £m	Restated[1] 31 December 2022 £m	31 December 2023 £m	Restated[1] 31 December 2022 £m
Engines	3,957	3,798	1,396	1,202
Structures	2,388	2,894	1,099	1,315
Corporate	584	761	867	1,838
Continuing operations	6,929	7,453	3,362	4,355
Discontinued operations	–	6,534	–	2,464
Total	6,929	13,987	3,362	6,819

(1) Total assets and liabilities have been restated for discontinued operations (see note 1) and the re-presentation of the Engines and Structures segments.

d) Segment capital expenditure and depreciation

	Capital expenditure[1]		Depreciation of owned assets[1]		Depreciation of leased assets	
	Year ended 31 December 2023 £m	Restated[2] Year ended 31 December 2022 £m	Year ended 31 December 2023 £m	Restated[2] Year ended 31 December 2022 £m	Year ended 31 December 2023 £m	Restated[2] Year ended 31 December 2022 £m
Engines	55	38	43	46	7	7
Structures	63	39	74	77	17	14
Corporate	–	–	–	–	1	1
Continuing operations	118	77	117	123	25	22
Discontinued operations	51	231	43	238	6	25
Total	169	308	160	361	31	47

(1) Including computer software and development costs. Capital expenditure excludes lease additions.
(2) Capital expenditure and depreciation have been restated for discontinued operations (see note 1) and the re-presentation of the Engines and Structures segments.

e) Geographical information

The Group operates in various geographical areas around the world. The parent company's country of domicile is the UK and the Group's revenues and non-current assets in the rest of Europe and North America are also considered to be material.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding deferred tax assets, non-current derivative financial assets, non-current other receivables and retirement benefit surplus) by geographical location are detailed below:

	Revenue[1] from external customers		Segment assets	
	Year ended 31 December 2023 £m	Restated[2] Year ended 31 December 2022 £m	31 December 2023 £m	Restated[2] 31 December 2022 £m
UK	579	509	882	1,042
Rest of Europe	540	408	2,166	2,501
North America	2,138	1,971	1,179	1,038
Other	93	66	22	28
Continuing operations	3,350	2,954	4,249	4,609
Discontinued operations	1,582	4,715	–	5,333
Total	4,932	7,669	4,249	9,942

(1) Revenue is presented by destination.
(2) Revenue and segment assets have been restated for discontinued operations (see note 1).

6. Reconciliation of adjusted profit measures

As described in note 2, adjusted profit measures are an alternative performance measure used by the Board to monitor the operating performance of the Group. For the year ended 31 December 2022 the Group presented adjusted revenue as an alternative performance measure. Following the demerger of the Dowlais businesses, as described in note 13, the Board no longer uses adjusted revenue to monitor the ongoing performance of the Group as there are no continuing material equity accounted investments.

a) Operating profit

Continuing operations	Notes	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Operating profit/(loss)		**57**	(270)
Amortisation of intangible assets acquired in business combinations	a	**260**	260
Restructuring costs	b	**149**	90
Melrose equity-settled compensation scheme charges	c	**38**	15
Acquisition and disposal related gains and losses	d	**3**	(15)
Movement in derivatives and associated financial assets and liabilities	e	**(114)**	79
Net release and changes in discount rates of fair value items	f	**(3)**	(12)
Total adjustments to operating profit/(loss)		**333**	417
Adjusted operating profit		**390**	147

(1) Results have been restated for discontinued operations (see note 1).

a. The amortisation charge on intangible assets acquired in business combinations of £260 million (2022: £260 million) is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.

b. Restructuring and other associated costs in the year totalled £149 million (2022: £90 million), including £59 million (2022: £11 million) of losses incurred in closing businesses within the Group. These are shown as adjusting items due to their size and non-trading nature and during the year ended 31 December 2023 these included:

- A charge of £137 million (2022: £88 million) primarily relating to the continuation of significant restructuring projects, necessary for the business to achieve its full potential target operating margins.

  There are three significant ongoing multi-year restructuring programmes, impacting multiple sites across the Engines and Structures divisions, two of which include European footprint consolidations, and one significant multi-site restructuring programme in North America. These programmes incurred a combined charge, excluding losses, of £62 million in the year. Since commencement, the cumulative charges, excluding losses, on these three restructuring programmes to 31 December 2023 has been £217 million (31 December 2022: £155 million), approximately 35% relating to the two significant European programmes and approximately 65% in North America.

  As at 31 December 2023, actions to complete the European programmes, on average, are approximately 95% complete and will complete in 2024. During the year, the North America multi-site restructuring programme has been expanded and is approximately 70% complete and now expected to conclude in 2025. In addition to the remaining charges to be incurred on these projects, £37 million is included in restructuring provisions at 31 December 2023 to be settled in cash over the next two years.
- A net charge of £12 million (2022: £2 million) within the Melrose corporate cost centre that relates to changes made following the announced change to the Group's ongoing strategy. These include the costs of merging the Melrose corporate cost function with the previously separate Aerospace division head office team. These restructuring actions reshape the corporate cost centre to serve as an ongoing pureplay aerospace business.

c. The charge for the Melrose equity-settled Employee Share Scheme of £38 million (2022: £15 million), which includes a charge to the accrual for employer's tax payable of £28 million (2022: credit of £1 million), is excluded from adjusted results due to its size and volatility. The shares that would be issued, based on the Scheme's current value at the end of the reporting period, are included in the calculation of the adjusted diluted earnings per share, which the Board considers to be a key measure of performance.

d. An acquisition and disposal related net charge of £3 million (2022: credit of £15 million) arose in the year which primarily relates to ongoing acquisition commitments. The prior year also includes the profit on disposal of two corporate properties, a loss on disposal of a non-core Aerospace business and the initial costs incurred in respect of the demerger. These items are excluded from adjusted results due to their non-trading nature.

e. Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts where hedge accounting is not applied) entered into to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts, including foreign exchange movements on the associated financial assets and liabilities are shown as an adjusting item because of volatility and size. This totalled a credit of £114 million (2022: charge of £79 million) in the year.

f. The net release of fair value items in the year of £3 million (2022: £12 million) where items have been resolved for more favourable amounts than first anticipated are shown as an adjusting item, avoiding positively distorting adjusted operating profit.

6. Reconciliation of adjusted profit measures continued

b) Profit before tax

Continuing operations	Notes	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Loss before tax		**(8)**	(328)
Adjustments to operating profit/(loss) as above		**333**	417
Finance costs on demerger settled net debt	g	**17**	–
Accelerated unamortised debt issue costs	h	**2**	–
Bond redemption gains	i	**(13)**	(24)
Fair value changes on cross-currency swaps	j	**–**	(3)
Total adjustments to loss before tax		**339**	390
Adjusted profit before tax		**331**	62

(1) Results have been restated for discontinued operations (see note 1).

g. Finance costs in respect of the proportion of the Group's net debt strategically allocated to the demerger group of businesses at the start of the year and subsequently settled on demerger are excluded from adjusted results to ensure the finance costs of the continuing Group are appropriately shown alongside the trading performance of the continuing business.

h. Following the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses, the existing bank facilities at that time were repaid and all unamortised bank fees were written off. This is shown as an adjusting item due to its non-trading nature.

i. During the year, the Group repurchased £120 million of the remaining 2032 £300 million bond, on which a gain of £13 million was realised. During 2022, the Group also undertook a tender to buy back the same 2032 £300 million bond. There were £170 million of bonds repurchased, on which a gain of £24 million was realised. Both items are shown as an adjusting item due to their non-trading nature.

j. The fair value changes on cross-currency swaps relating to cost of hedging which are not deferred in equity were shown as an adjusting item because of the volatility and non-trading nature.

c) Profit after tax

Continuing operations	Note	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Profit/(loss) after tax		**1**	(229)
Adjustments to loss before tax as above		**339**	390
Tax effect of adjustments to loss before tax	8	**(77)**	(105)
Tax effect of significant restructuring	8	**–**	2
Total adjustments to profit/(loss) after tax		**262**	287
Adjusted profit after tax		**263**	58

(1) Results have been restated for discontinued operations (see note 1).

7. Expenses

Continuing operations	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Operating profit/(loss) is stated after charging/(crediting):		
Cost of inventories	**2,696**	2,533
Amortisation of intangible assets acquired in business combinations	**260**	260
Depreciation and impairment of property, plant and equipment	**101**	115
Amortisation and impairment of computer software and development costs	**42**	41
Lease expense[2]	**1**	1
Staff costs	**1,095**	1,013
Research and development costs[3]	**60**	51
Profit on disposal of property, plant and equipment	**–**	(33)
Expense of writing down inventory to net realisable value	**53**	43
Reversals of previous write-downs of inventory	**(44)**	(38)
Impairment recognised on trade receivables	**8**	3
Impairment reversed on trade receivables	**(2)**	(2)

(1) Expenses have been restated for discontinued operations (see note 1).
(2) Represents low value leases of £1 million (2022: £1 million).
(3) Shown net of government and customer funding and includes staff costs totalling £27 million (2022: £25 million).

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**4.6**	6.8
Fees payable to the Company's auditor and their associates for other audit services to the Group:		
The audit of the Company's subsidiaries	**0.2**	1.1
Non-statutory audit of certain of the Company's businesses	**0.9**	1.9
Total audit fees	**5.7**	9.8
Audit-related assurance services:		
Review of the half year interim statement	**0.4**	0.4
Other assurance services	**0.3**	0.2
Total audit-related assurance services	**0.7**	0.6
Total audit and audit-related assurance services	**6.4**	10.4
Tax services	**–**	–
Reporting accountant services	**0.2**	0.9
Total audit and non-audit fees	**6.6**	11.3

Details of the Company's policy on the use of the auditors for non-audit services and how auditor's independence and objectivity were safeguarded are set out in the Audit Committee report on pages 122 to 123. No services were provided pursuant to contingent fee arrangements.

An analysis of staff costs and employee numbers is as follows:

Continuing operations	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Staff costs during the year (including executive Directors)		
Wages and salaries[2]	**891**	840
Social security costs[3]	**136**	101
Pension costs (note 24)		
– defined contribution plans	**58**	56
Share-based compensation expense[4]	**10**	16
Total staff costs	**1,095**	1,013

(1) Staff costs have been restated for discontinued operations (see note 1).
(2) Wages and salaries for discontinued operations were £251 million in the period prior to disposal (2022: £924 million).
(3) Includes an employer's tax charge of £28 million (2022: credit of £1 million) on the change in value of the employee share plans, shown as an adjusting item (see note 6).
(4) Shown as an adjusting item (see note 6).

7. Expenses continued

	Year ended 31 December 2023 Number	Restated[1] Year ended 31 December 2022 Number
Average monthly number of persons employed (including executive Directors)		
Engines	**3,960**	3,817
Structures	**10,733**	10,649
Corporate	**48**	49
Continuing operations	**14,741**	14,515
Discontinued operations	**23,880**	25,444
Total average number of persons employed	**38,621**	39,959

(1) Persons employed has been restated for discontinued operations (see note 1) and the re-presentation of the Engines and Structures segments.

An analysis of finance costs and income is as follows:

Continuing operations	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Finance costs		
Interest on bank loans and overdrafts	**(49)**	(72)
Amortisation of costs of raising finance	**(4)**	(10)
Net interest cost on pensions	**(1)**	–
Lease interest	**(5)**	(3)
Unwind of discount on provisions	**(1)**	(1)
Finance costs on demerger settled net debt[2]	**(17)**	–
Accelerated unamortised debt issue costs[2]	**(2)**	–
Fair value changes on cross-currency swaps[2]	**–**	3
Total finance costs	**(79)**	(83)
Finance income		
Interest receivable	**1**	–
Net interest income on pensions	**–**	1
Bond redemption gains[2]	**13**	24
Total finance income	**14**	25
Total net finance costs	**(65)**	(58)

(1) Finance costs and income have been restated for discontinued operations (see note 1).
(2) These are shown as adjusting items (see note 6).

8. Tax

Continuing operations	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Analysis of tax charge/(credit) in the year:		
Current tax		
Current year tax charge	**19**	16
Adjustments in respect of prior years	**4**	(4)
Total current tax charge	**23**	12
Deferred tax		
Origination and reversal of temporary differences	**(61)**	(85)
Adjustments in respect of prior years	**(3)**	(8)
Tax on the change in value of derivative financial instruments	**29**	(25)
Adjustments to deferred tax attributable to changes in tax rates	**(1)**	(1)
Non-recognition of deferred tax	**4**	8
Total deferred tax credit	**(32)**	(111)
Tax credit on continuing operations	**(9)**	(99)
Tax charge on discontinued operations	**28**	20
Total tax charge/(credit) for the year	**19**	(79)
Analysis of tax credit on continuing operations in the year:	**£m**	£m
Tax charge in respect of adjusted profit before tax	**68**	4
Tax credit recognised as an adjusting item	**(77)**	(103)
Tax credit on continuing operations	**(9)**	(99)

(1) Tax has been restated for discontinued operations (see note 1).

The tax charge of £68 million (2022: £4 million) arising on adjusted profit before tax of £331 million (2022: £62 million), results in an effective tax rate of 20.5% (2022: 6.5%).

The £77 million (2022: £103 million) tax credit recognised as an adjusting item includes a credit of £77 million (2022: £105 million) in respect of tax credits on adjustments to loss before tax of £339 million (2022: £390 million) and a charge of £nil (2022: £2 million) in respect of internal Group restructuring.

The tax charge/(credit) for the year for continuing and discontinued operations can be reconciled to the profit/(loss) before tax per the Income Statement as follows:

	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Profit/(loss) before tax:		
Continuing operations	**(8)**	(328)
Discontinued operations (note 13)	**25**	(38)
	17	(366)
Tax charge/(credit) on profit/(loss) before tax at 23.5% (2022: 25.0%)	**4**	(91)
Tax effect of:		
Disallowable expenses and other permanent differences within adjusted profit	**(9)**	4
Disallowable items included within adjusting items	**8**	(2)
Temporary differences not recognised in deferred tax	**5**	13
Tax credits and withholding taxes	**3**	15
Adjustments in respect of prior years	**13**	(29)
Tax charge classified within adjusting items – continuing operations	**–**	2
Tax charge classified within adjusting items – discontinued operations	**–**	8
Effect of changes in tax rates	**(2)**	1
Effect of rate differences between UK and overseas rates	**(3)**	–
Total tax charge/(credit) for the year	**19**	(79)

(1) Tax has been restated for discontinued operations (see note 1).

8. Tax continued

The reconciliation has been performed at a tax rate of 23.5% (2022: 25.0%). The reconciliation rate usually represents the weighted average of the tax rates applying to profits and losses in the jurisdictions in which those results arose in the year. However, for 2023 this rate was close to zero due to offsetting profits and losses in the relevant jurisdictions and as such the UK rate has been used.

Tax (credits)/charges included in Other Comprehensive Income are as follows:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Deferred tax movements on retirement benefit obligations	(29)	1
Deferred tax movements on hedge relationship gains and losses	8	(5)
Total credit for the year	(21)	(4)

There is also a tax credit of £22 million (2022: £nil) recognised directly in the Statement of Changes in Equity in respect of deferred tax on equity-settled share-based payments.

Global Minimum Tax rules and Franked Investment Income – litigation

The Group has reviewed the impact of the new Global Minimum Tax ("Pillar 2") rules and considers they are unlikely to have a material impact on the Group tax charge in their current form.

Since 2003, certain entities in the Group have been involved in litigation with HMRC in respect of various advance corporate tax payments and corporate tax paid on certain foreign dividends which, in the Group's view, were levied by HMRC in breach of the Group's EU community law rights. On 5 February 2024, the High Court handed down the latest decision in the case. This considered the question of time limits for valid claims. The decision is broadly positive for the Group, however the decision can be appealed. The continuing complexity of the case and uncertainty over the issues raised means that it is not possible to predict the final outcome of the litigation with any reasonable degree of certainty.

9. Dividends

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Interim dividend for the year ended 31 December 2023 of 1.5p	20	–
Second interim dividend for the year ended 31 December 2022 of 1.5p (4.5p)(1)	61	–
Interim dividend for the year ended 31 December 2022 of 0.825p (2.475p)(1)	–	33
Final dividend for the year ended 31 December 2021 of 1.0p (3.0p)(1)	–	44
	81	77

(1) Adjusted to include the effects of the one for three share consolidation (see note 1).

A final dividend for the year ended 31 December 2023 of 3.5p per share totalling an expected £46 million is declared by the Board. The final dividend of 3.5p per share was declared by the Board on 7 March 2024 and in accordance with IAS 10: Events after the reporting period, has not been included as a liability in the Consolidated Financial Statements.

During the year, the Group commenced a £500 million share buyback programme with £93 million of cash spent, inclusive of costs of £1 million (see note 1). In the prior year, the Group also undertook a share buyback programme, with £504 million of cash spent, inclusive of costs of £4 million.

10. Earnings per share

Earnings attributable to owners of the parent	Year ended 31 December 2023 £m	Restated(1) Year ended 31 December 2022 £m
Earnings for basis of earnings per share	(1,019)	(308)
Less: loss from discontinued operations (note 13)	1,020	79
Earnings for basis of earnings per share from continuing operations	1	(229)

(1) Earnings has been restated for discontinued operations (see note 1).

	Year ended 31 December 2023 Number	Restated(1) Year ended 31 December 2022 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	1,349	1,406
Further shares for the purposes of diluted earnings per share (million)	56	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share (million)	1,405	1,406

(1) Adjusted to include the effects of the one for three share consolidation (see note 1).

10. Earnings per share continued

On 2 October 2023, the Group commenced a £500 million share buyback programme, with 18,761,840 shares repurchased by 31 December 2023. These are held as treasury shares and are excluded from the number of shares for the purposes of calculating earnings per share. In the prior year, the Group completed a £500 million share buyback programme with 318,003,512 shares repurchased and subsequently cancelled.

Earnings per share	Year ended 31 December 2023 pence	Restated[(1)] Year ended 31 December 2022 pence
Basic earnings per share		
From continuing and discontinued operations	**(75.5)**	(21.9)
From continuing operations	**0.1**	(16.3)
From discontinued operations	**(75.6)**	(5.6)
Diluted earnings per share		
From continuing and discontinued operations	**(75.5)**	(21.9)
From continuing operations	**0.1**	(16.3)
From discontinued operations	**(75.6)**	(5.6)

(1) Earnings per share has been restated for discontinued operations and to include the effects of the one for three share consolidation (see note 1).

Adjusted earnings from continued operations	Year ended 31 December 2023 £m	Restated[(1)] Year ended 31 December 2022 £m
Adjusted earnings for the basis of adjusted earnings per share	**263**	58

(1) Earnings has been restated for discontinued operations (see note 1).

Adjusted earnings per share from continuing operations:

	Year ended 31 December 2023 pence	Restated[(1)] Year ended 31 December 2022 pence
Adjusted basic earnings per share	**19.5**	4.1
Adjusted diluted earnings per share	**18.7**	4.1

(1) Earnings per share has been restated for discontinued operations and to include the effects of the one for three share consolidation (see note 1).

11. Goodwill and other intangible assets

	Goodwill £m	Customer relationships and contracts £m	Brands and intellectual property £m	Other(1) £m	Computer software £m	Development costs £m	Total £m
Cost							
At 1 January 2022	2,850	4,406	480	1,011	49	522	9,318
Additions	–	–	–	–	6	21	27
Acquisition of businesses(2)	1	–	–	3	–	–	4
Disposals	–	–	–	–	(2)	(4)	(6)
Transfer to held for sale(3)	(455)	(122)	(100)	–	–	–	(677)
Exchange adjustments	189	386	13	33	3	31	655
At 31 December 2022	2,585	4,670	393	1,047	56	570	9,321
Additions	–	–	–	–	3	13	16
Disposals	–	–	–	–	(1)	(3)	(4)
Transfer to held for sale(3)	–	–	–	–	(1)	(1)	(2)
Disposal of businesses(4)	(1,575)	(1,749)	(184)	(401)	(33)	(100)	(4,042)
Exchange adjustments	(49)	(154)	(2)	(15)	(1)	(15)	(236)
At 31 December 2023	**961**	**2,767**	**207**	**631**	**23**	**464**	**5,053**
Amortisation and impairment							
At 1 January 2022	–	(1,226)	(95)	(383)	(29)	(195)	(1,928)
Charge for the year:							
Adjusted operating profit	–	–	–	–	(7)	(43)	(50)
Adjusting items	–	(338)	(24)	(104)	–	–	(466)
Impairments(5)	–	–	–	–	–	(9)	(9)
Disposals	–	–	–	–	2	4	6
Transfer to held for sale(3)	–	71	35	–	–	–	106
Exchange adjustments	–	(105)	(9)	(9)	(2)	(9)	(134)
At 31 December 2022	–	(1,598)	(93)	(496)	(36)	(252)	(2,475)
Charge for the year:							
Adjusted operating profit	–	–	–	–	(3)	(39)	(42)
Adjusting items	–	(228)	(12)	(69)	–	–	(309)
Disposals	–	–	–	–	1	3	4
Transfer to held for sale(3)	–	–	–	–	1	1	2
Disposal of businesses(4)	–	694	46	237	17	59	1,053
Exchange adjustments	–	53	–	6	1	5	65
At 31 December 2023	**–**	**(1,079)**	**(59)**	**(322)**	**(19)**	**(223)**	**(1,702)**
Net book value							
At 31 December 2023	**961**	**1,688**	**148**	**309**	**4**	**241**	**3,351**
At 31 December 2022	2,585	3,072	300	551	20	318	6,846

(1) Other includes technology and order backlog intangible assets recognised on acquisitions.
(2) Acquisition of businesses in 2022 related to Permanova Lasersystem AB within the Engines segment.
(3) Transfer to held for sale in 2023 relates to the contractually agreed sale of a non-core business in the Structures segment and in 2022 related to the Ergotron business (see note 1).
(4) Disposal of businesses in 2023 relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1).
(5) Impairments in 2022 were shown as adjusting items.

The goodwill generated as a result of major acquisitions represents the premium paid in excess of the fair value of all net assets, including intangible assets, identified at the point of acquisition. The carrying value of goodwill includes a premium, paid in order to secure shareholder agreement to the business combination, that is less than the value that the Directors believed could be added to the acquired businesses.

The goodwill arising on bolt-on acquisitions is attributable to the anticipated profitability and cash flows arising from the businesses acquired, synergies as a result of the complementary nature of the business with existing Melrose businesses, the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group.

The future improvements applied to the acquired businesses, achieved through a combination of revised strategic direction, operational improvements and investment, are expected to result in improved profitability. The combined value achieved from these improvements is expected to be in excess of the value of goodwill acquired.

