

This document comprises a prospectus (the “**Prospectus**”) for the purposes of Article 3 of Regulation (EU) 2017/1129 as it forms part of retained European Union (“**EU**”) law as defined in the European Union (Withdrawal) Act 2018 (“**EUWA**”) (the “**UK Prospectus Regulation**”) relating to Dowlais Group plc (the “**Company**” or “**Dowlais**”) prepared in accordance with the Prospectus Regulation Rules of the Financial Conduct Authority (the “**FCA**”) made under Section 73A of the Financial Services and Markets Act 2000 (as amended, “**FSMA**”). This Prospectus has been approved by the FCA as the competent authority under the UK Prospectus Regulation. This Prospectus has been filed with the FCA in accordance with the Prospectus Regulation Rules and will be made available to the public in accordance with Rule 3.2 of the Prospectus Regulation Rules by the same being made available at www.dowlais.com.

The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Company that is, or the quality of the securities that are, the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities. This Prospectus is issued solely in connection with the admission of all of the shares of the Company (the “**Dowlais Shares**”) to the premium listing segment of the Official List of the FCA (the “**Official List**”) and to trading on the main market for listed securities of the London Stock Exchange plc (the “**London Stock Exchange**”) and the proposed demerger of Dowlais from Melrose Industries PLC (the “**Demerger**”) and has been prepared on the assumption that the resolution to be proposed at the General Meeting of Melrose Industries PLC (“**Melrose**”) will be passed and that the Demerger will become effective as proposed.

Application will be made to the FCA for all of the Dowlais Shares, issued and to be issued in connection with the Demerger, to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for all of the Dowlais Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities (together, “**Admission**”). Admission to trading on the London Stock Exchange’s main market for listed securities constitutes admission to trading on a regulated market. It is expected that Admission will become effective, and that dealings will commence on the London Stock Exchange, at 8.00 a.m. (London time) on 20 April 2023. No application has been, or is currently intended to be, made for the Dowlais Shares to be admitted to listing or trading on any other stock exchange.

The directors of the Company (the “**Directors**”), whose names appear on page 51 of this Prospectus, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company, the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

This document does not constitute an offer or invitation to sell or issue, or a solicitation of an offer or invitation to purchase or subscribe for, any securities offered by any person in the Company in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. This document is intended solely for holders of Melrose Shares. No Dowlais Shares have been marketed to, or are available to purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the Dowlais Shares to the premium listing segment of the Official List or the Demerger. This document does not constitute an offer or invitation for any person to subscribe for or purchase any securities in the Company or any other company.

Prospective investors should read the whole of this Prospectus. In particular, your attention is drawn to the risk factors described in Part II (*Risk Factors*) of this Prospectus for a discussion of certain factors that should be considered in connection with an investment in the Dowlais Shares. Prospective investors should be aware that an investment in the Company involves a degree of risk and that, if one or more of the risks described in this Prospectus were to occur, investors may find their investment materially adversely affected.

DOWLAIS

Dowlais Group plc

(incorporated under the Companies Act 2006 and registered in England and Wales with registered number 14591224)

Admission to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange

Sponsor and Joint Financial Adviser

Rothschild & Co

Joint Financial Adviser

Citi

J.P. Morgan Cazenove

Corporate Broker

Investec

**Issued share capital immediately following Admission of 1,393,273,527 Dowlais Shares
of £0.01 nominal value**

The distribution of this Prospectus in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company, the Directors or N. M. Rothschild & Sons Limited (“**Rothschild & Co**” or the “**Sponsor**”) and together with Citigroup Global Markets Limited (“**Citi**”), J.P. Morgan Securities plc (which conducts its UK investment banking business as J.P. Morgan Cazenove) (“**J.P. Morgan**”) and Investec Bank plc (“**Investec**”) (together, the “**Banks**”) or any such person’s affiliates to obtain any approval, authorisation or exemption to permit the possession or distribution of this Prospectus (or any other publicity materials relating to the Dowlais Shares) in any jurisdiction other than the UK, where action for that purpose may be required. Accordingly, neither this Prospectus nor any other publicity material or advertisement in connection with the Dowlais Shares may be distributed or published in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about, and observe, any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this Prospectus. Any failure to comply with these restrictions and requirements may constitute a violation of the securities laws of any such jurisdiction.

