Melrose

Mr Darren Jones MP
Chair, Business, Energy and Industrial Strategy Select Committee
House of Commons
Westminster
SW1A 0AA
(sent via email)

24th February 2021

Dear Mr Jones,

Thank you for the opportunity to give evidence to your Committee yesterday. Given recent misleading reports and claims, I was particularly grateful for the opportunity to set the record straight.

As I said, Melrose has fully complied with the letter and the spirit of the commitments made when we acquired the GKN businesses in 2018, and any suggestion to the contrary is wrong. Not only have we kept to the letter of each commitment, we have also kept to the spirit of our ambition to return the GKN businesses to be world-leading manufacturing and engineering businesses.

I am also delighted to formally extend my invitation to you and the whole Committee to visit the GKN Aerospace Global Technology Centre in Filton.

In more detail, and for the record, our commitments include:

Legally binding Post Offer Undertakings

When we acquired the GKN businesses, we gave, and have kept to, the following post offer undertakings to the Takeover Panel:

1. For a period of five years from acquisition (i.e. to 2023):
    a. Melrose will remain headquartered in the UK
    b. Melrose will remain listed in the UK
    c. The Melrose Board will have a majority of UK resident directors
    d. GKN Aerospace and GKN Driveline businesses will retain the same rights to the GKN trademarks

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2. For the period from 1 January 2019 to 31 December 2023, the R&D spend for the GKN businesses will be at least 2.2% of sales, with any shortfall being caught up by 30 June 2024
3. If Melrose implements a reorganisation that results in it no longer being the parent company of the Melrose Group, the new listed parent of the Melrose Group will commit to these same undertakings

We are in full compliance with these undertakings. This is independently verified every six months by third party advisers, RSM Corporate Finance LLP, who provide a report to the Takeover Panel confirming our continued compliance. We announce our full compliance every year to the market via RNS and publish this information on our website.

For clarity, there were no undertakings in relation to jobs, employment, or sites of any GKN business.

As we said to your predecessor at the time we acquired the GKN businesses, they were performing well below their potential. In fact, GKN had issued profit warnings in the months before our approach. The nature of our work is to buy good but underperforming businesses and turn them around to the benefit of all stakeholders. Unfortunately, this means taking difficult decisions. We were clear at the time of the acquisition this would be the case with the GKN businesses. We have empowered our management teams to set the right plans for the future for each business, backed them with investment to ensure they maximise their potential, and also support them when difficult decisions are necessary.

Broader commitments

- We committed to BEIS in a deed that we would not sell the GKN Aerospace business for a period of five years (i.e. to 2023). There are exceptions to this, including non-core businesses or a listing, but if we want to sell GKN Aerospace within this period, it will require BEIS approval. We are in full compliance with this commitment.
- We committed to MoD in a deed that we would adhere to the highest level of undertakings a foreign bidder had given under the Enterprise Act 2001 for a relevantly sensitive UK asset at the time of the acquisition. These are the subject of a confidential deed with the MOD. You may wish to request it from the MOD (we would be happy to consent), but the disclosure of the deed is entirely at their discretion.
- We committed to a substantially enhanced contribution plan of up to £1billion to repair GKN's significant pensions deficit. We have fully delivered on our commitments to pension scheme members.

Further ambitions

At the time of making the commitments to the Takeover Panel, BEIS and MOD, we wrote to the then Secretary of State for BEIS, outlining further statements that were not commitments, but reflected our ambitions and intentions for the GKN businesses. We discuss these statements with the representatives of BEIS during our regular six-monthly discussions. They included:

- Transforming GKN Aerospace and GKN Automotive to enable them to compete on the world stage (we are achieving this ambition and more detail follows below)
- Investing in innovation across the GKN businesses (we are achieving this ambition and more detail follows below)
- Investing £10million in a skills and productivity fund – we are on-track to meet this ambition
- Continuing to support the supply chain across the GKN businesses – as I was happy to say to your Committee, one of the many changes we have made is to ensure the GKN businesses work more closely with their suppliers, including preparing for Brexit and ESG

In terms of the spirit of our commitment to return the GKN businesses to be world-leading manufacturing and engineering businesses, this is an ambition we are proud to be meeting.

Thanks to their management teams' decisions, and backed by our investment, they are now well placed to compete on the world stage as the economy and society recovers from the pandemic and start to deliver their full potential.

GKN Automotive is investing and reshaping itself to keep pace with the fast changing, global automotive market. In the UK, we continue to support investments in its Abingdon site - transforming it into a Global Innovation Centre which will be important in helping to ensure GKN Automotive is at the heart of the electric vehicle revolution.

At the same time, we are providing funding for important programmes in the UK's industrial automotive network including the establishment of the Advanced Research Centre, which is a joint initiative with the University of Newcastle and University of Nottingham. As I said though we can only work within the legacy we inherited from the past management of GKN.

Equally - as you will be aware as Member of Parliament for Bristol North West - under our ownership, GKN Aerospace is helping ensure the UK plays a leading role in the aviation sector across the world.

The global aerospace industry is one of the hardest hit by the pandemic and its recovery currently looks the furthest away. However, these significant economic challenges have not deterred the GKN Aerospace management team's efforts to prepare their business for the future – or our appetite to provide the investment needed to enable this change. We continue to provide the vital funding and support needed to enable it to develop the technologies which will put the UK at the heart of the future of aviation and sustainable travel.

The recent announcement of Government support for H2GEAR, a ground-breaking hydrogen propulsion system for an emission free aircraft being developed by GKN Aerospace, was made possible because of the changes and investment enabled by our ownership.

And this programme is only the latest in GKN Aerospace's strong technology roadmap, a significant proportion of which is being developed here in the UK.

The businesses role in the Wing of Tomorrow programme, in collaboration with the National Composite Centre, is well progressed. Additive manufacturing breakthroughs are enabling their customers to produce lighter, more efficient and lower emission engines. Its world leading Global Technology Centre in Filton is due to become fully operational this year and will be a hub for future technologies like the Eviation Alice, a zero emissions regional aircraft in which GKN Aerospace is taking a leading role.

In addition, we are funding the transformation of production sites in Portsmouth and Luton to become Global Centres of Excellence in their respective fields. And we have invested in improvements on the shop floor, establishing Global Centres of Excellence in Luton and Portsmouth and other improvements in Cowes and Western Approach.

As I say, these successes are enabled by our business model. We buy good but underperforming manufacturing businesses, improve them to the benefit of all stakeholders and find them a sustainable home. By providing the right focus and significant investment, we turn around the businesses we acquire and prevent them sliding into failure.

Importantly, we deliver superior returns to our shareholders (including some of the UK's largest pensions funds) by making our businesses more productive and sustainable. I am a founder of Melrose and I am very proud to be its Chief Executive. We are publicly listed in the UK, and run from the UK - by a UK board.

I hope you will be happy to publish this letter as supplementary evidence to your Committee, and that you will take the opportunity to visit the world leading GKN Aerospace Global Technology Centre in Filton when conditions allow.

Yours sincerely,

Simon Peckham
Chief Executive Officer, Melrose Plc