Following the Group's demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen on 20 April 2023 the internal reporting structure changed for the remaining GKN Aerospace business to show an Engines segment and a Structures segment (see note 5). As a consequence, the Aerospace group of cash-generating units ("CGUs") was reorganised into an Engines group of CGUs and a Structures group of CGUs effective from 20 April 2023.

11. Goodwill and other intangible assets continued

As a result of the change in the groups of CGUs structure, an allocation of goodwill to the two new groups of CGUs has been performed based on their valuation at 20 April 2023. Subsequently, impairment testing was completed, dated 20 April 2023, based on the old structure of one group of CGUs (Aerospace) and the new structure of two groups of CGUs (Engines and Structures). No impairment was identified in respect of any of the groups of CGUs.

Goodwill	31 December 2023 £m	Restated[(1)] 31 December 2022 £m
Engines	**608**	627
Structures	**353**	363
Continuing operations – Aerospace	**961**	990
Discontinued operations	**–**	1,595
Total	**961**	2,585

(1) Goodwill has been restated for discontinued operations (see note 1) and to reflect the revised groups of CGUs effective from 20 April 2023 when the Aerospace group of CGUs was re-organised into the Engines and Structures groups of CGUs.

Impairment testing

The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired. The date of the annual impairment test is 31 October, aligned with internal forecasting and review processes. In accordance with IAS 36: Impairment of assets, the Group assesses goodwill based on the recoverable amount, being the higher of the value in use basis and the fair value less costs to sell basis. Due to the change in Group strategy to become a pure-play Aerospace group, the value in use methodology has been used to determine recoverable amount.

Value in use calculations have been used to determine the recoverable amount of goodwill and other relevant net assets allocated to the Engines and Structures groups of CGUs for the year ended 31 December 2023. The calculation uses the latest approved forecasts extrapolated into perpetuity with growth rates shown below, which do not exceed the long-term growth rate for the relevant market.

In the prior year, fair value less costs to sell calculations were used to determine the recoverable amount of goodwill and other relevant net assets allocated to the Aerospace, Automotive and Powder Metallurgy groups of CGUs. When applying the fair value less costs to sell methodology, it was difficult to assess a sale value using observable market inputs (level 1) or inputs based on market evidence (level 2) in the environment and so unobservable inputs (level 3) were used. A combination of discounted cash flows and EBITDA multiple valuations were used to establish fair values for each of the groups of CGUs. Under IAS 36, the benefits from future uncommitted restructuring plans were permitted when applying the fair value less costs to sell basis, to the extent that similar actions would be carried out by a market participant.

Based on impairment testing completed no impairment was identified in respect of either of the groups of CGUs. No sensitivity analysis has been provided as there is no reasonably possible change in key assumptions that could result in an impairment in either the Engines or Structures groups of CGUs.

The basis of impairment tests and the key assumptions are set out in the tables below:

	31 December 2023		
Groups of CGUs – value in use	Pre-tax discount rates	Long-term growth rates	Years in forecast
Engines	**12.25%**	**3.4%**	**5**
Structures	**12.50%**	**3.4%**	**5**

	31 December 2022		
Groups of CGUs – fair value less costs to sell	Post-tax discount rates	Long-term growth rates	Years in forecast
Aerospace	10.75%	3.0%	5
Automotive	11.25%	3.5%	5
Powder Metallurgy	12.0%	3.9%	5

Risk adjusted discount rates

Cash flows within the Engines and Structures groups of CGUs are discounted using a pre-tax discount rate specific to each group of CGUs. Discount rates reflect the current market assessments of the time value of money and the territories in which the group of CGUs operates. In determining the cost of equity, the Capital Asset Pricing Model ("CAPM") has been used. Under CAPM, the cost of equity is determined by adding a risk premium, based on an industry adjustment ("Beta"), to the expected return of the equity market above the risk-free return. The relative risk adjustment reflects the risk inherent in each group of CGUs relative to all other sectors and geographies on average.

The cost of debt is determined using a risk-free rate based on the cost of government bonds, and an interest rate premium equivalent to a corporate bond with a similar credit rating to the Group.

11. Goodwill and other intangible assets continued

Assumptions applied in financial forecasts

The Group prepares cash flow forecasts derived from financial budgets and medium-term forecasts. Each forecast has been prepared using a five year cash flow period. The key assumptions used in forecasting cash flows relate to future budgeted revenue and operating margins likely to be achieved and the expected rates of long-term growth by sector. Underlying factors in determining the values assigned to each key assumption are shown below.

Impairment testing has considered the impact of two transitional climate scenarios used by the Group to assess climate-related risks and opportunities. Demand for the Group's products may be impacted by the different scenarios over the medium to long-term. Whilst recognising these scenarios contain major assumptions, the modelling indicates no material impact on existing revenue assumptions, with any potential reduction in Melrose's existing products being offset by the Group's transition plan into lower-carbon products under existing financial planning. The potential of transition risks such as, the transitioning of carbon intensive machinery to more carbon efficient or electric models also did not indicate a material impact on the existing financial cost in the short to medium term forecasting. The impairment testing also considers the potential costs from climate related risks under physical scenarios RCP 2.6 and 8.5. Risks such as flooding and storm events were predicted to not have a material impact on cost within our financial forecasting horizon.

Revenue growth and operating margins:

Revenue growth assumptions in the forecast period are based on financial budgets and five-year term forecasts by management, taking into account industry growth rates and management's historical experience in the context of wider industry and economic conditions. Projected sales are built up with reference to markets and product categories. They incorporate past performance, historical growth rates, projections of developments in key markets, secured orders and orders forecast to be achieved in the short to medium-term given trends in the relevant market sector. Revenue assumptions are made using external market data, where available.

Operating margins have been forecast based on historical levels achieved considering the likely impact of changing economic environments and competitive landscapes on volumes and revenues and the impact of management actions on costs. Forecasts for operating costs are based on inflation forecasts and supply and demand factors, which take account of climate change implications for affected markets. Impairment testing includes short to medium-term planning (five years) for both of the groups of CGUs, which will address known risks from climate change and other environmental factors impacting forecast costs as well as the opportunities in associated markets as they prepare for change e.g. hydrogen propulsion which impacts revenues.

The key drivers for growth in revenue and operating margins are global demand for commercial and military aircraft. Consumer spending, passenger load factors, raw material input costs, market expectations for aircraft production requirements, technological advancements, and other macro-economic factors influence demand for these products.

Long-term growth rates:

Long-term growth rates are determined using long-term growth rate forecasts that take into account the international presence and the markets in which each business operates.

Allocation of significant intangible assets

The allocation of significant customer relationships and contracts, brands, intellectual property and technology is as follows:

	Customer relationships and contracts				Brands, intellectual property and technology			
	Remaining amortisation period		Net book value		Remaining amortisation period		Net book value	
	31 December 2023 years	31 December 2022 years	31 December 2023 £m	Restated[1] 31 December 2022 £m	31 December 2023 years	31 December 2022 years	31 December 2023 £m	Restated[1] 31 December 2022 £m
Engines	15	16	1,355	1,555	15	16	149	166
Structures	5	6	333	410	15	16	308	368
Continuing operations			1,688	1,965			457	534
Discontinued operations			–	1,107			–	317
Total			1,688	3,072			457	851

(1) Significant intangible assets have been restated for discontinued operations (see note 1) and to reflect the revised groups of CGUs effective from 20 April 2023 when the Aerospace group of CGUs was re-organised into the Engines and Structures groups of CGUs.

12. Investments

Investments, carried at fair value	31 December 2023 £m	31 December 2022 £m
Shares	**114**	62

The Group holds a 10% equity share in HiiROC Limited, a hydrogen technology company, a 4% investment in PW1100G-JM Engine Leasing LLC, an engine leasing business, and a 1% investment in Dowlais Group plc which was retained following the demerger on 20 April 2023 at an initial valuation of £20 million.

There was a gain on remeasurement to fair value of £35 million (2022: loss of £34 million) and a foreign exchange translation loss of £3 million (2022: gain of £9 million). A dividend of £5 million (2022: £4 million) was received during the year which was recorded within operating profit.

Certain of the investments are classified as a level 3 fair value under the IFRS 13 fair value hierarchy. To calculate the value at 31 December 2023, the expected dividend flow was discounted to net present value using a discount rate of 10.5%. If the discount rate changed from 10.5% to 9.5% the fair value would increase by £8 million.

13. Discontinued operations

On 30 March 2023, shareholders approved the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses through the flotation of Dowlais Group plc ("Dowlais") on the London Stock Exchange. As a consequence, the assets and liabilities of Dowlais were reclassified as held for sale in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations.

On 20 April 2023, the Group completed the demerger of Dowlais. The results of the Dowlais businesses have been classified within discontinued operations for both years presented. In addition, discontinued operations for 2022 include the results of the Ergotron business which was disposed of on 6 July 2022.

The demerger distribution of £1,973 million has been measured at fair value in accordance with IFRIC 17: Distributions of Non-cash Assets to Owners (see note 3b). Total demerger costs of £64 million, of which £6 million was recognised in the year ended 31 December 2022, were incurred before a contribution of £19 million in the form of one percent of Dowlais Group plc issued equity which has been retained by the Group. The Melrose Automotive Share Plan has also been taken into account within the loss on disposal calculation, but its net impact was immaterial.

Financial performance of discontinued operations:

	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Revenue	**1,582**	4,715
Operating costs	**(1,550)**	(4,740)
Operating profit/(loss)	**32**	(25)
Net finance costs	**(7)**	(13)
Profit/(loss) before tax	**25**	(38)
Tax	**(28)**	(20)
Loss after tax	**(3)**	(58)
Loss on disposal of net assets of discontinued operations, net of recycled cumulative translation differences but before transaction costs	**(978)**	(16)
Demerger transaction costs[2]	**(39)**	–
Loss for the year from discontinued operations	**(1,020)**	(74)
Attributable to:		
Owners of the parent	**(1,020)**	(79)
Non-controlling interests	**–**	5
	(1,020)	(74)

(1) Restated for operations discontinued in the year (see note 1).
(2) Demerger transaction costs of £39 million comprise total cash costs incurred in the year of £58 million, offset by a non-cash contribution from Dowlais of £19 million.

Cash flow information relating to discontinued operations is shown in note 27.

13. Discontinued operations continued

Classes of assets and liabilities disposed of and amounts classified as held for sale during the year were as follows:

	Classified as held for sale[1] £m	Businesses disposed £m
Goodwill and other intangible assets	–	2,989
Property, plant and equipment	4	1,789
Current and deferred tax	1	127
Equity accounted investments	–	417
Inventories	4	515
Trade and other receivables	9	753
Derivative financial instruments	–	45
Cash and cash equivalents	–	320
Total assets	**18**	**6,955**
Trade and other payables	5	1,232
Interest-bearing loans and borrowings[2]	–	1,205
Lease obligations	1	158
Current and deferred tax	–	435
Retirement benefit obligations	–	439
Provisions	4	344
Total liabilities	**10**	**3,813**
Net assets	**8**	**3,142**
Demerger distribution fair value		1,973
Derecognition of non-controlling interests on demerger		39
Demerger costs incurred		(39)
Cumulative translation difference recycled on demerger		152
Loss on disposal of businesses		**(1,017)**

(1) Relates to the Fuel Systems business (see note 1).
(2) Prior to the demerger the interest-bearing loans and borrowings were inter-company. On demerger, these were subsequently settled.

Post Balance Sheet event

On 1 March 2024, the Group completed the disposal of its Fuel Systems business for £50 million, before costs and other deductions.

14. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2022	1,143	2,722	3,865
Additions	38	281	319
Acquisition of businesses(1)	1	–	1
Right-of-use asset reassessments	–	(1)	(1)
Disposals	(19)	(117)	(136)
Disposal of businesses(2)	(6)	–	(6)
Transfer to held for sale(3)	(49)	(20)	(69)
Exchange adjustments	61	263	324
At 31 December 2022	1,169	3,128	4,297
Additions	34	150	184
Right-of-use asset reassessments	2	–	2
Disposals	(3)	(37)	(40)
Disposal of businesses(2)	(641)	(2,102)	(2,743)
Transfer to held for sale(3)	(8)	(12)	(20)
Exchange adjustments	(30)	(100)	(130)
At 31 December 2023	**523**	**1,027**	**1,550**
Accumulated depreciation and impairment			
At 1 January 2022	(300)	(1,037)	(1,337)
Charge for the year	(59)	(299)	(358)
Disposals	4	108	112
Disposal of businesses(2)	6	–	6
Transfer to held for sale(3)	27	15	42
Impairments(4)	(2)	(16)	(18)
Exchange adjustments	(6)	(139)	(145)
At 31 December 2022	(330)	(1,368)	(1,698)
Charge for the year	(38)	(111)	(149)
Disposals	2	34	36
Disposal of businesses(2)	120	834	954
Transfer to held for sale(3)	7	9	16
Impairments	(1)	–	(1)
Exchange adjustments	10	59	69
At 31 December 2023	**(230)**	**(543)**	**(773)**
Net book value			
At 31 December 2023	**293**	**484**	**777**
At 31 December 2022	839	1,760	2,599

(1) Acquisition of businesses in 2022 related to Permanova Lasersystem AB within the Engines segment.
(2) Disposal of businesses in 2023 related to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1). Disposal of businesses in 2022 related to the sale of a non-core business in the Structures segment.
(3) Transfer to held for sale in 2023 relates to the contractually agreed sale of a non-core business in the Structures segment and in 2022 related to the Ergotron business (see note 1).
(4) Impairments in 2022 were shown as adjusting items.

Assets under the course of construction at 31 December 2023 totalled £126 million (31 December 2022: £243 million).

14. Property, plant and equipment continued

Property, plant and equipment includes the net book value of right-of-use assets as follows:

Right-of-use asset	Land and buildings £m	Plant and equipment £m	Total £m
At 1 January 2022	265	48	313
Additions	19	19	38
Acquisition of businesses[1]	1	–	1
Right-of-use asset reassessments	–	(1)	(1)
Depreciation	(31)	(16)	(47)
Disposals	(2)	(3)	(5)
Transfer to held for sale[2]	(1)	(5)	(6)
Exchange adjustments	14	4	18
At 31 December 2022	265	46	311
Additions	21	10	31
Right-of-use asset reassessments	2	–	2
Depreciation	(23)	(8)	(31)
Transfer to held for sale[2]	(1)	–	(1)
Disposal of businesses[3]	(117)	(28)	(145)
Impairments	(1)	–	(1)
Exchange adjustments	(6)	(1)	(7)
At 31 December 2023	**140**	**19**	**159**

(1) Acquisition of businesses in 2022 related to Permanova Lasersystem AB within the Engines segment.
(2) Transfer to held for sale in 2023 relates to the contractually agreed sale of a non-core business in the Structures segment and in 2022 related to the Ergotron business (see note 1).
(3) Disposal of businesses in 2023 relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1).

15. Equity accounted investments

	31 December 2023 £m	31 December 2022 £m
Aggregated amounts relating to equity accounted investments:		
Share of current assets	**4**	416
Share of non-current assets	**9**	322
Share of current liabilities	**(6)**	(289)
Share of non-current liabilities	**–**	(14)
Interests in equity accounted investments	**7**	435

Group share of equity accounted investments	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
At 1 January	**435**	429
Share of results of equity accounted investments	**4**	49
Additions	**–**	3
Disposals	**(3)**	–
Disposal of businesses[1]	**(417)**	–
Dividends paid to the Group	**–**	(59)
Exchange adjustments	**(12)**	13
At 31 December	**7**	435

(1) Disposal of businesses in 2023 relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1).

During the year the Group demerged its one significant joint venture, held within the Automotive segment, Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"). In addition, the Group sold its 20% investment in Business Park Aviolanda B.V. for proceeds of £3 million.

16. Inventories

	31 December 2023 £m	31 December 2022 £m
Raw materials	**235**	518
Work in progress	**195**	328
Finished goods	**80**	179
	510	1,025

16. Inventories continued

In 2023, the write down of inventories in continuing businesses to net realisable value amounted to £53 million (2022: £43 million). The reversal of write downs in continuing businesses amounted to £44 million (2022: £38 million). Write downs and reversals in both years relate to ongoing assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

Climate change may impact the demand from customers for certain products, however given the speed of inventory turnover the Directors consider that there is no material impact and inventory is appropriately valued.

The Directors consider that there is no material difference between the net book value of inventories and their replacement cost.

17. Trade and other receivables

Current	31 December 2023 £m	31 December 2022 £m
Trade receivables	**430**	989
Allowance for expected credit loss	**(10)**	(20)
Other receivables	**162**	286
Prepayments	**33**	36
Contract assets	**98**	135
	713	1,426

Trade receivables are non interest-bearing. Credit terms offered to customers vary upon the country of operation but are generally between 30 and 90 days.

Non-current	31 December 2023 £m	31 December 2022 £m
Other receivables	**21**	23
Contract assets	**768**	647
	789	670

As described in note 25, certain businesses participate in receivables working capital programmes and have the ability to choose whether to receive payment earlier than the normal due date, for specific customers on a non-recourse basis. As at 31 December 2023, eligible receivables under these programmes have been factored and derecognised in line with the derecognition criteria of IFRS 9: Financial Instruments. All receivables are solely payments of principal and interest and are held to collect.

An allowance has been made for expected lifetime credit losses with reference to past default experience and management's assessment of credit worthiness over trade receivables, an analysis of which is as follows:

	Engines[1] £m	Structures[1] £m	Restated[1] Discontinued operations £m	Total £m
At 1 January 2022	2	5	16	23
Income Statement charge/(credit)	2	(1)	(2)	(1)
Utilised	(2)	–	–	(2)
Transfer to held for sale[2]	–	–	(2)	(2)
Exchange adjustments	2	(1)	1	2
At 31 December 2022	4	3	13	20
Income Statement charge	1	5	1	7
Utilised	(2)	(1)	–	(3)
Disposal of businesses[3]	–	–	(13)	(13)
Exchange adjustments	–	–	(1)	(1)
At 31 December 2023	**3**	**7**	**–**	**10**

(1) The allowance for expected lifetime credit losses has been restated for discontinued operations (see note 1) and the re-presentation of the Engines and Structures segments.
(2) Transfer to held for sale in 2022 related to the Ergotron business which was subsequently disposed of during the second half of the year (see note 1).
(3) Disposal of businesses in 2023 relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1).

The concentration of credit risk is limited due to the large number of unrelated customers. Credit control procedures are implemented to ensure that sales are only made to organisations that are willing and able to pay for them. Such procedures include the establishment and review of customer credit limits and terms. The Group does not hold any collateral or any other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

17. Trade and other receivables continued

The ageing of impaired trade receivables past due is as follows:

	31 December 2023 £m	31 December 2022 £m
0 – 30 days	–	4
31 – 60 days	–	–
60+ days	10	16
	10	20

Included in the Group's trade receivables balance are overdue trade receivables with a gross carrying amount of £19 million (31 December 2022: £53 million) against which a provision of £10 million (31 December 2022: £20 million) is held.

There are no amounts provided against balances that are not overdue as these are deemed recoverable, following an assessment for impairment in accordance with policies described in note 2.

The ageing of the balance deemed recoverable of £9 million (31 December 2022: £33 million) is as follows:

	31 December 2023 £m	31 December 2022 £m
0 – 30 days	9	30
31 – 60 days	–	3
60+ days	–	–
	9	33

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The Group's contract assets comprise the following:

	Participation fees £m	Unbilled receivables £m	Unbilled work done £m	Other £m	Total £m
At 1 January 2022	193	61	305	52	611
Additions	2	929	124	–	1,055
Utilised	(13)	(918)	(18)	(7)	(956)
Disposal of businesses(1)	–	(3)	–	–	(3)
Exchange adjustments	22	10	39	4	75
At 31 December 2022	204	79	450	49	782
Additions	8	962	193	–	1,163
Utilised	(17)	(973)	(20)	(5)	(1,015)
Disposal of businesses(1)	(9)	–	–	(10)	(19)
Transfer to held for sale(2)	–	(1)	–	–	(1)
Exchange adjustments	(10)	(4)	(28)	(2)	(44)
At 31 December 2023	**176**	**63**	**595**	**32**	**866**

(1) Disposal of businesses in 2023 relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1). Disposal of businesses in 2022 related to the sale of a non-core business in the Structures segment.
(2) Transfer to held for sale in 2023 relates to the contractually agreed sale of a non-core business in the Structures segment (see note 1).

An assessment for impairment of contract assets has been performed in accordance with policies described in note 2. No such impairment has been recorded.

Climate change and the effect on customers' ability to pay is considered in the allowance for expected credit losses. Climate change related considerations have been taken into account in the forecasting of revenues and costs in respect of RRSP contracts in a similar manner to those described in the impairment testing section (note 11). The Directors have concluded that climate related impacts are not material in the recoverability of trade receivables and contract assets related to unbilled work done on risk and revenue sharing partnerships.

Participation fees
Participation fees are described in the accounting policies (note 2) and are considered to be a reduction in revenue for the related customer contract. Amounts are capitalised and "amortised" to match to the related performance obligation.

Unbilled receivables for over time recognition
Unbilled receivables for over time recognition represent work completed with associated margins where contracts contain a legal right to compensation for work completed, including a margin, and there is no alternative use for the customer's asset.

Unbilled work done
Unbilled work done only has a material impact on one entity in the Group, exclusively relating to certain RRSP arrangements in the Engines segment.

17. Trade and other receivables continued

Where the Group has a contractual right to aftermarket revenue, IFRS 15 requires that the total contract revenue is allocated to the performance obligations. The principal contractual term that determines the existence of unbilled work done is the absence of a termination clause that the customer can unilaterally exercise and which results in future purchases being considered optional. Where there is such a termination clause and the Group commercially relies on economic compulsion of the contracting parties, the two phases of activity are treated as distinct and no unbilled work done contract asset is recognised. In the absence of such a term, there is a contractual link between the sale of OE components and aftermarket, which results in unbilled work done, and the total contract revenue is allocated to the distinct performance obligations.

Unbilled work done is measured using a weighted average unit method, taking account of an estimate of stand-alone selling price for individual performance obligations and is recognised when control of the OE component passes to the customer (the engine manufacturer). Due to the long-term nature of agreements, calculation of the total programme revenues is inherently imprecise and as set out in note 3d requires significant estimates, including an assessment of the aftermarket revenue per engine which reflects the pattern of future maintenance activity and associated costs to be incurred. In order to address the future uncertainties, risk adjustments as well as constraints have been applied to the expected level of revenue as appropriate. This approach best represents the value of goods and services supplied taking account of the performance obligations, risk and overall contract revenues.

As a consequence of allocating additional revenue to the sale of OE components, an unbilled work done contract asset has been recognised which will be satisfied through cash receipt during the aftermarket phase. The constraints applied to unbilled work done are reassessed at each period end, and will unwind as risks reduce and when uncertainties are resolved. This is expected to lead to additional revenue recognition in future periods in relation to items sold in the current and preceding periods. Further information is shown in note 4.