Prospective investors should only rely on the information contained in this Prospectus. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been so authorised. In particular, the contents of www.dowlais.com do not form part of this Prospectus and prospective investors should not rely on them. The Company will comply with its obligations to publish a supplementary prospectus pursuant to Article 23 of the UK Prospectus Regulation and Rule 3.4 of the Prospectus Regulation Rules containing further updated information required by law or by any regulatory authority, but, except as required by any other applicable law, assumes no further obligation to publish additional information. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to Article 23 of the UK Prospectus Regulation and Rule 3.4 of the Prospectus Regulation Rules, neither the delivery of this Prospectus nor Admission nor any subsequent subscription or sale shall, under any circumstances, create any implication that there has been no change in the affairs of the Dowlais Group set out in this Prospectus or that the information in it is correct as at any date subsequent to the date of this Prospectus.

None of the Company, the Directors, the Banks or any of their respective affiliates or representatives is making any representation to any prospective investor in the Dowlais Shares regarding the legality of an investment in the Dowlais Shares by any such prospective investor under the laws applicable to any such prospective investor. The contents of this Prospectus should not be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal, financial or tax adviser for legal, financial or tax advice in relation to an investment in the Dowlais Shares.

Apart from the responsibilities, if any, which may be imposed on any of the Banks by FSMA or the regulatory regime established thereunder to the extent the exclusion of responsibility under the relevant regulatory regime would be illegal, void or unenforceable, none of the Banks nor any of their respective subsidiaries, holding companies, branches or affiliates nor any of their respective directors, officers, employees, agents or advisers, owes or accepts any duty, responsibility or liability whatsoever (whether direct or indirect and whether arising in contract, in tort, under statute or otherwise) to any person in relation to this Prospectus or for any acts or omissions of the Company and no representation or warranty, express or implied, is made by any of them as to the contents of this Prospectus, including its accuracy, completeness, verification or sufficiency, or for any other statement made or purported to be made by the Company, or on its behalf, or by any of the Banks, or on their behalf, in connection with the Company or the Dowlais Shares, and nothing in this Prospectus should be relied upon as a promise or representation in this respect, whether or not to the past or future. To the fullest extent permitted by law, each of the Banks and their respective subsidiaries, holding companies, branches and affiliates and their respective directors, officers, employees, agents, or advisers accordingly disclaims all and any responsibility or liability whatsoever (whether direct or indirect and whether arising in tort, contract, under statute or otherwise (save as referred to above)), which they might otherwise have in respect of this Prospectus or any such statement.

Rothschild & Co is authorised and regulated by the FCA in the UK and each of Citi, J.P. Morgan and Investec is authorised by the Prudential Regulation Authority (the “PRA”) and regulated in the UK by the PRA and the FCA. The Banks are acting exclusively for the Company and Melrose and no one else in connection with the Demerger, and will not regard any other person (whether or not a recipient of the Prospectus) as their respective clients and will not be responsible to anyone other than the Company and Melrose for providing the protections afforded to their respective clients nor for providing advice in relation to any transaction, matter or arrangement referred to in this Prospectus. Neither the Banks nor any of their respective group undertakings or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of the Banks in connection with this Prospectus or any matter referred to herein.

This Prospectus is dated 3 March 2023.

NOTICE TO CERTAIN INVESTORS

The distribution of this Prospectus in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company, the Directors or the Banks or any such person's affiliates to obtain any approval, authorisation or exemption to permit the possession or distribution of this Prospectus (or any other publicity materials relating to the Dowlais Shares) in any jurisdiction other than the UK, where action for that purpose may be required. Accordingly, neither this Prospectus nor any other publicity material or advertisement in connection with the Dowlais Shares may be distributed or published in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about, and observe, any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this Prospectus. Any failure to comply with these restrictions and requirements may constitute a violation of the securities laws of any such jurisdiction.

This Prospectus does not constitute or form part of any offer to sell or issue, or any invitation or solicitation of an offer to buy, Dowlais Shares to any person in any jurisdiction.