18. Cash and cash equivalents

	31 December 2023 £m	31 December 2022 £m
Cash and cash equivalents	**58**	355

Cash and cash equivalents comprises cash at bank and in hand which earns interest at floating rates based on daily bank deposit rates and short-term deposits which are made for varying periods of between one day and one month. The carrying amount of these assets is considered to be equal to their fair value.

19. Trade and other payables

Current	31 December 2023 £m	31 December 2022 £m
Trade payables	**501**	1,257
Other payables	**110**	375
Customer advances and contract liabilities	**246**	281
Other taxes and social security	**56**	73
Government refundable advances	**5**	7
Funded development costs	**64**	57
Accruals	**183**	279
Deferred government grants	**14**	18
	1,179	2,347

As at 31 December 2023, and as described in note 25, included within trade payables were drawings on supplier finance facilities of £86 million (31 December 2022: £200 million). Trade payables are non-interest-bearing. Normal settlement terms vary by country and the average credit period taken for trade and other payables is 91 days (31 December 2022: 93 days).

Non-current	31 December 2023 £m	31 December 2022 £m
Other payables	**–**	19
Customer advances and contract liabilities	**225**	213
Other taxes and social security	**1**	3
Government refundable advances	**44**	52
Funded development costs	**49**	89
Accruals	**16**	29
Deferred government grants	**23**	26
	358	431

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Non-current amounts; other payables, other taxes and social security and accruals fall due for payment within one to two years; government refundable advances are forecast to fall due for repayment between 2024 and 2055 and the deferred government grants will be utilised over the next five years.

19. Trade and other payables continued

Funded development costs

When the Group is awarded design and development work as part of a related serial production of components contract, management assesses whether the two phases of work are distinct under IFRS 15: Revenue from contracts with customers.

Where it is considered there is only one performance obligation under the contract, being the delivery of manufactured product, any cash received from customers which contributes to 'funding' the up-front design and development expenditure incurred, is deferred on the Balance Sheet as an obligation and released to revenue in the Income Statement based on expectations of volumes.

Development cost funding is in the Engines segment (£1 million) and Structures segment (£112 million).

Customer advances and contract liabilities include cash receipts from customers in advance of the Group completing its performance obligations and are generally utilised as product is delivered. Non-current amounts in respect of customer advances and contract liabilities will be utilised as follows: one to two years £118 million, two to five years £22 million and over five years £85 million (31 December 2022: one to two years £65 million, two to five years £50 million and over five years £98 million).

The Group's Customer advances and contract liabilities comprise the following:

	31 December 2023 £m	31 December 2022 £m
Customer cash advances	**62**	95
Material rights given	**30**	34
RRSP related obligations	**379**	365
	471	494

Customer cash advances

There are a discrete number of contracts with customers, where commercial terms lead to customer advances relating to serial production of components. Where cash is received in advance of performance, this usually addresses non-standard commercial impacts on the Group such as long lead times on inventory.

Customer cash advances received before the Group delivers product is deferred on the Balance Sheet as an obligation and released to revenue based on expectations of volumes.

Material rights given

Where the Group has agreed contracts with customers that contain any unusual pricing features, these are assessed to determine if material rights have been transferred to the customer. A material right could occur when there is a material step down in price or if contracts are modified with lump sum cash receipts offset by a reduction in future pricing.

If a material right has transferred to the customer, any cash received in advance of the Group performing its obligations under a contract is deferred on the Balance Sheet and released to revenue in the Income Statement based on the terms of the contract.

RRSP related obligations

As detailed in the accounting policies (note 2), significant estimates disclosure (note 3), revenue disclosures (note 4) and contract asset disclosure (note 17), the Group has certain RRSP arrangements, with more complex revenue recognition considerations. Whilst the Group has an unbilled work done contract asset of £595 million (31 December 2022: £450 million), detailed in note 17, which represents the Group having completed certain of its performance obligations in advance of cash receipt, it also has contract liabilities.

These include:

- Cash received for a "stand ready" obligation (described in note 4) of £58 million (31 December 2022: £91 million) to contribute to aftermarket activities of certain RRSPs, which typically results in the provision of services such as technical and other programme support activities over the whole life of the engine. This will be recognised over time in line with the engine manufacturer's actual maintenance, repair and overhaul costs.
- A pricing rebate provision for estimated discounts provided by engine manufacturers on the sale of OE of £68 million (31 December 2022: £63 million).
- Cash received to compensate where the production cost incurred on an RRSP contract is in excess of the Group's share of the programme, totalling £22 million (31 December 2022: £8 million). This will be released to the Income Statement when the Group has satisfied its performance obligations.
- Cash received in respect of RRSP contract amendments of £59 million (31 December 2022: £61 million). This will be released over the life of the contract in accordance with the original terms of the contract.
- A provision for engineering and warranty commitments in respect of RRSP contracts of £30 million (31 December 2022: £27 million). This is expected to be utilised over the warranty terms of the contracts.
- Other contract liabilities of £142 million (31 December 2022: £115 million).

20. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. Details of the Group's exposure to credit, liquidity, interest rate and foreign currency risk are included in note 25.

	Current		Non-current		Total	
	31 December 2023 £m	31 December 2022 £m	**31 December 2023 £m**	31 December 2022 £m	**31 December 2023 £m**	31 December 2022 £m
Floating rate obligations						
Bank borrowings – US Dollar loan	**–**	–	**467**	759	**467**	759
Bank borrowings – Sterling loan	**–**	–	**1**	182	**1**	182
Bank borrowings – Euro loan	**–**	–	**106**	363	**106**	363
Other loans	**53**	–	**–**	–	**53**	–
Bank overdrafts	**1**	63	**–**	–	**1**	63
Fixed rate obligations						
2032 bond	**–**	–	**10**	130	**10**	130
	54	63	**584**	1,434	**638**	1,497
Unamortised finance costs	**–**	–	**(8)**	(3)	**(8)**	(3)
Non-cash acquisition fair value adjustment	**–**	–	**–**	2	**–**	2
Total interest-bearing loans and borrowings	**54**	63	**576**	1,433	**630**	1,496

The Group's committed bank facilities were refinanced during the year. The new facilities consist of a multi-currency term loan denominated US$300 million and €100 million, and a US$250 million revolving credit facility, both of which mature in April 2026. In addition, the Group also entered into multi-currency revolving credit facilities totalling US$690 million, £300 million and €300 million that initially mature in April 2026, but with the potential to be extended for two additional one-year periods at the Company's option.

At 31 December 2023, the term loan was fully drawn and there were drawings of US$298 million, £1 million and €22 million on the revolving credit facilities. Applying the exchange rates at 31 December 2023, the headroom equated to £1,043 million. There are also a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Group.

During the year, £4 million of unamortised finance costs were charged to the Income Statement, and an additional £2 million was written off relating to the old bank facility that was replaced on demerger. New unamortised finance costs of £11 million were recognised on the inception of the new bank facility.

Throughout the year, the Group remained compliant with all covenants under the facilities disclosed above. A number of Group companies are guarantors under the bank facilities. Further details on covenant compliance for the year ended 31 December 2023 are contained in note 25.

The bank margin on the bank facility depends on the Group leverage and were as follows:

	31 December 2023		31 December 2022	
	Margin	**Range**	Margin	Range
Facility:				
Term loan	**1.30%**	**0.9% – 2.2%**	0.75%	0.75% – 2.0%
Revolving credit facilities	**1.30% – 1.55%**	**0.9% – 2.4%**	0.75%	0.75% – 2.0%

At the start of the year the Group held capital market borrowings with an outstanding nominal value of £130 million from an original £300 million bond, issued in May 2017 and due to mature in May 2032. In December 2023, an agreement was reached with certain remaining bondholders that resulted in £120 million of the outstanding nominal value being bought back and cancelled for a total cost of £109 million (excluding accrued interest). This represented a gain of £13 million after associated costs including the release of a fair value adjustment of £2 million on the bond, recognised on acquisition of GKN. This gain has been recognised as an adjusting item within finance income in the Consolidated Income Statement.

Details of the remaining bond are in the table below:

Maturity date	Notional amount £m	Coupon % p.a.
May 2032	10	4.625%

Maturity of financial liabilities (excluding currency contracts and lease obligations)

The table below shows the maturity profile of anticipated future cash flows, including interest, on an undiscounted basis in relation to the Group's financial liabilities (other than those associated with currency risk, which are shown in note 25, and lease obligations which are shown in note 28). The amounts shown therefore differ from the carrying value and fair value of the Group's financial liabilities.

20. Interest-bearing loans and borrowings continued

	Interest-bearing loans and borrowings £m	Interest rate derivative financial liabilities £m	Other financial liabilities £m	Total financial liabilities £m
Within one year	88	–	799	887
In one to two years	45	–	21	66
In two to five years	565	–	7	572
After five years	11	–	32	43
Effect of financing rates	(79)	–	–	(79)
31 December 2023	**630**	**–**	**859**	**1,489**
Within one year	131	3	1,918	2,052
In one to two years	1,358	–	60	1,418
In two to five years	18	–	15	33
After five years	160	–	25	185
Effect of financing rates	(171)	–	–	(171)
31 December 2022	1,496	3	2,018	3,517

21. Provisions

	Loss-making contracts £m	Property related costs £m	Environmental and litigation £m	Warranty related costs £m	Restructuring £m	Other £m	Total £m
At 1 January 2023	108	28	119	200	83	73	611
Utilised	(26)	–	(7)	(11)	(97)	(8)	(149)
Charge to operating profit(1)	23	1	18	16	96	63	217
Release to operating profit(2)	(2)	–	(9)	(18)	(2)	–	(31)
Disposal of businesses(3)	(41)	(5)	(63)	(154)	(18)	(63)	(344)
Transfer to held for sale(4)	(1)	–	(1)	(2)	–	–	(4)
Unwind of discount(5)	–	–	–	–	–	1	1
Exchange adjustments	(3)	(1)	(3)	(4)	(3)	(1)	(15)
At 31 December 2023	**58**	**23**	**54**	**27**	**59**	**65**	**286**
Current	38	5	34	15	49	47	188
Non-current	20	18	20	12	10	18	98
	58	**23**	**54**	**27**	**59**	**65**	**286**

(1) Includes £182 million of adjusting items and £35 million recognised in adjusted operating profit.
(2) Includes £8 million of adjusting items and £23 million recognised in adjusted operating profit.
(3) Disposal of businesses relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1).
(4) Transfer to held for sale relates to the contractually agreed sale of a non-core business in the Structures segment (see note 1).
(5) Includes £1 million within finance costs relating to the time value of money.

Loss-making contracts
Provisions for loss-making contracts are considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received under it. This obligation has been discounted and will be utilised over the period of the respective contracts, which is up to 15 years. At 31 December 2023, the loss-making contracts provision within Engines totalled £14 million (31 December 2022: £17 million) and £44 million within Structures (31 December 2022: £45 million).

Calculation of loss-making contract provisions is based on contract documentation and delivery expectations, along with an estimate of directly attributable costs and represents management's best estimate of the unavoidable costs of fulfilling the contract.

Utilisation in continuing operations during the year of £23 million has benefited adjusted operating profit with £3 million recognised in Engines and £20 million recognised in Structures. In addition, £21 million has been charged on a net basis (2022: £8 million released) and is shown as an adjusting item.

Property related costs
The provision for property related costs represents dilapidation costs for ongoing leases and is expected to result in cash expenditure over the next eight years. Calculation of dilapidation obligations are based on lease agreements with landlords and external quotes, or in the absence of specific documentation, management's best estimate of the costs required to fulfil obligations.

Environmental and litigation
There are environmental provisions amounting to £7 million (31 December 2022: £26 million) relating to the estimated remediation costs of pollution, soil and groundwater contamination at certain sites and estimated future costs and settlements in relation to legal claims and associated insurance obligations amounting to £47 million (31 December 2022: £93 million). Liabilities for environmental costs are recognised when environmental assessments are probable and the associated costs can be reasonably estimated.

21. Provisions continued

The Group has on occasion been required to take legal or other actions to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, considering professional advice received. This represents management's best estimate of the likely outcome. The timing of utilisation of these provisions is frequently uncertain, reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent management's best estimate of the cost of settling future obligations and reflect management's assessment of the likely settlement method, which may change over time. However, no provision is made for proceedings which have been, or might be, brought by other parties against Group companies unless management, considering professional advice received, assess that it is more likely than not that such proceedings may be successful.

Warranty related costs

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products and subsequently updated for changes in estimates as necessary. The provision for warranty related costs represents the best estimate of the expenditure required to settle the Group's obligations, based on past experience, recent claims and current estimates of costs relating to specific claims. Warranty terms are, on average, between one and five years.

Restructuring

Restructuring provisions relate to committed costs in respect of restructuring programmes, as described in note 6, usually resulting in cash spend within one to two years. A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by either starting to implement the plan or by announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are necessarily entailed by the restructuring programmes.

Other

Other provisions include long-term incentive plans for divisional senior management and the employer tax on equity-settled incentive schemes which are expected to result in cash expenditure during the next three years.

Where appropriate, provisions have been discounted using discount rates between 0% and 7% (31 December 2022: 0% and 14%) depending on the territory in which the provision resides and the length of its expected utilisation.

22. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior year.

	Deferred tax assets	Deferred tax liabilities			
	Tax losses and other assets £m	Accelerated capital allowances and other liabilities £m	Deferred tax on intangible assets £m	Total deferred tax liabilities £m	Total net deferred tax £m
At 1 January 2022	250	(127)	(487)	(614)	(364)
Credit to income	35	3	111	114	149
Credit to equity	4	–	–	–	4
Disposal of businesses(1)	(10)	–	–	–	(10)
Acquisition of businesses(2)	–	(1)	–	(1)	(1)
Transfer to held for sale(3)	(9)	–	30	30	21
Exchange adjustments	44	(18)	(71)	(89)	(45)
Movement in set off of assets and liabilities(4)	59	(7)	(52)	(59)	–
At 31 December 2022	373	(150)	(469)	(619)	(246)
Credit/(charge) to income	55	(85)	73	(12)	43
Credit to equity	43	–	–	–	43
Disposal of businesses(1)	(189)	31	347	378	189
Transfer to held for sale(3)	(1)	–	–	–	(1)
Exchange adjustments	(18)	10	25	35	17
Movement in set off of assets and liabilities(4)	264	(18)	(246)	(264)	–
At 31 December 2023	**527**	**(212)**	**(270)**	**(482)**	**45**

(1) Disposal of businesses in 2023 relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1). Disposal of businesses in 2022 related to the sale of a non-core business.
(2) Acquisition of businesses in 2022 related to Permanova Lasersystem AB within the Engines segment.
(3) Transfer to held for sale in 2023 relates to the contractually agreed sale of a non-core business in the Structures segment and in 2022 related to the Ergotron business (see note 1).
(4) Set off of deferred tax assets and liabilities in accordance with IAS 12 within territories with a right of set off.

As at 31 December 2023, the Group had gross unused corporate income tax losses of £2,039 million (31 December 2022: £2,176 million) available for offset against future profits. A deferred tax asset of £446 million (31 December 2022: £477 million) has been recognised in respect of £1,799 million (31 December 2022: £1,938 million) of these gross losses. The movement in deferred tax assets relating to tax losses arises primarily through the Income Statement. There is also a credit of £nil (2022: £6 million) included within equity. No asset has been recognised in respect of the remaining losses due to the divisional and geographic split of anticipated future profit streams. Most of these losses may be carried forward indefinitely subject to certain continuity of business requirements. Where losses are subject to time expiry, a deferred tax asset

22. Deferred tax continued

is recognised to the extent that sufficient future profits are anticipated to utilise these losses. The Group continues to recognise deferred tax assets as it is confident that the global recovery, together with restructuring actions taken, will result in future taxable profits against which the deferred tax assets will be realised. In addition to the corporate income tax losses included above, a deferred tax asset of £33 million (31 December 2022: £47 million) has been recognised on tax credits (primarily US) and US state tax losses.

Using similar forecasting considerations to those in the impairment section (note 11), climate change is deemed not to have a material impact on the future taxable profits of the Group and its ability to utilise unused tax losses and deductible temporary differences.

Deferred tax assets have also been recognised on Group retirement benefit obligations at £7 million (31 December 2022: £14 million) and on other temporary differences at £261 million (31 December 2022: £318 million). The gross deferred tax assets therefore amount to £747 million (31 December 2022: £856 million).

Deferred tax liabilities have been recognised on intangible assets at £479 million (31 December 2022: £923 million) and accelerated capital allowances and other temporary differences at £223 million (31 December 2022: £179 million). The gross deferred tax liabilities therefore amount to £702 million (31 December 2022: £1,102 million).

There are no material unrecognised deferred tax assets at 31 December 2023 (31 December 2022: £nil), other than the losses referred to above. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries except where the distribution of such profits is planned. If these earnings were remitted in full, tax of £2 million (31 December 2022: £62 million) would be payable.

23. Share-based payments

2020 Employee Share Plan

Following the demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen ("Dowlais", see note 1), certain adjustments were made to the Melrose 2020 Employee Share Plan ("the MESP"), following shareholder approval, which preserved the rights of the participants of the plan.

Firstly, the invested capital was allocated between the continuing Melrose Group and Dowlais. Secondly, recognising that the timelines of both the demerger and the crystallisation date of the MESP coincided, the performance of the MESP was extended by one year. Finally, to recognise the value creation platform already prepared for Dowlais whilst under Melrose ownership, the invested capital allocated formed the basis for the creation of a separate parallel Melrose Automotive share plan ("the MASP"), under which the creation of further value in Dowlais will be rewarded up to 31 May 2025. The MASP is not an equity-settled share-based payment arrangement for the Group and so an adjustment was recorded to recycle £5 million from Retained Earnings.

Further details in respect of the MESP are set out in the Directors' Remuneration Report on page 134.

The MESP

During the year, the Group recognised a charge of £35 million (2022: £15 million) in respect of the MESP, inclusive of a £28 million charge in respect of related national insurance (2022: credit of £1 million), recognised in adjusting items (note 6).

The estimated value of the MESP at 31 December 2023 if settled at that date was £302 million (31 December 2022: £nil). Using a Black-Scholes option pricing model, the projected value of this plan at 31 May 2024 (being the end of the revised four year performance period) is £274 million (31 December 2022: £22 million).

The annual IFRS 2 charge in respect of the MESP was £16 million which ceased on 31 May 2023. The inputs into the Black-Scholes valuation model that were used to fair value the plan at the grant date were as follows:

	Valuation assumptions[1]
Weighted average share price	**£1.81**
Weighted average exercise price	**£1.71**
Expected volatility	**58%**
Expected life as at inception	**2.4 years**
Risk free interest	**0.0%**

(1) Valuation assumptions are not required to be updated to reflect the current capital structure of the Group.

Expected volatility was determined by calculating the historical volatility of the Company's share price.

24. Retirement benefit obligations

Defined contribution plans

The Group operates defined contribution plans for qualifying employees across several jurisdictions. The assets of the plans are held separately from those of the Group in funds under the control of Trustees.

The total costs charged in relation to the continuing businesses during the year of £58 million (2022: £56 million) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

24. Retirement benefit obligations continued

Defined benefit plans

The Group sponsors defined benefit plans for qualifying employees of certain subsidiaries. The funded defined benefit plans are administered by separate funds that are legally separated from the Group. The Trustees of the funds are required by law to act in the interest of the fund and of all relevant stakeholders in the plans. The Trustees of the pension funds are responsible for the investment policy with regard to the assets of the fund.

During the year, £439 million of net retirement benefit obligations were disposed with the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (note 1).

Also during the year, a buy-in policy was purchased for £45 million which fully insured pensioner members who were in the GKN Group Pension Scheme Number 4. The present value of funded defined benefit obligations for GKN Group Pension Scheme Number 4 was actuarially calculated and the plan asset was set equal. Following the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses, the most significant defined benefit pension plans in the Group at 31 December 2023 were:

GKN Group Pension Schemes (Numbers 1 and 4)

The GKN Group Pension Schemes (Numbers 1 and 4) are funded plans closed to new members and were closed to future accrual in 2017. The valuation of the plans was based on a full actuarial valuation as of 5 April 2022, updated to 31 December 2023 by independent actuaries.

In June 2023, the UK High Court ruled that certain historical amendments for contracted-out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation. The judgement is subject to appeal. The Trustees and the Group are monitoring developments and will consider if there are any implications for the GKN UK Group Pension Schemes, if the ruling is upheld.

GKN US Consolidated Pension Plan

The GKN US Consolidated Pension Plan is a funded plan, closed to new members and closed to future accrual. The US Pension Plan valuation was based on a full actuarial valuation as of 1 January 2023, updated to 31 December 2023 by independent actuaries.

The cost of the Group's defined benefit plans is determined in accordance with IAS 19 (revised): Employee benefits using the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations and using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK and annually in the US.

Contributions

The Group contributed £72 million (2022: £59 million) to defined benefit pension plans and post-employment plans, inclusive of the £45 million purchase of a buy-in policy discussed above, in the year ended 31 December 2023. The Group expects to contribute £25 million in 2024.

Actuarial assumptions

The major assumptions used by the actuaries in calculating the Group's pension liabilities are as set out below:

	Rate of increase of pensions in payment % per annum	Discount rate %	Price inflation (RPI/CPI) %
31 December 2023			
GKN Group Pension Schemes (Numbers 1 and 4)	**2.6**	**4.5**	**2.9/2.5**
GKN US plans	**n/a**	**4.8**	**n/a**
31 December 2022			
GKN Group Pension Schemes (Numbers 1 – 4)	2.7	4.8	3.2/2.7
GKN US plans	n/a	5.0	n/a
GKN Europe plans	2.6	3.7	2.6/2.6

Mortality

GKN Group Pension Schemes (Numbers 1 and 4)

The GKN Group Pension Schemes (Numbers 1 and 4) use the SAPS "S3PA" base tables with scheme-specific adjustments. The base table mortality assumption for each of the UK plans reflects best estimate results from the most recent mortality experience analyses for each scheme. Scaling factors vary by scheme.

Future improvements for all UK plans are in line with the 2022 Continuous Mortality Investigation ("CMI") core projection model (SK = 7.5, A = 0%, w2022 = 25%) with a long-term rate of improvement of 1.25% p.a. for both males and females.

GKN US Consolidated Pension Plan

GKN US Pension and Medical Plans use base mortality tables in line with PRI – 2012 tables. Future improvements for all US plans are in line with MP2021.

The following table shows the future life expectancy of individuals age 65 at the year end and the future life expectancy of individuals aged 65 in 20 years' time.

	GKN Group Pension Schemes (Numbers 1 and 4) years	GKN US Consolidated Pension Plan years
Male today	22.0	19.7
Female today	24.0	21.6
Male in 20 years' time	22.8	21.2
Female in 20 years' time	25.0	23.1

24. Retirement benefit obligations continued

Balance Sheet disclosures

The amounts recognised in the Consolidated Balance Sheet in respect of defined benefit plans were as follows:

	31 December 2023 £m	31 December 2022 £m
Present value of funded defined benefit obligations	**(1,193)**	(1,931)
Fair value of plan assets	**1,118**	1,941
Funded status	**(75)**	10
Present value of unfunded defined benefit obligations	**(24)**	(498)
Net liabilities	**(99)**	(488)
Analysed as:		
Retirement benefit surplus	**–**	93
Retirement benefit obligations	**(99)**	(581)
Net liabilities	**(99)**	(488)

The net retirement benefit obligations in continuing businesses is attributable to Engines: liability of £2 million (31 December 2022: £1 million) and Structures: liability of £97 million (31 December 2022: £26 million).

The plan assets and liabilities at 31 December 2023 were as follows:

	UK Plans[1] £m	US Plans £m	Other Plans £m	Total £m
Plan assets	1,070	47	1	**1,118**
Plan liabilities	(1,136)	(72)	(9)	**(1,217)**
Net liabilities	(66)	(25)	(8)	**(99)**

(1) Includes a liability in respect of the GKN post-employment medical plans of £6 million and a net deficit in respect of the GKN Group Pension Scheme (Numbers 1 and 4) of £60 million.

The major categories and fair values of plan assets at the end of the year for each category were as follows:

	31 December 2023 £m	31 December 2022 £m
Equities	**–**	85
Government bonds	**363**	722
Corporate bonds	**60**	196
Property	**9**	18
Insurance contracts	**439**	28
Multi-strategy/Diversified growth funds	**130**	354
Private equity	**24**	80
Other[1]	**93**	458
Total	**1,118**	1,941

(1) Primarily consists of cash collateral and liability driven investments.

Excluding the insurance contracts purchased in respect of GKN Group Pension Scheme Number 4, the assets were well diversified and the majority of plan assets had quoted prices in active markets. All government bonds were issued by reputable governments and were generally AA rated or higher. Interest rate and inflation rate swaps were also employed to complement the role of fixed and index-linked bond holdings for liability risk management.

The Trustees continually review whether the chosen investment strategy is appropriate with a view to providing the pension benefits and to ensure appropriate matching of risk and return profiles. The main strategic policies included maintaining an appropriate asset mix, managing interest rate sensitivity and maintaining an appropriate equity buffer. Investment results are regularly reviewed.

24. Retirement benefit obligations continued

Movements in the present value of defined benefit obligations during the year:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
At 1 January	**2,429**	3,471
Current service cost	**2**	9
Interest cost on obligations	**71**	66
Remeasurement gains – demographic	**–**	(1)
Remeasurement losses/(gains) – financial	**3**	(1,072)
Remeasurement losses – experience	**23**	102
Benefits paid out of plan assets	**(79)**	(134)
Benefits paid out of Group assets for unfunded plans	**(7)**	(24)
Settlements[(1)]	**–**	(44)
Disposal of businesses[(2)]	**(1,214)**	–
Exchange adjustments	**(11)**	56
At 31 December	**1,217**	2,429

(1) During 2022, a settlement gain of £2 million was recognised in discontinued operations relating to the buy-out of certain US pension schemes and was shown as an adjusting item.
(2) Disposal of businesses in 2023 relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1).

The defined benefit plan liabilities were 13% (31 December 2022: 15%) in respect of active plan participants, 27% (31 December 2022: 25%) in respect of deferred plan participants and 60% (31 December 2022: 60%) in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2023 was 12.7 years (31 December 2022: 12.8 years).

Movements in the fair value of plan assets during the year:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
At 1 January	**1,941**	3,010
Interest income on plan assets	**66**	61
Return on plan assets, excluding interest income	**(93)**	(1,003)
Contributions	**65**	35
Benefits paid out of plan assets	**(79)**	(134)
Plan administrative costs	**(4)**	(8)
Settlements[(1)]	**–**	(42)
Disposal of businesses[(2)]	**(775)**	–
Exchange adjustments	**(3)**	22
At 31 December	**1,118**	1,941

(1) During 2022, a settlement gain of £2 million was recognised in discontinued operations relating to the buy-out of certain US pension schemes and was shown as an adjusting item.
(2) Disposal of businesses in 2023 relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1).

The actual return on plan assets was a loss of £27 million (2022: loss of £942 million).

Income Statement disclosures

Amounts recognised in the Consolidated Income Statement in respect of these defined benefit plans were as follows:

Continuing operations	Year ended 31 December 2023 £m	Restated[(1)] Year ended 31 December 2022 £m
Included within operating profit/(loss):		
– plan administrative costs	**4**	8
Included within net finance costs:		
– interest cost on defined benefit obligations	**56**	35
– interest income on plan assets	**(55)**	(36)

24. Retirement benefit obligations continued

Discontinued operations	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Included within operating profit/(loss):		
– current service cost	2	9
– settlement gains[2]	–	(2)
Included within net finance costs:		
– interest cost on defined benefit obligations	15	31
– interest income on plan assets	(11)	(25)

(1) Restated for discontinued operations (see note 1).
(2) During 2022, a settlement gain of £2 million was recognised in discontinued operations relating to the buy-out of certain US pension schemes and was shown as an adjusting item.

Statement of Comprehensive Income disclosures

Amounts recognised in the Consolidated Statement of Comprehensive Income in respect of these defined benefit plans were as follows:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Return on plan assets, excluding interest income	(93)	(1,003)
Remeasurement gains arising from changes in demographic assumptions	–	1
Remeasurement (losses)/gains arising from changes in financial assumptions	(3)	1,072
Remeasurement losses arising from experience adjustments	(23)	(102)
Net remeasurement loss on retirement benefit obligations	**(119)**	(32)

Risks and sensitivities

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, inflation risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual, entity specific or plan specific risks.

A sensitivity analysis on the principal assumptions used to measure the plan liabilities at the year end was as follows:

	Change in assumption	Decrease/(increase) to plan liabilities £m	Increase/(decrease) to profit before tax £m
Discount rate	Increase by 0.5 ppts	71	(2)
	Decrease by 0.5 ppts	(78)	2
Inflation assumption[1]	Increase by 0.5 ppts	(42)	n/a
	Decrease by 0.5 ppts	45	n/a
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(43)	n/a
	Decrease by 1 year	44	n/a

(1) The inflation sensitivity encompasses the impact on pension increases, where applicable.

The sensitivity analysis above was determined based on reasonably possible changes to the respective assumptions, while holding all other assumptions constant. There has been no change in the methods or assumptions used in preparing the sensitivity analysis from prior years. Sensitivities are based on the relevant assumptions and membership profile as at 31 December 2023 and are applied to obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation to the sensitivity of assumptions shown. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate and the sensitivity analysis presented may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

25. Financial instruments and risk management

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their carrying values at 31 December 2023 and 31 December 2022:

	Engines £m	Structures £m	Corporate £m	Discontinued operations £m	Total £m
31 December 2023					
Financial assets					
Classified as amortised cost:					
Cash and cash equivalents	**–**	**–**	**58**	**–**	**58**
Net trade receivables	**168**	**252**	**–**	**–**	**420**
Classified as fair value:					
Investments	**57**	**–**	**57**	**–**	**114**
Derivative financial assets					
Foreign currency forward contracts	**–**	**–**	**47**	**–**	**47**
Interest rate derivatives	**–**	**–**	**3**	**–**	**3**
Embedded derivatives[1]	**–**	**9**	**–**	**–**	**9**
Financial liabilities					
Classified as amortised cost:					
Interest-bearing loans and borrowings	**–**	**–**	**(630)**	**–**	**(630)**
Government refundable advances	**(43)**	**(6)**	**–**	**–**	**(49)**
Lease obligations	**(35)**	**(150)**	**(7)**	**–**	**(192)**
Other financial liabilities	**(345)**	**(419)**	**(46)**	**–**	**(810)**
Classified as fair value:					
Derivative financial liabilities					
Foreign currency forward contracts	**–**	**–**	**(102)**	**–**	**(102)**
Embedded derivatives[1]	**–**	**(4)**	**–**	**–**	**(4)**
31 December 2022 (restated)[2]					
Financial assets					
Classified as amortised cost:					
Cash and cash equivalents	–	–	355	–	355
Net trade receivables	160	298	–	511	969
Classified as fair value:					
Investments	52	–	10	–	62
Derivative financial assets					
Foreign currency forward contracts	–	–	61	1	62
Embedded derivatives[1]	–	12	–	–	12
Financial liabilities					
Classified as amortised cost:					
Interest-bearing loans and borrowings	–	–	(1,496)	–	(1,496)
Government refundable advances	(47)	(12)	–	–	(59)
Lease obligations	(44)	(155)	(8)	(159)	(366)
Other financial liabilities	(306)	(452)	(45)	(1,156)	(1,959)
Classified as fair value:					
Derivative financial liabilities					
Foreign currency forward contracts	–	–	(217)	(1)	(218)
Interest rate swaps	–	–	(3)	–	(3)
Embedded derivatives[1]	–	(6)	–	–	(6)

(1) The embedded derivative is classified as a level 3 fair value under the IFRS 13 fair value hierarchy.
(2) Financial assets and liabilities have been restated for discontinued operations (see note 1) and the re-presentation of the Engines and Structures segments.

Reconciliation of liabilities arising from financing activities

Liabilities arising from financing activities, as defined by IAS 7, totalled £1,799 million at 31 December 2022 comprising; external debt of £1,433 million (excluding £63 million of bank overdrafts) and lease obligations of £366 million. During the year a cash outflow in those liabilities totalled £781 million as follows: net drawdown of external debt of £462 million (note 27), net repayment of external debt of £1,205 million (note 27) following the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses and repayment of principal on lease obligations of £38 million (note 28). There is also a decrease to liabilities arising from financing activities relating to non-cash items totalling £197 million comprising; a decrease in external debt of £61 million due to changes in foreign exchange rates and other non-cash movements (including costs of £11 million (note 20) of raising debt finance) and a decrease in respect of lease obligations of £136 million. As at 31 December 2023, liabilities arising from financing activities, as defined by IAS 7, totalled £821 million comprising; external debt of £629 million (excluding £1 million of bank overdrafts) and lease obligations of £192 million.

25. Financial instruments and risk management continued

Liabilities arising from financing activities, as defined by IAS 7, totalled £1,805 million at 31 December 2021 comprising; external debt of £1,360 million (excluding £5 million of bank overdrafts), cross currency swaps of £69 million and lease obligations of £376 million. During the year a cash outflow in those liabilities totalled £127 million as follows: net repayment of external debt and cross-currency swaps associated with debt of £75 million (note 27) and repayment of principal on lease obligations of £52 million (note 28). There is also an increase to liabilities arising from financing activities relating to non-cash items totalling £121 million comprising; an increase in external debt and cross-currency swaps associated with debt of £79 million due to changes in foreign exchange rates and other non-cash movements and an increase in respect of lease obligations of £42 million. As at 31 December 2022, liabilities arising from financing activities, as defined by IAS 7, totalled £1,799 million comprising; external debt of £1,433 million (excluding £63 million of bank overdrafts), cross currency swaps of £nil and lease obligations of £366 million.

Fair values

As at 31 December 2023, the £10 million (31 December 2022: £130 million) bond maturing in 2032 had a carrying value of £10 million (31 December 2022: £132 million) and a fair value of £9 million (31 December 2022: £110 million).

The Directors consider that the carrying amount of other financial assets and liabilities approximate to their fair values.

Credit risk

The Group's principal financial assets were cash and cash equivalents, trade receivables and derivative financial assets which represented the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk on cash and cash equivalents and derivative financial assets was limited because the counterparties were banks with strong credit ratings assigned by international credit rating agencies (investment grade). Exposure is managed on the basis of risk rating and counterparty limits. The value of credit risk in derivative assets has been modelled using publicly available inputs as part of their fair value.

The Group's credit risk was therefore primarily attributable to its trade receivables. The amounts presented in the Consolidated Balance Sheet were net of allowance for expected credit loss, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Note 17 provides further details regarding the recovery of trade receivables.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

31 December 2023	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial assets/(liabilities) set off in the Balance Sheet £m	Net amounts of financial assets/(liabilities) presented in the Balance Sheet £m	Related amounts of financial instruments not set off in the Balance Sheet £m	Net amount £m
Cash and cash equivalents	58	–	58	(12)	**46**
Derivative financial assets	59	–	59	(50)	**9**
Financial assets subject to master netting arrangements	**117**	**–**	**117**	**(62)**	**55**
Interest-bearing loans and borrowings	(630)	–	(630)	(40)	**(670)**
Derivative financial liabilities	(106)	–	(106)	102	**(4)**
Financial liabilities subject to master netting arrangements	**(736)**	**–**	**(736)**	**62**	**(674)**

31 December 2022	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial assets/(liabilities) set off in the Balance Sheet £m	Net amounts of financial assets/(liabilities) presented in the Balance Sheet £m	Related amounts of financial instruments not set off in the Balance Sheet £m	Net amount £m
Cash and cash equivalents	355	–	355	(71)	284
Derivative financial assets	74	–	74	(62)	12
Financial assets subject to master netting arrangements	429	–	429	(133)	296
Interest-bearing loans and borrowings	(1,496)	–	(1,496)	(81)	(1,577)
Derivative financial liabilities	(227)	–	(227)	214	(13)
Financial liabilities subject to master netting arrangements	(1,723)	–	(1,723)	133	(1,590)

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern.

The capital structure of the Group as at 31 December 2023 consists of net debt, as disclosed in note 27, and equity attributable to the owners of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

25. Financial instruments and risk management continued

Liquidity risk management

Overview of banking facilities

The Group's committed bank facilities were refinanced during the year. The new facilities consist of a multi-currency term loan denominated US$300 million and €100 million, and a US$250 million revolving credit facility, both of which mature in April 2026. In addition, the Group also entered into multi-currency revolving credit facilities totalling US$690 million, £300 million and €300 million that initially mature in April 2026, but with the potential to be extended for two additional one-year periods at the Company's option.

At 31 December 2023, the term loan was fully drawn and there were drawings of US$298 million, £1 million and €22 million on the revolving credit facilities. Applying the exchange rates at 31 December 2023, the headroom equated to £1,043 million. There are also a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Group.

In addition to the headroom on the multi-currency committed revolving credit facility, cash, deposits and marketable securities, net of overdrafts, in the Group amounted to £57 million at 31 December 2023 (31 December 2022: £292 million) and are offset to arrive at the Group net debt position of £572 million (31 December 2022: £1,139 million). The combination of this cash and the headroom on the revolving credit facility allows the Directors to consider that the Group has sufficient access to liquidity for its current needs. The Board takes careful consideration of counterparty risk with banks when deciding where to place cash on deposit.

Covenants

The committed bank funding has two financial covenants, being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are normally tested half-yearly in June and December. As a result of the demerger, the Group renegotiated its banking arrangements. No testing of the interest cover covenant was required at 31 December 2023. From 30 June 2024, the date of its first test, the interest cover covenant is set at 4.0x.

The net debt to adjusted EBITDA covenant test level is 3.5x from 31 December 2023. At 31 December 2023, the Group net debt leverage was 1.1x.

Bonds

Capital market borrowings as at 31 December 2023, inherited as part of the GKN acquisition, consist of a £10 million bond maturing May 2032 following a further repurchase of the bond during the year, see note 20 for details.

Working capital

The Group has a small number of uncommitted working capital programmes that provide favourable financing terms on eligible customer receipts and competitive financing terms to suppliers on eligible supplier payments.

Businesses which participate in these customer related finance programmes have the ability to choose whether to receive payment earlier than the normal due date, for specific customers on a non-recourse basis. As at 31 December 2023, the drawings on these facilities were £268 million (31 December 2022: £325 million). At 31 December 2023, the drawings in the continuing Group within Engines were £107 million (31 December 2022: £85 million) and £161 million in Structures (31 December 2022: £53 million). At 31 December 2022, there were drawings of £187 million within businesses demerged during the year.

In addition, some suppliers have access to utilise the Group's supplier finance programmes, which are provided by a small number of the Group's banks. There is no cost to the Group for providing these programmes to its suppliers. These arrangements do not change the date suppliers are due to be paid by the Group, and therefore there is no additional impact on the Group's liquidity. If the Group exited these arrangements there could be a potential impact of up to £42 million (31 December 2022: £94 million) on the Group's cash flow. These programmes allow suppliers to choose whether they want to accelerate the payment of their invoices, by the financing banks, for an interest cost which is competitive, based on the credit rating of the Group as determined by the financing banks. The amounts owed to the banks are presented in trade payables on the Balance Sheet and the cash flows are presented in cash flows from operating activities. As at 31 December 2023, total facilities were £143 million (31 December 2022: £328 million) with drawings of £86 million (31 December 2022: £200 million). The arrangements do not change the timing of the Group's cash outflows. At 31 December 2023, the drawings in the continuing Group within Engines were £43 million (31 December 2022: £39 million) and £43 million in Structures (31 December 2022: £36 million). At 31 December 2022, there were drawings of £125 million within businesses demerged during the year.

Hedge of net investments in foreign entities using loans and derivatives

Interest-bearing loans and borrowings are designated as hedges of net investments in the Group's subsidiaries in the USA and Europe to reduce the exposure to the related foreign exchange risks.

The value of these were as follows:

	31 December 2023 £m	31 December 2022 £m
Local borrowing currency:		
US Dollar	**467**	759
Euro	**106**	363

25. Financial instruments and risk management continued

The foreign exchange movement on the local borrowings, which is recorded in currency translation on net investments within Other Comprehensive Income, was a gain of £43 million (2022: loss of £60 million). As at 31 December 2023, the cumulative loss in the foreign currency translation reserve for continuing hedges on net investments using borrowings was £25 million (31 December 2022: £87 million).

There were no cross-currency swaps outstanding at 31 December 2023 or 31 December 2022. In the prior year, there were cross currency swaps with an opening fair value liability of £1 million, with foreign exchange movements on these cross-currency swaps, which were recorded in derivative gains/(losses) on hedge relationships within Other Comprehensive Income, being a gain of £19 million and net cash receipts of £18 million.

The foreign exchange movement on those GKN cross-currency swaps, which is recorded in derivative gains/(losses) on hedge relationships, was £nil (2022: loss of £62 million).

Finance cost risk management

The bank margin on the bank facility depends on the Group leverage, see note 20 for details.

The policy of the Board is to fix up to approximately 70% of the interest rate exposure of the Group's borrowings.

The interest rate derivatives are designated as cash flow hedges and were highly effective throughout 2023. The fair value of the contracts as at 31 December 2023 was a net asset of £3 million (31 December 2022: liability of £3 million). The movement of £6 million for the year ended 31 December 2023 (2022: £4 million) comprised of a credit of £2 million (2022: £4 million) booked to derivatives gains/(losses) on hedge relationships in the year within Other Comprehensive Income, and a £4 million (2022: £nil) reduction in the interest accrual. During the prior year, a balance of £2 million retained in the cash flow hedge reserve following the cancellation of interest rate swaps in 2021 was recycled to finance costs in the Income Statement.

During the year ended 31 December 2023, some of the critical terms of the interest rate derivatives and the hedged items were not perfectly matched; however, this did not give rise to any ineffectiveness through the Income Statement in the year (2022: £nil).

Interest rate sensitivity analysis

Assuming the net debt, inclusive of interest rate derivatives, held as at the balance sheet date was outstanding for the whole year, a one percentage point rise in market interest rates for all currencies would decrease profit before tax by the following amounts:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Sterling	–	(2)
US Dollar	(1)	(5)
Euro	(1)	(2)

On the basis of the floating-to-fixed interest rate derivatives in place at the balance sheet date, a one percentage point fall in market interest rates for all currencies would decrease Group equity by £9 million (31 December 2022: £nil).

Exchange rate risk management

The Group trades in various countries around the world and is exposed to movements in a number of foreign currencies. Following the demerger and subsequent update to the Group's strategy to be a pureplay aerospace business going forward, the exposure to foreign exchange movements related to a disposal now no longer represents a material risk for the Group.

The Group therefore carries exchange rate risk that can be categorised into two types: transaction and translation risk, as described in the paragraphs below. The Group's policy is designed to protect against the majority of the cash risks but not the non-cash risks.

The most common exchange rate risk is the transaction risk the Group takes when it invoices a customer or purchases from suppliers in a different currency to the underlying functional currency of the relevant business. The Group's policy is to review transactional foreign exchange exposures, and place necessary hedging contracts, quarterly on a rolling basis. To the extent the cash flows associated with a transactional foreign exchange risk are committed, the Group will hedge 100% at the time the cash flow becomes committed. For forecast and variable cash flows, the Group hedges a proportion of the expected cash flows, with the percentage being hedged lowering as the time horizon lengthens. The Group hedges on a sliding scale, typically hedging around 90% of foreign exchange exposures expected over the next twelve months, with the percentage decreasing by approximately 10 percentage points for each subsequent year. This policy does not eliminate the cash risk but does bring some certainty to it.

The translation rate risk is the effect on the Group results in the period due to the movement of exchange rates used to translate foreign results into Sterling from one period to the next. No specific exchange instruments are used to protect against the translation risk because it is a non-cash risk to the Group, until foreign currency is subsequently converted to Sterling. However, the Group utilises its multi-currency banking facilities, where relevant, to maintain an appropriate mix of debt in each currency. The hedge of having debt drawn in these currencies funding the trading units with US Dollars or Euro functional currencies protects against some of the Balance Sheet and banking covenant translation risk.

25. Financial instruments and risk management continued

As at 31 December 2023, the Group held foreign exchange forward contracts to mitigate expected exchange rate fluctuations on future cash flows from sales to customers and purchases from suppliers. The fair value of all foreign exchange forward contracts across the Group was a net liability at 31 December 2023 of £55 million (31 December 2022: £156 million). There were no contracts where hedge accounting was applied as at 31 December 2023 (31 December 2022: no contracts where hedge accounting was applied).

The change in fair value of foreign exchange forward contracts recognised in derivative gains/(losses) on hedging relationships within Other Comprehensive Income was £nil (2022: £nil) and a credit of £nil (2022: £1 million) was reclassified to the Income Statement.

There were no cross-currency swaps in place during the year. In the prior year, certain cross-currency swaps were designated as net investment hedges and £5 million was booked through the Income Statement in finance costs of which a credit of £3 million was treated as an adjusting item (note 6). These cross-currency swaps were designated in a net investment hedge accounting relationship against US Dollar and Euro net assets of certain subsidiaries. The hedged risk was the spot rate, which represented the significant component of the movement and therefore was recorded in the foreign currency translation reserve (note 26).