Notice to United States investors

The Dowlais Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the "**US Securities Act**"), or under any other relevant federal securities laws or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, pledged, renounced, transferred or delivered, directly or indirectly, in or into the United States at any time without registration or an applicable exemption from or in a transaction not subject to the registration requirements of the US Securities Act and in compliance with state securities laws. The Dowlais Shares may not be offered or sold within the United States or to, or for the account or benefit of, US persons except to qualified institutional buyers in reliance on Rule 144A under the US Securities Act, to a limited number of institutional "**accredited investors**", as defined in Rule 501(a)(1), (2), (3), (4) or (7) under the US Securities Act ("**Institutional Accredited Investor**"), and to persons in offshore transactions in reliance on Regulation S ("**Regulation S**") under the US Securities Act (together, the "**Eligible US Holders**"). If you are an "accredited investor" as defined in Rule 501(a) under the US Securities Act but are not an Institutional Accredited Investor as defined herein, please contact the Company to discuss your options. Any recipient of Dowlais Shares pursuant to transactions that are exempt from the registration requirements of the US Securities Act may be required to make such acknowledgements and representations to and agreements with the Company as the Company may require to establish that they are Eligible US Holders. The Dowlais Shares will not be transferred to any US Person (as defined under Regulation S) that, so far as the Company and/or Melrose is aware, is not an Eligible US Holder, but will instead be sold in the market on behalf of Melrose and the net cash proceeds of such sale will be remitted by cheque to such US Person based on the number of the Dowlais Shares they would otherwise have been entitled to hold in connection with the Demerger.

The Dowlais Shares will be "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act. **Accordingly, holders of the Dowlais Shares are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Dowlais Shares held by them or for their account or benefit.**

Any person in the United States who obtains a copy of this Prospectus and who is not an Eligible US Holder is required to disregard it.

The information contained in this Prospectus has been provided by the Company and other sources identified herein. This Prospectus is being furnished on a confidential basis only to persons reasonably believed to be Eligible US Holders and other eligible persons outside of the United States. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information in this Prospectus, in the United States for any purpose, other than in connection with the acquisition of Dowlais Shares, subject to the restrictions mentioned in this Prospectus, is prohibited. Each prospective investor in the Dowlais Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

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PART I
SUMMARY

Introduction

This summary should be read as an introduction to the prospectus (this “**Prospectus**”). Any decision to invest in the securities should be based on a consideration of this Prospectus as a whole by the investor. The investor could lose all or part of the invested capital and, where any investor’s liability is not limited to the amount of the investment, it could lose more than the invested capital. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent, when read together with the other parts of this Prospectus, or where it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in such securities.

The issuer is Dowlais Group plc (the “**Company**”). The Company’s Legal Entity Identifier (“**LEI**”) is 213800XM8WOFLY6VPC92. Its registered office is at 2nd Floor Nova North, 11 Bressenden Place, London, SW1E 5BY, England. The Company’s place of business is 2nd Floor Nova North, 11 Bressenden Place, London, SW1E 5BY, England and the telephone number is +44 (0) 204 551 3383.

The ordinary shares have a nominal value of one pence each in the capital of the Company (the “**Dowlais Shares**”). When admitted to trading, the Dowlais Shares will be registered with ISIN GB00BMWRZ071 and SEDOL number BMWRZ07, and will trade under the symbol “DWL.L”.

The competent authority approving this Prospectus is the Financial Conduct Authority (the “**FCA**”) in the UK, with its office at 12 Endeavour Square, London, E20 1JN, UK, and telephone number +44 (0)20 7066 1000. The date of approval of this Prospectus is 3 March 2023.

Key information on the issuer

Who is the issuer of the securities?

The Company, which is the parent company of the Dowlais Group, is the issuer of the securities. The Company was incorporated and registered in England and Wales under the Companies Act 2006 as a public limited company on 13 January 2023. The Company is domiciled in England and Wales. The Company’s Legal Entity Identifier (“**LEI**”) is 213800XM8WOFLY6VPC92.

The Dowlais Group includes three businesses: GKN Automotive, GKN Powder Metallurgy and the early-stage growth business, GKN Hydrogen.