The following table shows the maturity profile of undiscounted contracted gross cash outflows of derivative financial liabilities used to manage currency risk, being both the cross-currency swaps above and foreign exchange forward contracts used to manage transaction exchange rate risk:

	0–1 year £m	1–2 years £m	2–5 years £m	5+ years £m	Total £m
Year ended 31 December 2023					
Foreign exchange forward contracts	**549**	**370**	**464**	**58**	**1,441**
Year ended 31 December 2022					
Foreign exchange forward contracts	855	618	834	19	2,326

Foreign currency sensitivity analysis

Currency risks are defined by IFRS 7: Financial instruments: Disclosures as the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates.

The following table details the transactional impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the balance sheet date, illustrating the (decrease)/increase in Group operating profit caused by a 10% strengthening of the US Dollar and Euro against Sterling compared to the year-end spot rate. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with a notable impact are shown below:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
US Dollar	**2**	(11)
Euro	**(5)**	(3)

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the balance sheet date, illustrating the increase/(decrease) in Group equity caused by a 10% strengthening of the US Dollar and Euro against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant.

	31 December 2023 £m	31 December 2022 £m
US Dollar	**–**	(10)
Euro	**(1)**	(7)

In addition, the change in equity due to a 10% strengthening of the US Dollar against Sterling for the translation of net investment hedging instruments would be a decrease of £47 million (2022: £77 million) and for the Euro, a decrease of £11 million (2022: £36 million). However, there would be no overall effect on equity because there would be an offset in the currency translation of the foreign operation.

Fair value measurements recognised in the Balance Sheet

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contracts.

Interest rate swap and cross-currency swap contracts are measured using yield curves derived from quoted interest and foreign exchange rates.

25. Financial instruments and risk management continued

Hedge accounted derivatives

The following table sets out details of the Group's material hedging instruments where hedge accounting is applied at the balance sheet date:

Hedging Instruments	Average fixed rate		Notional principal		Fair value of assets/ (liabilities)	
	31 December 2023 %	31 December 2022 %	31 December 2023 £m	31 December 2022 £m	31 December 2023 £m	31 December 2022 £m
Pay fixed, receive floating interest rate derivatives						
Within one year	3.49%	2.24%	414	260	–	(3)
In one to two years	3.49%	–	414	–	–	–
In two to five years	3.49%	–	414	–	3	–
Total					3	(3)

During the year, the Group entered into pay fixed, receive floating interest rate derivatives totalling $440 million and €80 million, which were outstanding as at 31 December 2023. Pay fixed, receive floating derivatives, which totalled $315 million, that were outstanding at 31 December 2022 matured during the year.

Derivative and financial assets and liabilities are presented within the Balance Sheet as:

	31 December 2023 £m	31 December 2022 £m
Non-current assets	46	36
Current assets	13	38
Current liabilities	(42)	(86)
Non-current liabilities	(64)	(141)

The change in fair value of interest rate derivatives is discussed in the Finance Risk Management section of the Finance Director's Review.

All hedging instruments are booked in the Balance Sheet as derivative financial assets or derivative financial liabilities.

The fair value of derivative financial instruments is derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and they are therefore categorised within Level 2 of the fair value hierarchy set out in IFRS 13: Fair value measurement. The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer to occur. There have been no transfers between levels in the year.

The following table sets out details of the Group's material hedged items at the balance sheet date where hedge accounting is applied:

	Change in fair value for calculating ineffectiveness		Balance in translation and hedging reserve for continuing hedges		Balance in translation and hedging reserve for discontinued hedges	
	31 December 2023 £m	31 December 2022 £m	31 December 2023 £m	31 December 2022 £m	31 December 2023 £m	31 December 2022 £m
Hedged items						
Floating rate borrowings – interest risk	(2)	(4)	(2)	–	–	–
Net assets of designated investments	–	–	–	–	–	116

There is no balance held in cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied.

26. Issued share capital and reserves

Share Capital	31 December 2023 £m	31 December 2022 £m
Allotted, called-up and fully paid		
1,351,475,321 (31 December 2022: 4,054,425,961) Ordinary Shares of 160/7 pence (31 December 2022: 160/21 pence) each	309	309
	309	309

On 19 April 2023, a share consolidation took place whereby shareholders received one new share in the Company for every three existing shares held. In addition, a share buyback programme has commenced during the year with 18,761,840 shares repurchased and held as treasury shares.

The rights associated with each class of share are described in the Directors' Report.

Merger reserve and Other reserves

The Merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acquisition of subsidiaries. Other reserves comprise accumulated adjustments in respect of Group reconstructions.

26. Issued share capital and reserves continued

Translation and hedging reserve

In order to provide useful information about the Group's hedging arrangements, the translation reserve and hedging reserve are combined. Including the different components of hedging in one place enables a clearer explanation of the three components of hedging. These components are disaggregated below with movements within Other Comprehensive Income during the year shown below and further explanation provided in note 25.

	Cost of hedge reserve £m	Cash flow hedge reserve £m	Foreign currency translation reserve £m	Translation and hedging reserve £m
At 1 January 2022	(10)	(9)	95	76
Movements within other comprehensive income:				
Retranslation of net assets	–	–	665	665
Associated deferred tax	–	–	6	6
Foreign exchange differences on borrowings hedging net assets	–	–	(60)	(60)
Associated deferred tax	–	–	–	–
Change in fair value of derivatives designated in net investment hedges	–	–	(43)	(43)
Associated deferred tax	–	–	–	–
Change in fair value of derivatives designated in cash flow hedges	–	4	–	4
Associated deferred tax	–	(1)	–	(1)
Amounts reclassified to the Income Statement	10	6	(25)	(9)
At 31 December 2022	–	–	638	638
Movements within other comprehensive expense:				
Retranslation of net assets	–	–	(250)	(250)
Associated deferred tax	–	–	(7)	(7)
Foreign exchange differences on borrowings hedging net assets	–	–	43	43
Associated deferred tax	–	–	–	–
Change in fair value of derivatives designated in cash flow hedges	–	2	–	2
Associated deferred tax	–	(1)	–	(1)
Amounts reclassified to the Income Statement	–	–	(152)	(152)
At 31 December 2023	**–**	**1**	**272**	**273**

The cash flow hedge reserve represents the cumulative fair value gains and losses on derivatives for which cash flow hedge accounting has been applied. Movements and balances on derivatives designated in net investment hedges are shown as part of the foreign currency translation reserve.

The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than Sterling, together with gains and losses on the translation of liabilities and cumulative fair value gains and losses on derivatives that hedge the Company's net investment in foreign subsidiaries.

Amounts reclassified to the Income Statement during the year includes a credit of £152 million (2022: £11 million) following the disposal of businesses.

27. Cash flow statement

	Notes	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Reconciliation of operating profit/(loss) to net cash used in operating activities generated by continuing operations			
Operating profit/(loss)		**57**	(270)
Adjusting items	6	**333**	417
Adjusted operating profit	6	**390**	147
Adjustments for:			
Depreciation of property, plant and equipment		**100**	104
Amortisation of computer software and development costs		**42**	41
Restructuring costs paid and movements in provisions		**(160)**	(60)
Defined benefit pension contributions paid[2]		**(67)**	(23)
Change in inventories		**(10)**	(88)
Change in receivables		**(140)**	(172)
Change in payables		**4**	112
Tax paid		**(17)**	(8)
Interest paid on loans and borrowings[3]		**(79)**	(76)
Interest paid on lease obligations		**(5)**	(6)
Acquisition and disposal costs		**(65)**	(10)
Net cash used in operating activities		**(7)**	(39)

(1) Restated for discontinued operations (see note 1).
(2) The year ended 31 December 2023 includes £45 million for the purchase of a buy-in policy for GKN Group Pension Scheme Number 4 (see note 24).
(3) The year ended 31 December 2023 includes £17 million of finance costs on the proportion of the Group's net debt strategically allocated to demerged businesses at the start of the year and settled on demerger (see note 6).

Reconciliation of cash and cash equivalents, net of bank overdrafts	31 December 2023 £m	31 December 2022 £m
Cash and cash equivalents per Balance Sheet	**58**	355
Bank overdrafts included within current interest-bearing loans and borrowings (note 20)	**(1)**	(63)
Cash and cash equivalents, net of bank overdrafts per Statement of Cash Flows	**57**	292

Cash flow information relating to discontinued operations is as follows:

Cash flow from discontinued operations	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Net cash from discontinued operations	**54**	377
Defined benefit pension contributions paid	**(5)**	(36)
Tax paid	**(8)**	(81)
Interest paid on lease obligations	**(3)**	(6)
Interest paid on loans and borrowings	**(2)**	(11)
Net cash from operating activities from discontinued operations	**36**	243
Interest received	**–**	3
Dividends received from equity accounted investments	**–**	59
Purchase of property, plant and equipment	**(62)**	(203)
Proceeds from disposal of property, plant and equipment	**–**	21
Purchase of computer software and capitalised development costs	**(5)**	(20)
Net cash used in investing activities from discontinued operations	**(67)**	(140)
Repayment of principal under lease obligations	**(6)**	(23)
Net cash used in financing activities from discontinued operations	**(6)**	(23)

(1) Restated for discontinued operations (see note 1).

Net debt reconciliation

Net debt consists of interest-bearing loans and borrowings (excluding any acquisition related fair value adjustments) and cash and cash equivalents.

27. Cash flow statement continued

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of interest-bearing loans and borrowings (current and non-current) and cash and cash equivalents. A reconciliation from the most directly comparable IFRS measure to net debt, used as a basis for banking covenant calculations, is given below:

	31 December 2023 £m	31 December 2022 £m
Interest-bearing loans and borrowings – due within one year	**(54)**	(63)
Interest-bearing loans and borrowings – due after one year	**(576)**	(1,433)
External debt	**(630)**	(1,496)
Less:		
Cash and cash equivalents	**58**	355
	(572)	(1,141)
Adjustments:		
Non-cash acquisition fair value adjustments	**–**	2
Net debt	**(572)**	(1,139)

The table below shows the key components of the movement in net debt:

	At 31 December 2022 £m	Cash flow £m	Acquisitions and disposals £m	Other non-cash movements £m	Effect of foreign exchange £m	At 31 December 2023 £m
External debt (excluding bank overdrafts)	(1,433)	(462)	1,205	18	43	**(629)**
Non-cash acquisition fair value adjustments	2	–	–	(2)	–	**–**
	(1,431)	(462)	1,205	16	43	**(629)**
Cash and cash equivalents, net of bank overdrafts	292	169	(385)	–	(19)	**57**
Net debt	(1,139)	(293)	820	16	24	**(572)**

28. Commitments

Amounts payable under lease obligations:

Minimum lease payments	31 December 2023 £m	31 December 2022 £m
Amounts payable:		
Within one year	**45**	69
After one year but within five years	**102**	166
Over five years	**75**	209
Less: future finance charges	**(30)**	(78)
Present value of lease obligations	**192**	366
Analysed as:		
Amounts due for settlement within one year	**40**	60
Amount due for settlement after one year	**152**	306
Present value of lease obligations	**192**	366

It is the Group's policy to lease certain of its property, plant and equipment. The average lease term is 10 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

During the year £158 million of lease obligations were disposed of with the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 13).

The Group's obligations under lease arrangements are secured by the lessors' rights over the leased assets.

Certain leases within the Group contain extension or termination options to allow for flexibility within these lease agreements. Where these options are not reasonably certain to be exercised, they are not included in the lease obligation. The value of these associated undiscounted cash flows is £179 million (31 December 2022: £171 million).

28. Commitments continued

The table below shows the key components in the movement in lease obligations.

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
At 1 January	**366**	376
Additions	**31**	38
Interest charge	**8**	9
Reassessment of lease obligation	**2**	(1)
Payment of principal	**(38)**	(52)
Payment of interest	**(8)**	(12)
Disposals	–	(5)
Disposal of businesses[1]	**(158)**	(3)
Transfer to held for sale[2]	**(1)**	(7)
Exchange adjustments	**(10)**	23
At 31 December	**192**	366

(1) Disposal of businesses in 2023 relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 1). Disposal of businesses in 2022 related to the sale of a non-core business in the Structures segment.

(2) Transfer to held for sale in 2023 relates to the contractually agreed sale of a non-core business in the Structures segment and in 2022 related to the Ergotron business (see note 1).

Capital commitments

At 31 December 2023, there were commitments of £115 million (31 December 2022: £127 million) relating to the acquisition of new plant and machinery.

29. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Sales to and purchases from Group companies are priced on an arm's length basis and generally are settled on 30 day terms.

During the year ended 31 December 2023, £417 million of equity accounted investments were disposed with the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (note 13) into Dowlais, who became a related party upon demerger.

During the year, the Group entered into a Transitional Services Agreement with Dowlais to provide services and support to ensure continuity immediately following the demerger. As a result, income of £1 million (2022: £nil) has been recognised in the Income Statement for continuing operations.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24: Related party disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 131 and 141.

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Short-term employee benefits	**5**	5
Share-based payments	**5**	10
	10	15

30. Contingent liabilities

As a result of acquisitions made by the Group, certain contingent legal and warranty liabilities have been identified as part of the fair value review of these acquisition balance sheets. Whilst it is difficult to reasonably estimate the timing and ultimate outcome of these claims, the Directors' best estimate has been included in the Balance Sheet where they existed at the time of acquisition and hence were recognised in accordance with IFRS 3: Business combinations. Where a provision has been recognised, information regarding the different categories of such liabilities and the amount and timing of outflows is included within note 21.

Given the nature of the Group's business many of the Group's products have a large installed base, and any reworks related to such products could be particularly costly. The costs of product reworks are not always covered by insurance. Reworks may have a material adverse effect on the Group's financial condition, results of operations and cash flows.

The Group has contingent liabilities representing guarantees and contract bonds given in the ordinary course of business on behalf of trading subsidiaries. No losses are anticipated to arise on these contingent liabilities. The Group does not have any other significant contingent liabilities.

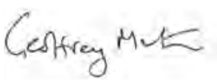
COMPANY BALANCE SHEET FOR MELROSE INDUSTRIES PLC

	Notes	31 December 2023 £m	31 December 2022 £m
Fixed assets			
Investments	3	**10,608**	10,591
Debtors:			
Amounts falling due after one year	4	**549**	487
Creditors:			
Amounts falling due within one year	5	**(4,893)**	(3,443)
Net current liabilities		**(4,344)**	(2,956)
Total assets less current liabilities		**6,264**	7,635
Provisions	6	**(22)**	(2)
Net assets		**6,242**	7,633
Capital and reserves			
Issued share capital	7	**309**	309
Share premium account		**3,271**	3,271
Merger reserve		**109**	109
Capital redemption reserve		**753**	753
Retained earnings		**1,800**	3,191
Shareholders' funds		**6,242**	7,633

The Company reported a profit for the financial year ended 31 December 2023 of £737 million (2022: loss of £19 million).

The financial statements were approved by the Board of Directors on 7 March 2024 and were signed on its behalf by:

Geoffrey Martin



Group Finance Director

7 March 2024

Peter Dilnot

Chief Executive Officer

7 March 2024

Registered number: 09800044

COMPANY STATEMENT OF CHANGES IN EQUITY

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Retained earnings £m	Shareholders' funds £m
At 1 January 2022	333	3,271	109	729	3,775	8,217
Loss for the year (note 2)	–	–	–	–	(19)	(19)
Total comprehensive loss	–	–	–	–	(19)	(19)
Purchase of own shares(1)	(24)	–	–	24	(504)	(504)
Dividends paid	–	–	–	–	(77)	(77)
Equity-settled share-based payments	–	–	–	–	16	16
At 31 December 2022	309	3,271	109	753	3,191	7,633
Profit for the year (note 2)	–	–	–	–	737	737
Other comprehensive expense	–	–	–	–	(5)	(5)
Total comprehensive income	–	–	–	–	732	732
Purchase of own shares(1)	–	–	–	–	(93)	(93)
Dividends paid	–	–	–	–	(81)	(81)
Demerger distribution(2)	–	–	–	–	(1,973)	(1,973)
Equity-settled share-based payments	–	–	–	–	2	2
Deferred tax on equity-settled share-based payments	–	–	–	–	22	22
At 31 December 2023	**309**	**3,271**	**109**	**753**	**1,800**	**6,242**

(1) Further information is set out in note 1.
(2) Further information is set out in note 13 to the Group Consolidated Financial Statements.

Refer to the Section 172 statement in the Strategic Report on pages 37 to 42 for further details on the Company's Distribution Policy.

NOTES TO THE COMPANY BALANCE SHEET

1. Material accounting policies

Basis of accounting

Melrose Industries PLC ("the Company") is a public company limited by shares. The Company is incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on the back cover. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 97.

The Financial Statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Melrose Industries PLC is considered to be pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

On 2 October 2023, the Company commenced a £500 million share buyback programme, with 18,761,840 shares repurchased by 31 December 2023. These are held as treasury shares. In the prior year, the Company completed a £500 million share buyback programme with 318,003,512 shares repurchased and subsequently cancelled.

Melrose Industries PLC meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate Financial Statements. Melrose Industries PLC is consolidated in its Group Financial Statements. Exemptions have been taken in these separate Company Financial Statements in relation to share-based payments, presentation of a cash flow statement, the remuneration of key management personnel and financial instruments.

The principal accounting policies are consistent with the prior year and are summarised below.

Going concern

The Financial Statements have been prepared on a going concern basis as the Directors consider that adequate resources exist for the Company to continue in operational existence for the foreseeable future.

The Group's liquidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity headroom of £1.0 billion at 31 December 2023 and sufficient headroom throughout the going concern forecast period. Forecast covenant compliance is considered further below.

Covenants

The current facility has two financial covenants being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half yearly in June and December.

The financial covenants during the period of assessment for going concern are as follows:

	31 December 2023	30 June 2024	31 December 2024
Net debt to adjusted EBITDA	3.5x	3.5x	3.5x
Interest cover	n/a	4.0x	4.0x

Testing

The Group has modelled two scenarios in its assessment of going concern. A base case and a reasonably possible sensitised case.

The base case takes into account end markets and operational factors, including supply chain challenges, throughout the going concern period and has been monitored against the actual results and cash generation in the year. Climate scenario analysis was used to model the impact of climate change on the Group's cash flow position. Climate is deemed to not have a material impact over the period of 12 months for the assessment of going concern or 36 months for assessment of viability of the Group.

The reasonably possible sensitised case models more conservative sales assumptions for 2024 and the first half of 2025. The sensitised assumptions are specific to each business taking into account their markets, but on average represents a c.10% reduction to the Group's forecast revenue in each of 2024 and the first half of 2025 respectively. The sensitised revenues have had a consequential impact on profit and cash flow, along with a further downside sensitivity applied to increase working capital by approximately 2% of revenue. Given that there is liquidity headroom of £1.0 billion and the Group's leverage was 1.1x, comfortably below the covenant test at 31 December 2023, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, even with significant reductions, no covenant is breached at the forecast testing dates being 30 June 2024 and 31 December 2024, and the Group will not require any additional sources of finance. Testing at 30 June 2025 is also favourable, assuming arrangements similar in nature with existing agreements.

Investments

Investments in subsidiaries are measured at cost less impairment.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

The Company has an investment in listed shares, which are classified as financial assets, measured at fair value. Fair value is by reference to quoted market price. Any changes to fair value are recognised in Other Comprehensive Income and accumulated in retained earnings in accordance with IFRS 9: Financial Instruments. Dividends received from investments are recognised in the Income Statement when the Company's right to receive the dividend is established.

Impairment of assets

Assets, other than those held at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

1. Material accounting policies continued

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

For amounts owed by Group undertakings, the Company recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to one year's expected credit losses.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Financial assets and liabilities

All financial assets and liabilities are initially measured at fair value, which is the transaction price (including transaction costs). After initial recognition, amounts owed to/from Group undertakings are subsequently measured at amortised cost using the effective interest rate method.

Financial assets and liabilities are only offset in the Balance Sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when, and only when, a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Share-based payments

The Company issues equity-settled share-based payments to certain employees. The required disclosures are included in the Group Consolidated Financial Statements.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Where equity-settled share-based payments are made available to employees of the Company's subsidiaries, these are treated as increases in equity over the vesting period of the award with a corresponding increase in the Company's investment in subsidiaries.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred. Timing differences are differences between the Company's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Critical accounting judgements and key sources of estimation uncertainty

There were no critical accounting judgements that would have a significant effect on the amounts recognised in the Parent Company Financial Statements or key sources of estimation uncertainty at the balance sheet date that would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2. Result for the year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own Profit and Loss Account for the year. Melrose Industries PLC reported a profit for the financial year ended 31 December 2023 of £737 million (2022: loss of £19 million).

The auditor's remuneration for audit services to the Company is disclosed in note 7 to the Group Consolidated Financial Statements.

Directors' remuneration is disclosed in the Directors' Remuneration Report on pages 128 to 152. There were no other employees of the Company in the year.

3. Investments

	External investments £m	Investments in subsidiaries £m	Total £m
At 1 January 2023	–	10,591	10,591
Additions	20	1,086	1,106
Disposals	–	(1,084)	(1,084)
Revaluations	(5)	–	(5)
At 31 December 2023	**15**	**10,593**	**10,608**

During the year, the Company acquired investments in GKN Automotive, through the purchase of GKN Industries Limited, and GKN Powder Metallurgy and GKN Hydrogen, through the purchase of GKN Powder Metallurgy Holdings Limited (which owned GKN Hydrogen Limited) for total consideration of £1,084 million, settled through an inter-company loan.

On 20 April 2023, the Company completed the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses through the flotation of Dowlais Group plc ("Dowlais") on the London Stock Exchange. There was a demerger distribution of £1,973 million and the Company retained a 1% investment in Dowlais with an initial valuation of £20 million (see note 13 of the Consolidated Financial Statements), which resulted in a profit on disposal of £909 million.

The 1% investment in Dowlais was subsequently remeasured to fair value at 31 December 2023 of £15 million.

A £2 million investment from equity-settled share-based payments for subsidiaries is included as an addition to investments in subsidiaries at 31 December 2023. Further details on the Group's share-based payment scheme is included in note 23 to the Group Consolidated Financial Statements.

The Company evaluates its investments in subsidiary undertakings annually for any indicators of impairment. The Company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 31 December 2023, the market capitalisation of the Company of £7,562 million was in excess of the carrying value of its investments (£10,608 million) net of intercompany positions (£4,415 million).

The recoverable amount of the investments in subsidiaries has been determined using the information set out in note 11 to the Group Consolidated Financial Statements and is in excess of its carrying value, therefore no impairment has been recognised.

The following subsidiaries and significant holdings were owned by the Company as at 31 December 2023:

	Equity interest %	Class of Share held
Brazil		
Av. Alfredo Ignácio Noqueira Penido, 335 – Sala 1103 – Edifício Madison Power, São José dos Campos, SP, 12246-000		
GKN Aerospace Transparency Systems do Brasil Ltda	100	Quota capital
Canada		
600-1134 Grande Allée Ouest, Quebec, G1S 1E5		
Fokker Elmo Canada Inc.	100	Ordinary
China		
Room 1108, Binjiang International Building, No.88 Tonggang Road, Changshu Economic and Technological Development Zone, Jiangsu Province, 21550		
Brush Electrical Machines (Changshu) Co. Limited	100	Registered investment
No 71 Xiangyun Road, Langfang Economic & Technical Development Zone, Langfang		
Fokker Elmo (Langfang) Electrical Systems Co. Ltd	100	Registered investment
1 Xinwang Road, Jingjiang Economic and Technic Development Zone, Jingjiang, Jiangsu		
GKN Aerospace (Jingjiang) Co., Ltd	100	Registered investment
Room 805, 8th floor, Building 2, No. 1859, Shibo Avenue, Shanghai		
GKN Aerospace (Shanghai) Co., Ltd	100	Ordinary
No. 3, Wanfugang Road, Jingjiang Economic and Technological Development Zone, Jingjiang City, Jiangsu Province, China		
Kaifei Aerospace Manufacturing Co., Ltd	40	Ordinary
France		
Boulevard De L Europe, BP 177 91006 Evry-Courcouronnes CEDEX		
Arianespace Participation S.A.	1.6320	Ordinary
765 rue Albert Einstein, CS 70402, 13591 Aix-en-Provence Cedex 3		
NH Industries SAS	5.5	Ordinary
20 rue Lavoisier, 95300 Pontoise		
GKN Aerospace France SARL	100	Ordinary
Germany		
Brunhamstr. 21, 81249, Munich		
GKN Aerospace Deutschland GmbH	100	Ordinary

	Equity interest %	Class of Share held
India		
Block 2A No. 311, NPR Complex. Survey No 197, Hoody Village, K R Puram Hobli, Whitefield Road, Bangalore – 560048, Karnataka		
Fokker Elmo SASMOS Interconnection Systems Limited	49	Ordinary
Shop No. 002, Lumkad Sky Vista, S. No. 230/AViman Naga/3/2, Viman Nagar, Pune, Maharashtra, 411014		
GKN Fokker Elmo India Private Limited	100	Ordinary
135, 2nd Floor, RMZ Titanium, Old Airport Road, Bengaluru, 560 017		
GKN Aerospace Engine Systems India Private Limited	100	Ordinary
Jersey		
JTC House, 28 The Esplanade, St. Helier, JE2 3QA		
GKN Finance Limited	100	Ordinary
Malaysia		
10th Floor, Menara Hap Seng, No.1 & 3, Jalan P. Ramless, 50250 Kuala Lumpur		
GKN Engine Systems Component Repair Sdn Bhd	100	Ordinary
Mexico		
Calle Washinton 3701, interior 18, Complejo Industrial Las Americas, Chihuahua, Chihuahua, C.P. 31114		
FAE Aerostructures SA de CV	100	Ordinary
The Netherlands		
Pietersbergweg 283, 1105 BM, Amsterdam		
Ridderkerk Property 1 BV	100	Ordinary
Markt 22, 3351 PB, Papendrecht		
Fabriek Slobbengors Beheer B.V.	49	Ordinary
Fabriek Slobbengors C.V.	49	Ordinary(1)
Hoofdkantoor Slobbengors Beheer B.V.	49	Ordinary
Kantoor Industrieweg C.V.	49	Ordinary(1)
Anthony Fokkerweg 4, 3351 NL, Papendrecht		
Fokker Elmo B.V.	100	Ordinary
Fokker Elmo Holding B.V.	100	Ordinary
Grasbeemd 28, 5705 DG, Helmond		
SFT Helmond B.V.	100	Ordinary
Industrieweg 4, 3351 LB, Papendrecht		
Cooperative Delivery of Retrokits (CDR) V.O.F.	50	Ordinary
Structural Laminates Industries B.V.	100	Ordinary
Fokker Technologies Group B.V.	100	Ordinary
Fokker Technology B.V.	100	Ordinary
GKN Aerospace Netherlands B.V.	100	Ordinary
Fokker Aerostructures B.V.	100	Ordinary
Fokker (CDR) B.V.	100	Ordinary
Norway		
Kirkegårdsveien 45, 3616 Kongsberg		
GKN Aerospace Norway AS	100	Ordinary
Kongsberg Technology Training Centre AS	33.33	Ordinary
Kongsberg Terotech AS	50	Ordinary
Romania		
Str. Condorilor 9, 600302, Bacau		
FOAR S.R.L.	49	Ordinary
Hermes Business Campus, Dimitrie Pompeiu Blvd 5-7, Building 2, 3rd floor Bucharest 020337 RO, Bucures,ti 077190		
Fokker Engineering Romania S.R.L.	100	Ordinary
Sweden		
SE – 461 81, Trollhättan		
GKN Aerospace Sweden AB	100	Ordinary
GKN Sweden Holdings AB	100	Ordinary
Kryptongatan 11, 431 53 Mölndal		
Permanova Lasersystem AB	100	Ordinary
Thailand		
9/21 Moo 5, Phaholyothin Road Klong 1, Klong Luang, Patumthanee, 12120		
GKN Aerospace Transparency Systems (Thailand) Limited	100	Ordinary

	Equity interest %	Class of Share held
Turkey		
Ege Serbest Bölgesi, SADI Sok. No:10, 35410 Gaziemir, Izmir		
Fokker Elmo Havacilik Sanayi Ve Ticaret Limited Sirketi	100	Ordinary
United Kingdom		
11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT		
Alcester Capricorn	100	Ordinary
Alcester EP1 Limited	100	Ordinary
Alcester Number 1 Limited	100	Ordinary
Alder Miles Druce Limited	100	Ordinary
Birfield Limited	100	Ordinary
British Hovercraft Corporation Limited	100	Ordinary
Brush Holdings Limited	100	Ordinary
Colmore Lifting Limited	100	Ordinary
Colmore Overseas Holdings Limited	100	Ordinary
Eachairn Aerospace Holdings Limited	100	Ordinary
Falcon Works Property Limited	100	Ordinary
Firth Cleveland Limited	100	Ordinary
F.P.T. Industries Limited	100	Ordinary
GKN Aerospace Civil Services Holdings Limited	100	Ordinary
GKN Aerospace Civil Services Limited	100	Ordinary
GKN Aerospace (FFT) Limited	100	Ordinary
GKN Aerospace Services Limited	100	Ordinary
GKN Aerospace Holdings Limited	100	Ordinary
GKN Aerospace Transparency Systems (Kings Norton) Limited	100	Ordinary
GKN Aerospace Transparency Systems (Luton) Limited	100	Ordinary
GKN Bound Brook Limited	100	Ordinary
GKN Building Services Europe Limited	100	Ordinary
GKN CEDU Limited	100	Ordinary
GKN Composites Limited	100	Ordinary
GKN Computer Services Limited	100	Ordinary
GKN Defence Holdings Limited	100	Ordinary
GKN Defence Limited	100	Ordinary
GKN Enterprise Limited	100	Ordinary
GKN Export Services Limited	100	Ordinary
GKN Fasteners Limited	100	Ordinary
GKN Finance (UK) Limited	100	Ordinary
GKN Hardy Spicer Limited	100	Ordinary
GKN Holdings Limited	100	Ordinary and deferred
GKN Limited	100	Ordinary
GKN Pistons Limited	100	Ordinary
GKN Quest Trustee Limited	100	Ordinary
GKN Sankey Finance Limited	100	Ordinary and deferred[(2)]
GKN SEK Investments Limited	100	Ordinary
GKN Technology Limited	100	Ordinary
GKN Trading Limited	100	Ordinary
GKN Westland Aerospace (Avonmouth) Limited	100	Ordinary
GKN Westland Aerospace Advanced Materials Limited	100	Ordinary and convertible preference
GKN Westland Aerospace Aviation Support Limited	100	Ordinary
GKN Westland Aerospace Holdings Limited	100	Ordinary
GKN Westland Design Services Limited	100	Ordinary
GKN Westland Limited	100	Ordinary
GKN Westland Overseas Holdings Limited	100	Ordinary
GKN Westland Services Limited	100	Ordinary
GKN 1 Trustee 2018 Limited	100	Ordinary
GKN 4 Trustee 2018 Limited	100	Ordinary
Guest, Keen and Nettlefolds, Limited	100	Ordinary
Laycock Engineering Limited	100	Ordinary
McKechnie 2005 Pension Scheme Trustee Limited	100	Ordinary
Melrose Aerospace Limited	100	Ordinary
Melrose Euro Investments Limited	100	Ordinary
Melrose GBP Investments Limited	100	Ordinary
Melrose Intermediate Limited	100	Ordinary

	Equity interest %	Class of Share held
Melrose NOK Investments Limited	100	Ordinary
Melrose PLC	100	Ordinary
Melrose USD 1 Limited	100	Ordinary
Nevada UK Holding Limited	100	Ordinary
P.F.D. Limited	100	Ordinary
Raingear Limited	100	Ordinary
Rigby Metal Components Limited	100	Ordinary
Rzeppa Limited	100	Ordinary
Sageford UK Limited	100	Ordinary
Sheepbridge Stokes Limited	100	Ordinary and redeemable preference
Westland Group PLC	100	Ordinary
Westland Group Services Limited	100	Ordinary
Westland System Assessment Limited	100	Ordinary
Capital Square, 58 Morrison Street, Edinburgh, Scotland, EH3 8BP		
A. P. Newall & Company Limited	100	Ordinary
GKN Investments II GP Limited	100	Ordinary
GKN Investments II LP (this partnership is controlled by, and its results are consolidated by, the Group and as such advantage has been taken of the exemption set out in regulation 7 of the Partnerships (Accounts) Regulations 2008)	100	Membership interest
2nd Floor, Nova North, 11 Bressenden Place, London, SW1E 5BY		
Dowlais Group plc	1	Ordinary
Number 22 Mount Ephraim, Tunbridge Wells, England, TN4 8AS		
HiiROC Limited	10.21	Ordinary
USA		
2 Sun Court, Suite 400, Peachtree Corners, GA, 30092		
Fokker Elmo Inc.	100	Common stock
1209 Orange Street, Wilmington, Delaware, 19801		
Melrose North America, Inc	100	Common
PW1100G-JM Engine Leasing, LLC	4	Class C Unit
2710 Gateway Oaks Drive, Suite 150 N, Sacramento, CA, 95833		
GENIL, Inc.	100	Ordinary
GKN Aerospace Camarillo, Inc.	100	Ordinary
GKN Aerospace Chem-tronics Inc.	100	Ordinary
GKN Aerospace Transparency Systems, Inc	100	Common Stock
251 Little Falls Drive, Wilmington Delaware, 19808		
FPT Industries LLC	100	Membership interest
GKN Aerospace Aerostructures, Inc	100	Common
GKN Aerospace GTC LLC	100	Membership interest
GKN Aerospace Florida LLC	100	Membership interest
GKN Aerospace, Inc.	100	Common stock
GKN Aerospace New England, Inc.	100	Ordinary
GKN Aerospace Newington LLC	100	Membership interest
GKN Aerospace St. Louis LLC	100	Membership interest
GKN Aerospace Precision Machining, Inc.	100	Ordinary
GKN Aerospace Services Structures LLC	100	Membership interest
GKN Aerospace South Carolina, Inc.	100	Common stock
GKN Aerospace US Holdings LLC	100	Membership interest
GKN Westland Aerospace, Inc.	100	Common stock
80 State Street, Albany New York, 12207		
GKN Aerospace Monitor, Inc.	100	Common
135 North Pennsylvania Street, Suite 1610, Indianapolis, Indiana, 46204		
GKN Aerospace Muncie, Inc.	100	Common

Each of the subsidiaries and significant holdings listed are included in the Consolidated Financial Statements of the Company and are held in each case by a subsidiary undertaking, except for Melrose Aerospace Limited, GKN Limited and Dowlais Group plc, for which the applicable share interests are held directly by Melrose Industries PLC.

Notes
(1) The Group owns 49% directly with a total effective ownership of 49.98% in the company.
(2) The Group has a direct interest in 100% of the issued ordinary share capital. The deferred shares are held by third parties.

4. Debtors

	31 December 2023 £m	31 December 2022 £m
Amounts falling due after one year:		
Amounts owed by Group undertakings	**475**	446
Deferred tax	**74**	41
	549	487

Amounts owed by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the receivable relationship. They are unsecured, accumulate interest in a range between 0% and 6% and are due to mature in April 2028. At 31 December 2023, the amount receivable of £475 million (31 December 2022: £446 million) has been classified as an amount falling due after one year in accordance with the expectations of management that it will not be settled within the next year.

The Directors consider that amounts owed by Group undertakings approximate to their fair value.

The deferred tax included in the Balance Sheet is as follows:

	31 December 2023 £m	31 December 2022 £m
Tax losses available for carry forward	**36**	36
Other timing differences	**38**	5
	74	41

The tax losses may be carried forward indefinitely.

5. Creditors

	31 December 2023 £m	31 December 2022 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	**4,890**	3,441
Accruals and other creditors	**3**	2
	4,893	3,443

Amounts owed to Group undertakings are unsecured, accumulate interest in a range between 0% and 6%, have no fixed date of repayment and are repayable on demand.

The Directors consider that amounts owed to Group undertakings approximate to their fair value.

6. Provisions

	Incentive plan related £m
At 1 January 2023	2
Charge to profit and loss account	20
At 31 December 2023	**22**

The provision for incentive plan related costs relates to employer national insurance costs which are expected to be incurred when the 2020 Employee Share Plan matures. Further details of this plan are set out in the Directors' Remuneration Report. The costs are expected to be incurred within one year.

7. Issued share capital

Share Capital	31 December 2023 £m	31 December 2022 £m
Allotted, called-up and fully paid		
1,351,475,321 (31 December 2022: 4,054,425,961) Ordinary Shares of 160/7 pence (31 December 2022: 160/21 pence) each	**309**	309
	309	309

On 19 April 2023, a share consolidation took place whereby shareholders received one new share in the Company for every three existing shares held. Also, a share buyback programme has commenced during the year with 18,761,840 shares repurchased and held as treasury shares.

The rights of each class of share are described in the Directors' Report.

8. Related party transactions

The Company has taken the exemption in FRS 102.33: "Related party information" not to disclose intercompany balances and transactions in the year with fully owned subsidiary undertakings.

Alternative Performance Measures ("APMs")

In accordance with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA"), additional information is provided on the APMs used by the Group below.

In the reporting of financial information, the Group uses certain measures that are not required under IFRS. These additional measures (commonly referred to as APMs) provide additional information on the performance of the business and trends to stakeholders. These measures are consistent with those used internally, and are considered important to understanding the financial performance and financial health of the Group. APMs are considered to be an important measure to monitor how the businesses are performing because this provides a meaningful comparison of how the business is managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.

These APMs may not be directly comparable with similarly titled measures reported by other companies and they are not intended to be a substitute for, or superior to, IFRS measures. All Income Statement and cash flow measures are provided for continuing operations unless otherwise stated and comparable information has been restated[(1)].

Income Statement Measures

APM
Adjusting items

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Adjusting items (note 6)

Definition and purpose
Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance.

These include 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 an acquisition.

This provides a meaningful comparison of how the business is managed and measured on a day-to-day basis and provides consistency and comparability between reporting periods.

APM
Adjusted operating profit

Closest equivalent statutory measure
Operating profit/(loss)[(2)]

Reconciling items to statutory measure
Adjusting items (note 6)

Definition and purpose
The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 6.

Adjusted operating profit	Year ended 31 December 2023 £m	Restated[(1)] Year ended 31 December 2022 £m
Operating profit/(loss)	57	(270)
Adjusting items to operating profit/(loss) (note 6)	333	417
Adjusted operating profit	**390**	147

APM
Adjusted operating margin

Closest equivalent statutory measure
Operating margin[(3)]

Reconciling items to statutory measure
Adjusting items (note 6)

Definition and purpose
Adjusted operating margin represents Adjusted operating profit as a percentage of revenue. The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing performance of the Group.

APM
Adjusted profit before tax
Closest equivalent statutory measure Loss before tax
Reconciling items to statutory measure Adjusting items (note 6)
Definition and purpose Profit before the impact of adjusting items and tax. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 6.

Adjusted profit before tax	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Loss before tax	(8)	(328)
Adjusting items to loss before tax (note 6)	339	390
Adjusted profit before tax	**331**	62

APM
Adjusted profit after tax
Closest equivalent statutory measure Profit/(loss) after tax
Reconciling items to statutory measure Adjusting items (note 6)
Definition and purpose Profit after tax but before the impact of the adjusting items. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 6.

Adjusted profit after tax	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Profit/(loss) after tax	1	(229)
Adjusting items to profit/(loss) after tax (note 6)	262	287
Adjusted profit after tax	**263**	58

APM
Constant currency
Closest equivalent statutory measure Income Statement, which is reported using actual average foreign exchange rates
Reconciling items to statutory measure Constant currency foreign exchange rates
Definition and purpose The Group uses GBP based constant currency models to measure performance. These are calculated by applying 2023 average exchange rates to local currency reported results for the current and prior year. This gives a GBP denominated Income Statement which excludes any variances attributable to foreign exchange rate movements.

APM
Adjusted EBITDA for leverage covenant purposes

Closest equivalent statutory measure
Operating profit/(loss)[2]

Reconciling items to statutory measure
Adjusting items (note 6), depreciation of property, plant and equipment and amortisation of computer software and development costs, imputed lease charge, share of non-controlling interests and other adjustments required for leverage covenant purposes[4]

Definition and purpose
Adjusted operating profit for 12 months prior to the reporting date, before depreciation of property, plant and equipment and before the amortisation of computer software and development costs.

Adjusted EBITDA for leverage covenant purposes is a measure used by external stakeholders to measure performance.

Adjusted EBITDA for leverage covenant purposes	Year ended 31 December 2023 £m	Year ended[5] 31 December 2022 £m
Adjusted operating profit	**390**	480
Depreciation of property, plant and equipment and amortisation of computer software and development costs	**142**	406
Imputed lease charge	**(37)**	(63)
Non-controlling interests	**–**	(5)
Other adjustments required for leverage covenant purposes[4]	**20**	(19)
Adjusted EBITDA for leverage covenant purposes	**515**	799

APM
Adjusted tax rate

Closest equivalent statutory measure
Effective tax rate

Reconciling items to statutory measure
Adjusting items, adjusting tax items and the tax impact of adjusting items (note 6 and note 8)

Definition and purpose
The income tax charge for the Group excluding adjusting tax items, and the tax impact of adjusting items, divided by adjusted profit before tax.

This measure is a useful indicator of the ongoing tax rate for the Group.

Adjusted tax rate	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Tax credit per Income Statement	**9**	99
Adjusted for:		
Tax impact of adjusting items	**(77)**	(105)
Tax impact of significant restructuring	**–**	2
Adjusted tax charge	**(68)**	(4)
Adjusted profit before tax	**331**	62
Adjusted tax rate	**20.5%**	6.5%

APM
Adjusted basic earnings per share

Closest equivalent statutory measure
Basic earnings per share

Reconciling items to statutory measure
Adjusting items (note 6 and note 10)

Definition and purpose
Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year.

APM Adjusted diluted earnings per share
Closest equivalent statutory measure Diluted earnings per share
Reconciling items to statutory measure Adjusting items (note 6 and note 10)
Definition and purpose Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options. The Board considers this to be a key measure of performance when all businesses are held for the complete reporting period.

APM Interest cover
Closest equivalent statutory measure None
Reconciling items to statutory measure Not applicable
Definition and purpose Adjusted EBITDA calculated for covenant purposes (including adjusted EBITDA of businesses disposed) as a multiple of net interest payable on bank loans and overdrafts. This measure is used for bank covenant testing.

Balance Sheet Measures

APM Working capital
Closest equivalent statutory measure Inventories, trade and other receivables less trade and other payables
Reconciling items to statutory measure Not applicable
Definition and purpose Working capital comprises inventories, current trade and other receivables, non-current other receivables, current trade and other payables and non-current other payables. This measure provides additional information in respect of working capital management.

APM Net debt
Closest equivalent statutory measure Cash and cash equivalents less interest-bearing loans and borrowings
Reconciling items to statutory measure Reconciliation of net debt (note 27)
Definition and purpose Net debt comprises cash and cash equivalents and interest-bearing loans and borrowings but excludes non-cash acquisition fair value adjustments. Net debt is one measure that could be used to indicate the strength of the Group's Balance Sheet position and is a useful measure of the indebtedness of the Group.

APM Bank covenant definition of net debt at average rates and leverage
Closest equivalent statutory measure Cash and cash equivalents less interest-bearing loans and borrowings
Reconciling items to statutory measure Impact of foreign exchange and adjustments for bank covenant purposes
Definition and purpose Net debt (as above) is presented in the Balance Sheet translated at year end exchange rates. For bank covenant testing purposes net debt is converted using average exchange rates for the previous 12 months. Leverage is calculated as the bank covenant definition of net debt divided by adjusted EBITDA for leverage covenant purposes. This measure is used for bank covenant testing.

Bank covenant definition of net debt at average rates and leverage	31 December 2023 £m	31 December[5] 2022 £m
Net debt at closing rates (note 27)	572	1,139
Impact of foreign exchange	12	(27)
Bank covenant definition of net debt at average rates	584	1,112
Leverage	1.1x	1.4x

APM Proforma opening net debt and proforma opening leverage
Closest equivalent statutory measure Cash and cash equivalents less interest-bearing loans and borrowings
Reconciling items to statutory measure Disposal of businesses net of cash and cash equivalents disposed and borrowings repaid, associated transaction costs, pension buy-in cost paid and second interim dividend paid to shareholders
Definition and purpose Proforma opening net debt represents net debt for the Group when excluding transactions related to the demerger of the GKN Automotive, GKN Powder Metallurgy and the GKN Hydrogen businesses. Proforma opening net debt is one measure that could be used to indicate the strength of the Group's opening Balance Sheet position and is a useful measure to compare against the ongoing indebtedness of the Group.