GKN Automotive is the global market leader in automotive drive systems and the trusted partner for over 90% of automotive original equipment manufacturers (“**OEMs**”) with manufacturing locations in more than one region (“**Global OEMs**”). GKN Automotive specialises in developing, manufacturing and supplying leading drive system technologies for both conventional and electric vehicles, and has a largely powertrain-agnostic core product portfolio. GKN Automotive has enjoyed profitable success in the transition to electric vehicles (“**EVs**”), especially in its core driveline business, which is transitioning ahead of what is already an expanding and accelerating market.

GKN Powder Metallurgy is a high-quality, market-leading supplier in powder metallurgy, being the number one global supplier of sintered metal products and the number two global supplier of metal powders, in each case, based on revenue. It combines the design and production of advanced powder metals with innovative sintering and additive production technologies to create distinctive metal and polymer products. Dowlais has committed to consider its future ownership in GKN Powder Metallurgy.

GKN Hydrogen is an early-stage growth business, grown organically out of GKN Powder Metallurgy, focused on developing and commercialising proprietary metal hydride technology to store and secure hydrogen in a safe, compact and green manner that can be used in a wide range of industrial and commercial applications.

The Dowlais Group will have a three-pillar strategy for delivering attractive shareholder returns. First, to deliver higher adjusted operating margins by building on the investment, cost base and operational improvements already achieved by GKN Automotive and GKN Powder Metallurgy during Melrose’s ownership, which are expected to be further fuelled by the automotive sector’s anticipated recovery in production volumes to pre-pandemic levels. Second, to capture further profitable growth opportunities from

the automotive sector’s shift to electrification. Third, to seek new, value-accretive merger and acquisition opportunities by way of automotive sector consolidation opportunities and strategic bolt-on acquisitions.

The Company was incorporated in anticipation of the Demerger and, as at 2 March 2023 (being the latest practicable date prior to publication of this Prospectus) (the “**Latest Practicable Date**”), is wholly owned by Melrose Industries PLC (“**Melrose**”). Immediately following the Demerger, the shareholders of the Company, and the levels of their shareholdings, will be substantially the same as the shareholders of Melrose as at 10:00 p.m. on 19 April 2023 (the “**Demerger Record Time**”), save as described below.

As at the Latest Practicable Date, and insofar as is known to the Company by reference to notifications to Melrose made pursuant to Chapter 5 of the Disclosure Guidance and Transparency Rules of the FCA, the following persons will, immediately following Admission (as defined below) as a result of the Demerger, directly or indirectly, be interested in 3% or more of the voting rights of the Company (being the threshold for notification of voting rights that will apply to the Company’s shareholders as at Admission pursuant to Chapter 5 of the Disclosure Guidance and Transparency Rules of the FCA) based on their notified Shareholdings in Melrose as at the Latest Practicable Date (assuming such persons do not acquire or dispose of any Melrose Shares and no changes are made to Melrose’s issued share capital, in each case, prior to the Demerger Record Time). The percentage of voting rights shown below (for all holders except Melrose) includes adjustments to reflect dilution resulting from the retention by Melrose of an interest equal to 3% of the Dowlais Shares in issue immediately prior to Admission for the purposes of an employee share plan and to cover costs, including those related to certain transitional arrangements as well as other costs, and any adjustments to deal with fractional entitlements undertaken in connection with the consolidation of the Melrose Shares pursuant to the resolution to be proposed at a general meeting of Melrose to be held on 30 March 2023, which will take place prior to the Demerger Record Time:

	<u>Number of Dowlais Shares</u>	<u>Percentage of voting rights</u>
The Capital Group Companies, Inc.	202,723,167	14.55%
BlackRock Inc.	89,855,153	6.45%
Select Equity Group Inc.	68,152,231	4.89%
Norges Bank	54,533,782	3.91%
Aviva plc	44,976,129	3.23%
Melrose Industries PLC	41,798,206	3.00%

Liam Butterworth is the Chief Executive Officer of the Dowlais Group. Roberto Fioroni is the Chief Financial Officer of the Dowlais Group.

The auditor of the Company appointed for the Financial Year 2023 is Deloitte LLP, whose registered office is 2 New Street Square, London EC4A 3BZ.

What is the key financial information regarding the issuer?

Set forth below is selected aggregated financial information of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses along with certain head office functions as at and for the Financial Years 2020, 2021 and 2022 (the “**Historical Financial Information**”), included elsewhere in this Prospectus.

Selected carve-out income statement data

	Financial Year		
	2022	2021	2020
	£ millions		
Continuing Operations			
Revenue	4,595	4,123	4,126
Cost of sales	<u>(3,937)</u>	<u>(3,542)</u>	<u>(3,656)</u>
Gross profit	658	581	470
Share of results of equity accounted investments	49	38	32
Net operating expenses	<u>(649)</u>	<u>(740)</u>	<u>(758)</u>
Operating profit/(loss)	58	(121)	(256)
Finance costs	(272)	(208)	(107)
Finance income	151	75	139
Loss before tax	(63)	(254)	(224)
Tax	(14)	(44)	28
Loss after tax for the year	<u>(77)</u>	<u>(298)</u>	<u>(196)</u>

Selected carve-out balance sheet data

	Financial Year		
	2022	2021	2020
	£ millions		
Assets			
Total non-current assets	8,309	8,814	9,222
Total current assets	<u>1,450</u>	<u>1,230</u>	<u>1,209</u>
Total assets	<u>9,759</u>	<u>10,044</u>	<u>10,431</u>
Liabilities and Invested Capital			
Total current liabilities	3,648	3,939	4,091
Total non-current liabilities	<u>1,146</u>	<u>1,270</u>	<u>1,536</u>
Total liabilities	<u>4,794</u>	<u>5,209</u>	<u>5,627</u>
Total invested capital	<u>4,965</u>	<u>4,835</u>	<u>4,804</u>
Total liabilities and invested capital	<u>9,759</u>	<u>10,044</u>	<u>10,431</u>

Selected carve-out statement of cash flows data

	Financial Year		
	2022	2021	2020
	£ millions		
Net cash from operating activities	<u>210</u>	<u>223</u>	<u>390</u>
Net cash used in investing activities	<u>(137)</u>	<u>(115)</u>	<u>(140)</u>
Net cash (used in)/from financing activities	<u>(100)</u>	<u>26</u>	<u>(364)</u>
Net (decrease)/increase in cash and cash equivalents, net of bank overdrafts	(27)	134	(114)
Cash and cash equivalents, net of bank overdrafts at the beginning of the year	275	141	255
Effect of foreign exchange rate changes	15	—	—
Cash and cash equivalents, net of bank overdrafts at the end of the year	<u>263</u>	<u>275</u>	<u>141</u>

Selected pro forma key financial information

£'m	Dowlais Group⁽¹⁾	Pre-Demerger distribution⁽²⁾	Other separation items⁽³⁾	Refinancing⁽⁴⁾	Dowlais Group unaudited pro forma at 31 December 2022⁽⁵⁾
Assets					
Non-current assets	8,309	(2,826)	—	—	5,483
Current assets	<u>1,450</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,450</u>
Total assets	<u>9,759</u>	<u>(2,826)</u>	<u>—</u>	<u>—</u>	<u>6,933</u>
Liabilities					
Current liabilities	3,648	(1,151)	79	(1,104)	1,472
Non-current liabilities	<u>1,146</u>	<u>—</u>	<u>—</u>	<u>1,104</u>	<u>2,250</u>
Total liabilities	<u>4,794</u>	<u>(1,151)</u>	<u>79</u>	<u>—</u>	<u>3,722</u>
Net assets	<u>4,965</u>	<u>(1,675)</u>	<u>(79)</u>	<u>—</u>	<u>3,211</u>

(1) The net assets relating to Dowlais and its subsidiaries (the “**Dowlais Group**”) have been extracted without material adjustment from the historical financial information as at 31 December 2022 as set out in Part XII (*Historical Financial Information*) of this Prospectus.