Proforma opening net debt and proforma opening leverage	£m
Opening net debt (note 27)	(1,139)
Disposal of businesses, net of cash disposed (note 13)	(320)
Settlement receipt from loans held with demerged entities (note 13)	1,205
Reduction in net debt following the demerger of Dowlais	885
Cash flows from discontinued operations (note 27)	(37)
Finance costs on demerger settled net debt (note 6)	(17)
Net cash outflow from Dowlais businesses to date of demerger	(54)
Demerger related costs	(62)
Pension buy-in (note 24)	(45)
Debt refinancing costs	(11)
Demerger related costs and pension buy-in	(118)
Second interim dividend for the year ended 31 December 2022 (note 9)	(61)
Proforma opening net debt	**(487)**
Proforma opening adjusted EBITDA for leverage covenant purposes[6]	**266**
Proforma opening leverage	**1.8x**

Cash Flow Measures

APM Adjusted operating cash flow (pre-capex)

Closest equivalent statutory measure
Net cash from operating activities

Reconciling items to statutory measure
Non-working capital items (note 27)

Definition and purpose
Adjusted operating cash flow (pre-capex) is calculated as net cash from operating activities before net cash from operating activities from discontinued operations, restructuring costs paid and movements in provisions, defined benefit pension contributions paid, tax paid, interest paid on loans and borrowings, interest paid on lease obligations, acquisition and disposal costs and the repayment of principal under lease obligations.

This measure provides additional useful information in respect of cash generation and is consistent with how business performance is measured internally.

Adjusted operating cash flow (pre-capex)	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Net cash from operating activities	29	204
Operating activities:		
Net cash from operating activities from discontinued operations	(36)	(243)
Restructuring costs paid and movements in provisions[7]	137	37
Defined benefit pension contributions paid	67	23
Tax paid	17	8
Interest paid on loans and borrowings	79	76
Interest paid on lease obligations	5	6
Acquisition and disposal costs	65	10
Debt related:		
Repayment of principal under lease obligations	(32)	(29)
Adjusted operating cash flow (pre-capex)	**331**	92

APM Free cash flow
Closest equivalent statutory measure Net increase/decrease in cash and cash equivalents (net of bank overdrafts)
Reconciling items to statutory measure Acquisition and disposal related cash flows, dividends paid to owners of the parent, transactions in own shares and movements on borrowing facilities
Definition and purpose Free cash flow represents cash generated after all trading costs including restructuring, pension contributions, tax and interest payments.

Free cash flow	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Net decrease in cash and cash equivalents (net of bank overdrafts)	**(216)**	(203)
Debt related:		
Repayment of borrowings	**1,371**	598
Drawings on borrowing facilities	**(628)**	(632)
Costs of raising debt finance	**11**	–
Equity related:		
Dividends paid to owners of the parent	**81**	77
Purchase of own shares, including associated costs	**93**	504
Acquisition and disposal related:		
Disposal of businesses, net of cash disposed	**320**	(478)
Settlement receipt from loans held with demerged entities	**(1,205)**	–
Equity accounted investments additions	**–**	3
Disposal of equity accounted investments	**(3)**	–
Acquisition of subsidiaries, net of cash acquired	**–**	4
Cash flows from/(used in) discontinued operations	**37**	(80)
Acquisition and disposal costs	**65**	10
Settlement of derivatives used in net investment hedging	**–**	109
Finance costs on demerger settled net debt	**17**	–
GKN UK pension plan buy-in	**45**	–
Free cash flow	**(12)**	(88)

APM Adjusted free cash flow
Closest equivalent statutory measure Net increase/decrease in cash and cash equivalents (net of bank overdrafts)
Reconciling items to statutory measure Free cash flow, as defined above, adjusted for restructuring cash flows
Definition and purpose Adjusted free cash flow represents free cash flow adjusted for restructuring cash flows.

APM Adjusted free cash flow	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Free cash flow	**(12)**	(88)
Restructuring costs paid	**125**	53
Adjusted free cash flow	**113**	(35)

APM
Free cash flow pre-interest and tax and free cash flow pre-interest and tax margin

Closest equivalent statutory measure
Net increase/decrease in cash and cash equivalents (net of bank overdrafts)

Reconciling items to statutory measure
Free cash flow, as defined above, adjusted for interest and tax cash flows excluding finance costs on demerger settled net debt

Definition and purpose
Free cash flow pre-interest and tax represents free cash flow adjusted for interest and tax and excluding finance costs on demerger settled net debt.

Free cash flow pre-interest and tax margin represents free cash flow adjusted for interest and tax and excluding finance costs on demerger settled net debt divided by revenue.

Free cash flow pre-interest and tax	Year ended 31 December 2023 £m	Restated[1] Year ended 31 December 2022 £m
Free cash flow	(12)	(88)
Tax paid	17	8
Interest paid on loans and borrowings	79	76
Interest paid on lease obligations	5	6
Interest received	(2)	(1)
Finance costs on demerger settled net debt	(17)	–
Free cash flow pre-interest and tax	70	1
Free cash flow pre-interest and tax margin	2.1%	0.0%

APM
Capital expenditure (capex)

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

Definition and purpose
Calculated as the purchase of owned property, plant and equipment and computer software and expenditure on capitalised development costs during the year, excluding any assets acquired as part of a business combination.

Net capital expenditure is capital expenditure net of proceeds from disposal of property, plant and equipment.

APM
Capital expenditure to depreciation ratio

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

Definition and purpose
Net capital expenditure divided by depreciation of owned property, plant and equipment and amortisation of computer software and development costs.

APM
Dividend per share

Closest equivalent statutory measure
Dividend per share

Reconciling items to statutory measure
Not applicable

Definition and purpose
Amounts payable by way of dividends in terms of pence per share.

(1) Restated for discontinued operations (see note 1).
(2) Operating profit/(loss) is not defined within IFRS but is a widely accepted profit measure being profit/(loss) before finance costs, finance income and tax.
(3) Operating margin is not defined within IFRS but is a widely accepted profit measure being derived from operating profit/(loss)[2] divided by revenue.
(4) Included within other adjustments required for leverage covenant purposes in the year ended 31 December 2023 are unrealised annual savings from spend incurred in the year on restructuring projects. In the year ended 31 December 2022 are dividends received from equity accounted investments and the removal of adjusted operating profit of equity accounted investments.
(5) Year ended 31 December 2022 remains aligned to the original calculations supporting the Group's bank debt compliance certificate and has not been restated for discontinued operations.
(6) Proforma opening adjusted EBITDA for leverage covenant purposes comprises Aerospace adjusted operating profit, depreciation of property, plant and equipment and amortisation of computer software and development costs, imputed lease charge and proforma corporate costs of £30 million.
(7) Excludes non-cash utilisation of loss-making contract provisions of £23 million (2022: £23 million).

The Annual General Meeting of Melrose Industries PLC (the "Company") will be held at 11.00 am on Thursday 2 May 2024 at Butchers' Hall, 87 Bartholomew Close, London EC1A 7EB.

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank, solicitor, accountant, fund manager or other independent financial advisor authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, another appropriately authorised independent financial advisor.

If you have sold or otherwise transferred or sell or otherwise transfer all of your shares in the Company, please send this document, together with the accompanying form of proxy, as soon as possible to the purchaser or transferee or to the agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

Notice is given that the Annual General Meeting of the Company will be held at Butchers' Hall, 87 Bartholomew Close, London EC1A 7EB at 11.00 am on Thursday 2 May 2024 for the purposes set out below. Resolutions 1 to 15 (inclusive) will be proposed as ordinary resolutions and resolutions 16 to 20 (inclusive) as special resolutions.

Ordinary resolutions

1. To receive the Company's audited financial statements for the financial year ended 31 December 2023, together with the Directors' report, the Strategic Report and the Auditor's report on those financial statements.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2023, as set out on pages 128 to 152 of the Company's 2023 Annual Report.
3. To approve the 2024 Directors' Remuneration Policy, as set out on pages 145 to 152 of the Company's 2023 Annual Report.
4. To approve a final dividend of 3.5 pence per ordinary share for the year ended 31 December 2023.
5. To approve the rules of the 2024 Melrose performance share plan (the "PSP"), in the form produced to the AGM and initialled by the Chairman for the purposes of identification (a summary of which is set out in the Appendix) and to authorise the Board to do all such acts and things necessary or desirable to establish and implement the PSP, and to establish such further plans based on the PSP or schedules to the PSP as the Board considers necessary or desirable but which have been modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans or schedules are treated as counting against any limits on individual or overall participation in the PSP.
6. To re-elect Peter Dilnot as a Director of the Company.
7. To elect Matthew Gregory as a Director of the Company.
8. To re-elect Justin Dowley as a Director of the Company.
9. To re-elect David Lis as a Director of the Company.
10. To re-elect Charlotte Twyning as a Director of the Company.
11. To re-elect Heather Lawrence as a Director of the Company.
12. To elect Gillian Elcock as a Director of the Company.
13. To appoint PricewaterhouseCoopers LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at which accounts are laid.
14. To authorise the Audit Committee to determine the remuneration of the auditor of the Company.
15. That, in accordance with section 551 of the Companies Act 2006 (the "Act"), the directors of the Company (the "Directors") be and are generally and unconditionally authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company ("Rights"):

    (A) up to an aggregate nominal amount of £100,320,336; and

    (B) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £200,640,672 (such amount to be reduced by the aggregate nominal amount of any allotments or grants made under paragraph (A) of this resolution) in connection with a fully pre-emptive offer:

    (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

    (ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

    and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, such authorities to expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2025, but, in each case, so that the Company may make offers or agreements before the authority expires which would or might require shares to be allotted or Rights to be granted after the authority expires, and so that the Directors may allot shares or grant Rights in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Special resolutions

16. That, subject to the passing of resolution 15, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authorities granted by resolution 15 and/or to sell ordinary shares held by the Company as treasury shares for cash, in each case as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

    (A) to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted under paragraph (B) of resolution 15, such power shall be limited to the allotment of equity securities in connection with a fully pre-emptive offer):

    (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

    (ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

    and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter;

    (B) to the allotment (otherwise than in circumstances set out in paragraph (A) of this resolution) of equity securities pursuant to the authority granted by paragraph (A) of resolution 15 or sale of treasury shares up to a nominal amount of £15,048,050 and

    (C) to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (A) or paragraph (B) of this resolution) up to a nominal amount equal to 20% of any allotment of equity securities or sale of treasury shares from time to time under paragraph (B) above, such authority to be used only for the purposes of making a follow-on offer which the Directors determine to be of a kind contemplated by paragraph 3 of Section 2B of the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

    such powers to expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2025, but, in each case, so that the Company may make offers or agreements before the power expires which would or might require equity securities to be allotted (and/or treasury shares sold) after the power expires and so that the Directors may allot equity securities (and/or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this authority has expired.

17. That, subject to the passing of resolution 15 and in addition to any power granted under resolution 16, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authorities granted by resolution 15 and/or to sell ordinary shares held by the Company as treasury shares for cash, in each case as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be:

    (A) limited to the allotment of equity securities pursuant to the authority granted by paragraph (A) of resolution 15 or sale of treasury shares up to a nominal amount of £15,048,050 such authority to be used only for the purposes of financing (or refinancing, if the authority is to be used within 12 months of the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice; and

    (B) limited to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (A) of this resolution) up to a nominal amount equal to 20% of any allotment of equity securities or sale of treasury shares from time to time under paragraph (A) above, such authority to be used only for the purposes of making a follow-on offer which the Directors determine to be of a kind contemplated by paragraph 3 of Section 2B of the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

    such powers to expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2025, but, in each case, so that the Company may make offers or agreements before the power expires which would or might require equity securities to be allotted (and/or treasury shares sold) after the power expires and so that the Directors may allot equity securities (and/or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this authority has expired.

18. That the Company be and is generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693 of the Act) of ordinary shares in the capital of the Company provided that:

    (A) the maximum aggregate number of ordinary shares authorised to be purchased is 197,373,991;

    (B) the minimum price which may be paid for an ordinary share is the nominal value of an ordinary share at the time of such purchase;

    (C) the maximum price which may be paid for an ordinary share is not more than the higher of:

        (i) 105% of the average of the middle-market quotation for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased; and

        (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out, in each case, exclusive of expenses;

    (D) this authority shall expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2025;

    (E) the Company may make a contract of purchase of ordinary shares under this authority which would or might be executed wholly or partly after the expiry of this authority, and may make a purchase of ordinary shares in pursuance of any such contract; and

    (F) any ordinary shares purchased pursuant to this authority may either be held as treasury shares or cancelled by the Company, depending on which course of action is considered by the Directors to be in the best interests of shareholders at the time.

19. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

20. That, subject to the confirmation of the High Court of Justice in England and Wales (the "Court"), an amount of £2,271,261,766.04 standing to the credit of the Company's share premium account and the entire amount standing to the credit of the Company's capital redemption reserve as at 5:00 pm on the day immediately preceding the day on which the Court makes an order confirming the reduction of capital be cancelled and the nominal value of each issued fully paid up ordinary share be reduced from 160/7 pence each to £0.001 each.

Recommendation

The Board believes that each of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole. Accordingly, the Directors unanimously recommend that ordinary shareholders vote in favour of all of the resolutions proposed, as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board

Warren Fernandez
Company Secretary

2 April 2024

Registered Office:
11th Floor The Colmore Building
20 Colmore Circus Queensway
Birmingham
West Midlands
B4 6AT

Explanatory notes to the proposed resolutions

Resolutions 1 to 15 (inclusive) are proposed as ordinary resolutions, which means that for each of those resolutions to be passed, more than half the votes cast must be cast in favour of the resolution. Resolutions 16 to 20 (inclusive) are proposed as special resolutions, which means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be cast in favour of the resolution.

Resolution 1 – Receipt of 2023 Annual Report and Financial Statements

The Directors are required to lay the Company's financial statements, the Strategic Report and the Directors' and Auditor's reports on those financial statements (collectively, the "2023 Annual Report") before shareholders each year at the Annual General Meeting ("AGM").

Resolution 2 – Approval of Directors' remuneration report

The Directors' remuneration report (the "Directors' Remuneration Report") is presented in three sections:

- the annual statement from the Chairman of the Remuneration Committee;
- the annual report on remuneration; and
- the new Directors' remuneration policy, which is the subject of resolution 3.

The annual statement from the Chairman of the Remuneration Committee, set out on pages 128 to 129 (inclusive) of the 2023 Annual Report, summarises, for the year ended 31 December 2023, the major decisions taken on Directors' remuneration, any substantial changes relating to Directors' remuneration made during the year, and the context in which those changes occurred and decisions have been taken.

The annual report on remuneration, set out on pages 130 to 145 (inclusive) of the 2023 Annual Report, provides details of the remuneration paid to Directors in respect of the year ended 31 December 2023, including base salary, taxable benefits, short-term incentives, long-term incentives vested in the year, pension-related benefits, any other items in the nature of remuneration and any sum(s) recovered or withheld during the year in respect of amounts paid in earlier years.

The Company's auditors for the financial year ended 31 December 2023, Deloitte LLP, have audited those parts of the Directors' Remuneration Report which are required to be audited and their report may be found on pages 156 to 165 of the 2023 Annual Report.

The Directors' Remuneration Report is subject to an annual advisory shareholder vote by way of an ordinary resolution. Resolution 2 is to approve the Directors' Remuneration Report and will not affect the way in which the Directors' remuneration policy has been implemented.

Resolution 3 – Approval of 2024 Directors' remuneration policy

The new Directors' remuneration policy (the "2024 Directors' Remuneration Policy") is set out in full on pages 145 to 152 (inclusive) of the 2023 Annual Report. The annual statement from the Chairman of the Remuneration Committee, set out on pages 128 to 129 (inclusive) of the 2023 Annual Report, explains in more detail the background and rationale for the 2024 Directors' Remuneration Policy.

As noted in the 2024 Directors' Remuneration Policy, the 2024 Directors' Remuneration Policy will take effect immediately after the close of the AGM on 2 May 2024, subject to approval by shareholders. Payments will continue to be made to Directors and former Directors in line with existing arrangements until this date. Once the 2024 Directors' Remuneration Policy has taken effect, all payments by the Company to the Directors and any former Directors must be made in accordance with the 2024 Directors' Remuneration Policy (unless a payment has been separately approved by a shareholder resolution).

If the 2024 Directors' Remuneration Policy is approved and remains unchanged, it will be valid for three years without further shareholder approval. If the Company wishes to change the 2024 Directors' Remuneration Policy, it will need to put the revised policy to a vote again before it can be implemented. The Directors expect that the Company will next propose a resolution to approve a new Directors' remuneration policy at the Annual General Meeting to be held in 2027.

If the 2024 Directors' Remuneration Policy is not approved, the Company will, if and to the extent permitted by the Act, continue to make payments to Directors in accordance with existing arrangements and will seek shareholder approval for a revised policy as soon as is practicable.

Resolution 4 – Declaration of final dividend

The Board is recommending, and shareholders are being asked to approve, the declaration of a final dividend of 3.5 pence per ordinary share for the year ended 31 December 2023. The final dividend will, subject to shareholder approval, be paid on 8 May 2024 to the holders of ordinary shares whose names are recorded on the register of members of the Company at the close of business on 2 April 2024.

Resolution 5 – Approval of 2024 Melrose performance share plan

The Company is seeking shareholder approval for the PSP, which is proposed to succeed the 2020 Melrose Employee Share Plan which is due to crystallise on 31 May 2024.

Information on the principal features of the PSP can be found in the Appendix.

A copy of the PSP rules will be available for inspection at the Company's registered office, upon request, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice up to and including the date of the Annual General Meeting and will also be available for inspection for 15 minutes before and during the Annual General Meeting. A copy of the PSP rules will also be available for inspection on the national storage mechanism from the date of this notice until the date of the AGM.

Resolutions 6 to 12 (inclusive) – Re-election and election of Directors
In accordance with the UK Corporate Governance Code (the "Code") and the Company's Articles of Association (the "Articles"), every Director will stand for re-election at each AGM.

The Board considers that the contribution of each Director who is standing for re-election is, and continues to be, important to the sustainable success of the Company for the following reasons:

- Justin Dowley, Non-executive Chairman, is standing for re-election as Director due to his extensive and long-standing experience within the banking, investment and asset management sectors. Justin Dowley first joined the Board as a Non-executive Director in September 2011 and served as the Senior Independent Director in the two years prior to his appointment as Non-executive Chairman in 2019, meaning he has served on the Board for over nine years. Following positive engagement with key shareholders in 2020, the Nomination Committee and the Board approved his extended tenure to 2023, subject to annual re-election, in order to facilitate succession planning arrangements for the Board and the development of a diverse Board. Following further positive engagement with key shareholders in 2023, a further and final extension of his tenure for an additional two years was approved in order to provide certainty and stability through the completion of the demerger of Dowlais Group plc. Justin Dowley was considered independent upon his appointment as Non-executive Chairman.

- Peter Dilnot, Chief Executive Officer, a position to which he was appointed on 6 March 2024, is standing for re-election due to his deep understanding of the Melrose business model, having served as Chief Operating Officer since 2019, and having performed the role of chief executive officer for GKN Aerospace most recently since October 2023. He also brings to the Board strong sector experience in engineering and aviation, and has extensive experience in holding executive roles in listed companies.

- David Lis, Senior Independent Director, is standing for re-election due to his extensive financial experience and deep insight into the expectations of Melrose's institutional investor base, having held several roles in investment management. He was appointed to the role of the Senior Independent Director on 5 May 2022.

- Charlotte Twyning, Non-executive Director, is standing for re-election due to her diverse range of experience and commercial acumen having held numerous senior positions across various sectors, most recently in aviation, alongside her substantial board experience.

- Heather Lawrence, Non-executive Director, is standing for re-election due to her diverse range of experience across the industrials and transportation sectors, having held senior roles within corporate finance and investment banking, as well as having the necessary expertise required to perform the role of Chair of the Audit Committee.

In accordance with the Articles:

- Matthew Gregory, Chief Financial Officer, is standing for election as a Director of the Company following his appointment to the Board with effect from 7 March 2024. Matthew brings strong management continuity and a deep understanding of GKN Aerospace, having served as its Chief Financial Officer since September 2022. Matthew has extensive experience in holding chief financial officer roles at listed companies.

- Gillian Elcock, Non-executive Director, is standing for election as a Director of the Company following her appointment to the Board with effect from 21 June 2023. Gillian brings extensive asset management and investment research experience, including covering the aerospace and defence sector, as well as insight gained from several non-executive director roles.

Biographical details of each Director standing for re-election or election (as applicable) can be found on pages 102 to 103 (inclusive) of the 2023 Annual Report. All of the Non-executive Directors standing for re-election or election (as applicable) are currently considered independent under the Code.

Resolution 13 – Appointment of auditor
On the recommendation of the Audit Committee, the Board proposes the appointment of PricewaterhouseCoopers LLP ("PwC") as the Company's auditor for the financial year commencing 1 January 2024. The appointment of the Company's current auditor, Deloitte LLP, will end following its report on the 2023 financial statements at the AGM to be held on 2 May 2024. The Company is required to appoint auditors at each general meeting at which accounts are laid before shareholders, to hold office until the next such meeting.

This resolution proposes the appointment of PwC until the conclusion of the next AGM of the Company at which accounts are laid.

Details of the transition of auditor are set out on page 122 of the 2023 Annual Report.

Resolution 14 – Authority to agree auditor's remuneration
This resolution seeks authority for the Audit Committee to determine the level of the auditor's remuneration.

Resolution 15 – Authority to allot shares

This resolution seeks shareholder approval to grant the Directors the authority to allot shares in the Company, or to grant rights to subscribe for or convert any securities into shares in the Company ("Rights"), pursuant to section 551 of the Act (the "Section 551 authority"). The authority contained in paragraph (A) of the resolution will be limited to an aggregate nominal amount of £100,320,336, being approximately one-third of the Company's issued ordinary share capital (excluding treasury shares) as at 27 March 2024 (being the latest practicable date prior to the publication of this notice).

In line with guidance issued by the Investment Association, paragraph (B) of this resolution would give the Directors authority to allot shares in the Company or grant Rights in connection with a fully pre-emptive offer up to an aggregate nominal amount of £200,640,672, representing approximately two-thirds of the Company's issued ordinary share capital (excluding treasury shares) as at 27 March 2024 (being the latest practicable date prior to the publication of this notice). This resolution provides that such amount shall be reduced by the aggregate nominal amount of any allotments or grants under paragraph (A).

As at 27 March 2024, the Company held 34,770,906 ordinary shares in treasury, representing approximately 2.64% of the Company's issued ordinary share capital (excluding treasury shares) as at such date.

Subject to Resolution 20 being duly passed, following the Court Order (defined below) being registered with the Registrar of Companies in England and Wales, the Board will only exercise the authorities and powers described above and in paragraphs (A) and (B) of Resolution 15 up to an aggregate amount equal to one-third and two-thirds, respectively, of the Company's share capital following the Capital Reduction (defined below).

If approved, the Section 551 authority shall, unless renewed, revoked or varied by the Company, expire at the end of the Company's next AGM after the resolution is passed or, if earlier, at the close of business on 30 June 2024. The exception to this is that the Directors may allot shares or grant Rights after the authority has expired in connection with an offer or agreement made or entered into before the authority expired. The Directors have no present intention to exercise the Section 551 authority.

Resolutions 16 to 17 – Partial disapplication of pre-emption rights

If the Directors wish to allot new shares or other equity securities or sell treasury shares for cash (other than in connection with an executive or employee share scheme), company law requires that these shares are offered first to shareholders in proportion to their existing holdings. The statutory pre-emption rights may be disapplied by shareholders.

The purpose of resolution 16 is to authorise the Directors to allot new shares and other equity securities of the Company or sell shares held in treasury for cash: (a) in connection with a fully pre-emptive offer, subject to any arrangements that the Directors consider appropriate to deal with fractions and overseas requirements; (b) otherwise than pursuant to (a) up to an aggregate nominal value of £15,048,050, without first making an offer under company law to existing shareholders in proportion to their existing holdings; and (c) otherwise than pursuant to (a) and (b), 20% of the amount referred to in (b) for the purposes of making a follow-on offer which the Directors determine to be of a kind contemplated by paragraph 3 of Section 2B of the Pre-emption Group's Statement of Principles (the "Pre-Emption Group Principles"). The limit of £15,048,050 is equivalent to 5% of the total issued ordinary share capital of the Company (excluding treasury shares) as at 27 March 2024, being the latest practicable date prior to publication of this Notice.

Resolution 17 is being proposed as a separate resolution to authorise the Directors to allot additional shares and other equity securities or sell shares held in treasury for cash up to a maximum nominal value of £15,048,050 (representing a further 5% of the issued ordinary share capital of the Company (excluding treasury shares) as at 27 March 2024, being the latest practicable date prior to publication of this Notice) otherwise than in connection with a pre-emptive offer to existing shareholders (the "Acquisition/SCI Disapplication"). This authority is limited to allotments and sales for the purposes of financing acquisitions or specified capital investments contemplated by the Pre-Emption Group Principles (or refinancing any such acquisition or investment within 12 months after the original transaction). The Directors intend to use this authority only in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue or which has taken place in the preceding 12-month period and is disclosed in the announcement of the issue. The resolution also disapplies pre-emption rights in relation to a further 20% of the amount subject to the Acquisition/SCI Disapplication for the purposes of making a follow-on offer which the Directors determine to be of a kind contemplated by paragraph 3 of Section 2B of the Pre-Emption Group Principles.

Subject to Resolution 20 being duly passed, following the Court Order (defined below) being registered with the Registrar of Companies in England and Wales, the Board will only exercise the authorities and powers described above and in paragraph (B) of Resolution 16 and paragraph (A) of Resolution 17 up to an aggregate amount equal to 5% and 5%, respectively, of the Company's share capital following the Capital Reduction (defined below).

The Board acknowledges the provisions of the Pre-Emption Group Principles and confirms that it will follow the general principles set out therein. Having taking into consideration shareholder feedback, the Board has opted for a limit of 5% of the issued ordinary share capital of the Company (excluding treasury shares) in resolutions 16 and 17, rather than the limit of 10% set out in the Pre-Emption Group Principles, in order to seek alignment with shareholder preferences, balanced with the Board's belief that the 5% limit provides sufficient flexibility to the Company at this time. The Directors believe that it is appropriate to seek these authorities to give the Company the flexibility to raise further equity funding and to pursue acquisition opportunities as and when they arise, and to seek authority to make the follow-on offers so as to ensure that pre-emption is respected.

If approved, these powers shall apply until the end of the Company's next AGM after the resolutions are passed or, if earlier, until the close of business on 30 June 2025. The exception to this is that the Directors may allot equity securities after the power has expired in connection with an offer or agreement made or entered into before the power expired. The Directors have no present intention to exercise these powers and if ever used, the Directors intend to follow the shareholder protections and approach to follow-on offers as set out in Section 2B of the Pre-Emption Group Principles.

Resolution 18 – Authority to purchase own shares

This resolution seeks shareholder approval to grant the Company the authority to purchase its own shares pursuant to sections 693 and 701 of the Act.

This authority is limited to an aggregate maximum number of 197,373,991 ordinary shares, representing approximately 14.99% of the Company's issued ordinary share capital (excluding treasury shares) as at 27 March 2024 (being the latest practicable date prior to the publication of this notice).

The approval sought at resolution 18 maintains the increase approved by shareholders at the 2023 Annual General Meeting from the 10% authority approved by shareholders at Annual General Meetings prior to 2023 and is proposed to provide continued flexibility to the Company to implement its strategy of returning value to shareholders.

The maximum price which may be paid for an ordinary share will be an amount which is not more than the higher of: (i) 5% above the average of the middle market quotation for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out (in each case, exclusive of expenses).

If approved, the authority shall, unless varied, revoked or renewed, expire at the end of the Company's next AGM after the resolution is passed or, if earlier, at the close of business on 30 June 2025. The Directors intend to exercise their authority to continue the share buyback programme commenced by the Company at the beginning of October 2023.

Resolution 19 – Notice period for general meetings other than AGMs

This resolution seeks shareholder approval to allow the Company to continue to call general meetings (other than AGMs) on 14 clear days' notice. In accordance with the Act, as amended by the Companies (Shareholders' Rights) Regulations 2009, the notice period required for general meetings of the Company is 21 clear days unless shareholders approve a shorter notice period (subject to a minimum period of 14 clear days). In accordance with the Act, the Company must make a means of electronic voting available to all shareholders for that meeting in order to be able to call a general meeting on less than 21 clear days' notice.

The Company intends to only use the shorter notice period where this flexibility is merited by the purpose of the meeting and is considered to be in the interests of shareholders generally, and not as a matter of routine. AGMs will continue to be held on at least 21 clear days' notice.

The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

Resolution 20 – Reduction of Capital

Resolution 20 is a special resolution to cancel an amount equal to £2,271,261,766.04 standing to the credit of the Company's share premium account and the entire amount standing to the credit of the Company's capital redemption reserve as at 5:00 pm on the day immediately preceding the day on which the High Court of Justice in England and Wales (the "Court") makes an order (the "Court Order") confirming the reduction of capital and to reduce the nominal value of each issued fully paid up ordinary share from 160/7 pence each to £0.001 each (the "Capital Reduction"). The amount currently standing to the credit of the Company's capital redemption reserve is £752,967,084.51. On Completion of the proposed Capital Reduction, an amount of £3,331,786,020.029 (plus any amount allocated to the Company's capital redemption reserve between the date of this notice and 5:00 pm on the day immediately preceding the day on which the Court Order is made) will be allocated to a distributable reserve account of the Company.

The Company is not permitted to pay any dividends unless it has distributable reserves. The Capital Reduction is being proposed in order to create distributable reserves to support the future payment by the Company of dividends or other distributions to its shareholders.

The completion of the Capital Reduction will not affect the rights attaching to the ordinary shares and will not result in any change to the number of ordinary shares in issue.

Under the Act, a public company may reduce its share capital provided that it obtains the approval of its shareholders by special resolution in a general meeting and that the Court confirms the reduction.

If Resolution 20 is duly passed, it is the intention of the Company to apply to the Court for confirmation of the Capital Reduction as soon as reasonably practicable thereafter. The Capital Reduction will only take effect if confirmed by the Court and upon the Court Order being registered with the Registrar of Companies in England and Wales. It is expected that, if confirmed by the Court, the Court Order will be effective before the end of 2024.

The Directors reserve the right (where necessary by application to the Court) to abandon, discontinue or adjourn any application to the Court for confirmation of the Capital Reduction if the Directors believe that the terms required to obtain confirmation are unsatisfactory to the Company or if, as the result of a material unforeseen event, the Directors consider that to continue with the Capital Reduction would be inappropriate or inadvisable.

Explanatory notes as to the proxy, voting and attendance procedures at the Annual General Meeting ("AGM")

1. The holders of ordinary shares in the Company are entitled to attend the AGM and are entitled to vote. A member entitled to attend, speak and vote at the AGM is also entitled to appoint a proxy to exercise all or any of his/her rights to attend, speak and vote at the AGM in his/her place. Such a member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.

2. A form of proxy which may be used to appoint and give proxy instructions for use at the AGM is enclosed with this notice. To be effective, a form of proxy must be completed and returned, together with any power of attorney or authority under which it is completed or a certified copy of such power or authority, so that it is received by the Company's registrar at the address specified on the form of proxy not less than 48 hours (excluding any part of a day that is not a working day) before the stated time for holding the meeting (or, in the event of an adjournment, not less than 48 hours before the stated time of the adjourned meeting (excluding any part of a day which is not a working day)). Returning a completed form of proxy will not preclude a member from attending the meeting and voting in person.

3. Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in notes 1 and 2 above does not apply to Nominated Persons. The rights described in notes 1 and 2 can only be exercised by the holders of ordinary shares in the Company.

4. To be entitled to attend and vote at the AGM (and for the purposes of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members by 6.30 pm (BST) on 30 April 2024 (or, in the event of an adjournment, on the date which is two days, excluding any day which is not a working day, before the time of the adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5. As at 27 March 2024 (being the latest practicable date prior to the publication of this notice), the Company's issued ordinary share capital consists of 1,316,704,415 ordinary shares of 160/7 pence each (excluding treasury shares), carrying the right to one vote each. Therefore, the total number of voting rights in the Company on 27 March 2024 was 1,316,704,415.

6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available at www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 11.00 am (BST) on 30 April 2024. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

8. CREST members and, where applicable, their CREST sponsors, or voting service providers, should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member, or sponsored member, or has appointed a voting service provider, to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

9. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

10. If you are an institutional investor you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Company's registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11:00 am (BST) on 30 April 2024 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

11. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

12. Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.

13. Any member holding ordinary shares attending the meeting has the right to ask questions. The Company must answer any such questions relating to the business being dealt with at the meeting but no such answer need be given if: (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer has already been given on a website in the form of an answer to a question; and/or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

14. Voting at the AGM will be by poll. The Chairman of the AGM will invite each shareholder, corporate representative and proxy present at the meeting to complete a poll card indicating how they wish to cast their votes in respect of each resolution. In addition, the Chairman of the AGM will cast the votes for which he has been appointed as proxy. Poll cards will be collected during the meeting. Once the results have been verified by the Company's registrar, Equiniti, they will be notified to the Financial Conduct Authority, announced through a Regulatory Information Service and will be available to view on the Company's website.

15. A copy of this notice, and other information required by section 311A of the Act, can be found at www.melroseplc.net/investors/shareholder-meetings.

16. You may not use an electronic address provided in either this notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

17. The following documents will be available for inspection upon request at the Company's registered office during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice up to and including the date of the AGM and at the place of the AGM for 15 minutes prior to and during the meeting:

    (A) copies of all service agreements under which Directors of the Company are employed by the Company or any subsidiaries;

    (B) a copy of the terms of appointment of the Non-executive Directors of the Company; and

    (C) a copy of the PSP rules.

18. You may register your vote online by visiting Equiniti's website at www.shareview.co.uk. In order to register your vote online, you will need to create an online portfolio using your Shareholder Reference Number which is set out on the enclosed form of proxy. Once signed up and logged in simply click “View” on the “My Investments” page and follow the on-screen instructions. The return of the form of proxy by post or registering your vote online will not prevent you from attending the AGM and voting in person, should you wish. Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at www.shareview.co.uk using your usual user ID and password. Once logged in simply click “View” on the “My Investments” page, click on the link to vote then follow the on-screen instructions. A proxy appointment made electronically will not be valid if sent to any address other than those provided or if received after 11.00 am (BST) on 30 April 2024.

Appendix – Summary of the principal features of the Melrose Performance Share Plan (the "PSP")

Introduction

The Board believes it is important to incentivise, retain and motivate employees of the appropriate calibre to achieve long-term sustainable returns for shareholders. Accordingly, it proposes to adopt the PSP. This will succeed the 2020 Melrose Employee Share Plan which is due to crystallise on 31 May 2024.

Eligibility

All employees of the Company's group are eligible for selection to participate in the PSP at the discretion of the Remuneration Committee. In practice, it is expected that the executive Directors and other senior individuals will be granted Awards.

Operation

Under the PSP, awards will be granted in the form of conditional share awards or nil or nominal cost options, giving a conditional entitlement to acquire a number of ordinary shares in the Company ("Shares").

Awards may be granted within six weeks after the Plan is approved by the Company's shareholders, announcement of its results for any period, commencement of employment or at other times in exceptional circumstances.

Awards may not be granted more than 10 years after shareholder approval of the PSP.

Awards may be Performance Awards (that normally vest after three years with vesting subject to continued employment and the meeting of performance conditions), Restricted Stock Awards (that normally vest after three years subject only to continued employment) or Buy-out Awards (to compensate for forfeited awards from previous employment and which will normally vest at the same time as such awards subject to continued employment and, potentially, subject to the meeting of performance conditions).

The Remuneration Committee may also (i) grant cash-based Awards of an equivalent value to share-based Awards; and/or (ii) fully or partially satisfy share-based Awards in cash (expected only to be in exceptional circumstances or to fund tax liabilities).

Performance conditions for Performance Awards will be set by the Remuneration Committee, typically measuring performance over at least three years. Performance conditions will relate to one or more metrics aligned to the strategy of the business. The Remuneration Committee may vary any performance condition following an event provided it considers the varied condition to be fair and reasonable and not materially less challenging than the original conditions would have been but for that event.

Irrespective of the extent to which any performance condition attached to an Award has been satisfied, the Remuneration Committee may adjust the level of vesting. Such discretion would only be used in exceptional circumstances and may have regard to corporate and personal performance.

Awards will vest on the vesting date set by the Remuneration Committee, which (except for Buy-out Awards) will normally be the third anniversary of the grant date.

Awards structured as options will normally be exercisable until 10 years from grant.

Plan Limits

In any 10-calendar years (but excluding awards granted under earlier plans), the Company may not issue (or grant rights to issue) Shares representing more than 10 per cent of the issued ordinary share capital of the Company for awards under the PSP and any other employee share plan adopted by the Company (and a 5% limit will apply to awards granted under executive or discretionary share plans). Awards that are relinquished or lapse will be disregarded for these purposes.

Shares transferred out of treasury will count towards these limits unless the Remuneration Committee determines that counting them is no longer in accordance with market practice.

Individual Limits

An employee may not receive Performance Awards for any year over Shares with a value exceeding 300% of base salary or, if greater, the maximum permitted by the Company's prevailing directors' remuneration policy approved by shareholders. There is no individual limit for Restricted Stock Awards or Buy-out Awards.

Holding period
Shares acquired pursuant to Awards granted to executive Directors (and to other individuals at Remuneration Committee discretion), excluding any sold to fund tax obligations, must normally be retained for two years from vesting.

Adjustment of Awards
If there is a variation of the share capital of the Company or if there is a material corporate event which affects the market price of Shares to a material extent, the Remuneration Committee may adjust the number of shares subject to an Award (and any option price).

Leavers
If a participant ceases to be employed by the Company's group before the normal vesting date, the treatment of their Awards will depend on their classification as a 'Good Leaver' or a 'Bad Leaver'.

'Good Leaver' treatment will apply if a participant ceases employment due to: death; ill-health, injury; disability; redundancy; retirement with the agreement of the Company; transfer of a company or business out of the Company's group; or otherwise at the discretion of the Remuneration Committee. A Participant will be a 'Bad Leaver' if they otherwise cease group employment.

Good Leavers' Awards shall normally continue and vest on the original vesting date but will normally be reduced pro-rata to the elapsed portion of the normal vesting period. The Remuneration Committee does, however, have discretion to accelerate vesting and/or partly or fully waive any pro-rating. Awards structured as options will normally be exercisable for 12 months from vesting.

Vesting of Awards may also be accelerated in certain circumstances in connection with transfer of employment outside the UK.

Malus
In the event of (1) material misstatement of financial results that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (2) gross misconduct by the relevant participant; (3) events or behaviour of a participant that have led to the censure of the Company by a significant regulatory authority or have had a significant detrimental impact on the reputation of the Company, provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to them; and/or (4) the Company becoming insolvent or otherwise suffering a corporate failure so that the value of the Company's Shares is materially reduced, provided that the Board determines, following an appropriate review of accountability, that the participant should be held responsible (in whole or in part) for that insolvency or corporate failure prior to the relevant vesting date, the Awards held by the participant may be cancelled in whole or in part for nil consideration.

Clawback
In the event of (1) material misstatement of financial results that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (2) material miscalculation of any performance measure on which the vesting of the Awards was based; (3) gross misconduct by the relevant participant; (4) events or behaviour of a participant that have led to the censure of the Company by a significant regulatory authority or have had a significant detrimental impact on the reputation of the Company, provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to them; and/or (5) the Company becoming insolvent or otherwise suffering a corporate failure so that the value of the Company's Shares is materially reduced, provided that the Board determines, following an appropriate review of accountability, that the participant should be held responsible (in whole or in part) for that insolvency or corporate failure, following the relevant vesting date but prior to the date falling three years after the relevant vesting date, the participant may be required to transfer (for nil consideration) the number of Shares arising from the vesting of the relevant Award, less the number of Shares sold to fund the tax liability arising from the vesting of the relevant Award and/or to pay to the Company the amount of any cash received on or following the vesting of the relevant Award less the amount of any tax paid in relation to that cash. Amounts due under Clawback provisions may also be recovered by lapsing Awards or withholding from amounts otherwise due to the participant from group companies.

Corporate Events
If there is a change of control of the Company, the Remuneration Committee may determine that Awards may vest. If the change of control occurs during the vesting period, the vested number of Shares will normally be determined by the Remuneration Committee pro-rata to the elapsed proportion of the normal vesting period (with Remuneration Committee having discretion to partly or fully waive any pro-rating). Where relevant, the extent of vesting will also reflect the extent to which a performance condition has (or is expected to be) satisfied.

The Remuneration Committee may also similarly accelerate the vesting of Awards on the occurrence of certain material corporate events.

Rights attaching to Ordinary Shares
Any Shares allotted when an Award vests or is exercised will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Dividend Equivalent
The Remuneration Committee may decide that participants will receive a payment (in cash or Shares) equivalent to the dividends that would have been payable on vested Shares between grant and vesting (or, in the case of an option where there is a holding period, the earlier of the date of exercise of the option and the expiry of the holding period) and this may assume the reinvestment of dividends. Payment shall be at the same time as delivery of the related vested Shares (or cash payment).

Alterations
The Board or the Remuneration Committee may alter the PSP provided that shareholder approval must be obtained for any alteration to the advantage of eligible employees or participants or which relates to the provisions relating to eligibility, individual or overall limits, the basis for determining the entitlement to, and the terms of, awards, the adjustments that may be made in the event of any variation to the share capital of the Company and/or the rule relating to such prior approval (except for minor alterations to benefit the administration of the PSP, to take account of the provisions of any legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for any participant or member of the Company's group).

Non-transferable and non-pensionable
Awards are not transferable (except on death).

Benefits received under the PSP are not pensionable.

Overseas plans
The Board may establish further plans based on the PSP for overseas territories to take account of local tax, exchange control or securities laws. Shares made available under such plans will count against the limits on individual and overall participation under the PSP.

COMPANY AND SHAREHOLDER INFORMATION

As at 31 December 2023, there were 15,783 holders of ordinary shares of 160/7 pence each in the Company. An analysis of these shareholdings as at 31 December 2023 is set out in the table below.[1]

Shareholder analysis

Balance Ranges	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
1–5,000	14,403	91.26%	9,510,018	0.70%
5,001–50,000	843	5.34%	11,854,303	0.88%
50,001–500,000	322	2.04%	60,435,467	4.47%
Over 500,000	215	1.36%	1,269,675,533	93.95%
Total	**15,783**	**100.00%**	**1,351,475,321**	**100.00%**
Held by				
Individuals	14,542	92.14%	14,161,319	1.05%
Institutions	1,241	7.86%	1,337,314,002	98.95%
Total	**15,783**	**100.00%**	**1,351,475,321**	**100.00%**

Financial calendar 2023	
Ex-dividend date for final dividend	28 March 2024
Record date for final dividend	2 April 2024
Annual General Meeting	2 May 2024
Payment date of final dividend	8 May 2024
Announcement of interim results	1 August 2024
Intended payment of interim dividend	September 2024
Expected preliminary announcement of 2024 results	March 2025

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Spencer Road
Lancing
West Sussex BN99 6DA

If you require any help or need to contact Equiniti please visit www.shareview.co.uk.

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30 Gresham Street
London EC2V 7QN

J.P. Morgan Cazenove
25 Bank Street
London E14 5JP

Legal Advisors
Simpson Thacher & Bartlett LLP
CityPoint
One Ropemaker Street
London EC2Y 9HU

Bankers
Banco Santander S.A., London Branch

Bank of America Europe Designated Activity Company

Bank of China Limited, London Branch

Barclays Bank plc

BNP Paribas Fortis SA/NV

Citibank, N.A., London Branch

Commerzbank Aktiengesellschaft, London Branch

Coöperatieve Rabobank U.A.

Crédit Agricole Corporate and Investment Bank

Crédit Industriel et Commercial

Deutsche Bank Luxembourg S.A.

HSBC Bank plc

Industrial and Commercial Bank of China Limited, London Branch

ING Bank N.V., London Branch

J.P. Morgan Chase Bank N.A., London Branch

MUFG Bank, Ltd.

National Westminster Bank plc

Royal Bank of Canada

Skandinaviska Enskilda Banken AB (publ)

UniCredit Bank AG

Wells Fargo Bank, N.A., London Branch

A range of shareholder information is available at Equiniti's online portfolio service www.shareview.co.uk, where you can register for a Shareview Portfolio to access information about your holding and undertake a number of activities, including appointing a proxy, changing a dividend mandate and updating your address. To register, you will need your 11-digit Shareholder Reference Number ("SRN"), which can be found on your proxy form or dividend voucher.

Gifting your shares
If you have a small number of shares and the dealing costs or minimum fee make it uneconomical to sell them, you may like to donate them to benefit charities through ShareGift, a registered charity. Further information is available on the ShareGift website at www.sharegift.org or call +44 (0)20 7930 3737.

Share fraud warning
Many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. For more detailed information on this kind of activity or to report a scam, please call the Financial Conduct Authority's Consumer Helpline on +44 (0)800 111 6768 or visit www.fca.org.uk/consumers/scams.

(1) Based on the total number of ordinary shares in issue as at 31 December 2023, inclusive of treasury shares.

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Printed by Park Communications – a carbon neutral printing company

The material used in this Report is from sustainable resources. The paper mill and printer are both registered with the Forestry Stewardship Council (FSC)® and additionally have the Environmental Management System ISO 14001.

It has been printed using 100% offshore wind electricity sourced from UK wind.

Designed and produced by

Conran Design Group

Melrose

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London Stock Exchange
Code: MRO
SEDOL: BNGDN82
LEI: 213800RGNXXZY2M7TR85