(2) Pre-Demerger distribution: On 23 February 2023, a dividend in an amount of £1,675 million was declared by G.K.N. Industries Limited (“**GKN Industries**”) (a Dowlais Group entity) in favour of GKN Enterprise Limited (“**GKN Enterprise**”) (a non-Dowlais Group entity and subsidiary of the Melrose Group), for the purpose of leaving the Dowlais Group with the agreed level of indebtedness. On 24 February 2023, an agreement was entered into between GKN Enterprise and GKN Industries to offset loans receivable from related parties and loans payable to related parties. The aggregate effect of these transactions was to reduce loans receivable from related parties by £2,826 million and reduce related party payables by £1,151 million, leaving a notional amount of £1,025 million showing as a payable from GKN Industries to GKN Enterprise. The actual amount of the net payable varies from the notional amount set out above, as a result of events taking place in the period following 31 December 2022 and prior to the Demerger.

(3) Other separation items: Subsequent to 31 December 2022, as part of the Reorganisation steps, the Dowlais Group entered into two transactions, which resulted in a net increase of £79 million in loans payable to related parties by the Dowlais Group. The increase in loans due to related parties is due to:

- The ownership of certain trademarks for use by GKN Powder Metallurgy, GKN Hydrogen and Hoeganaes were novated on 27 January 2023 from GKN Investments II GP (a non-Dowlais Group entity and subsidiary of the Melrose Group) to Dowlais Group Headquarters Limited (a Dowlais Group entity) for £126 million.
- This has been offset by the transfer of £47 million of 2022 profit from GKN Aerospace Sweden AB (a non-Dowlais Group entity and subsidiary of the Melrose Group) to GKN Driveline Koping AB (a Dowlais Group entity) in order to offset group losses against group profits on 3 February 2023.

(4) Refinancing: Immediately following Admission, the Dowlais Group will draw down on its banking facilities and will use the proceeds to settle the remaining loans payable to related parties balance between GKN Industries and GKN Enterprise. Accordingly, an adjustment of £1,104 million has been made, representing the settlement of the loans payable to related parties with the drawdown of external borrowings. The actual drawdown and repayment amount will vary from the notional amounts set out above, depending on further events taking place in the period up to the Demerger.

(5) No account has been taken of any trading or results of the Group since 31 December 2022. The Melrose Group is assuming the costs and expenses that are directly attributable to the Demerger.

What are the key risks that are specific to the issuer?

- The Dowlais Group’s future financial performance and success largely depend on its ability to implement its business strategies successfully.
- Global capital and credit market issues and the Dowlais Group’s status as a newly independent borrower could negatively affect its ability to borrow for working capital requirements and/or general corporate purposes and/or increase its costs of borrowing in the future.
- Revenues can be significantly affected by global light vehicle demand and production levels, both of which are beyond the Dowlais Group’s control.
- The Dowlais Group could be adversely affected if it is unable to recover increases in input and operating costs from its customers or reduce or eliminate those costs.
- Disruptions in the Dowlais Group’s supply chain may negatively impact the Dowlais Group.

- The Dowlais Group’s future acquisition strategy carries timing, implementation and other common risks associated with mergers and acquisitions.
- Product quality and safety is key to the Dowlais Group’s business and the Dowlais Group may be exposed to warranty, product recall and liability claims in the event that its products fail to perform as required or are unsafe.
- Since the Dowlais Group sells its products outside the United Kingdom and has substantial operations in foreign countries, including certain operations it does not unilaterally control, it and the markets in which it operates are subject to the economic and political conditions of foreign nations.
- Climate change may have a long term impact on the Dowlais Group’s business through changing regulatory and technological requirements.
- Fluctuations in foreign exchange rates could have a negative impact on the Dowlais Group’s business.

Key information on the securities

What are the main features of the securities?

Currency, denomination, ISIN, par value and number of securities issued

The currency of the Dowlais Shares is Sterling. On the admission of the Dowlais Shares to the premium listing segment of the Official List (as defined below) and to trading on the main market for listed securities of the London Stock Exchange (as defined below) becoming effective (the “**Admission**”), the issued share capital of the Company will be £13,932,735.27, comprising 1,393,273,527 ordinary shares with a nominal value of one pence each in the capital of the Company, all of which will be fully paid or credited as fully paid. The International Security Identification Number (“**ISIN**”) of the Dowlais Shares is GB00BMWRZ071.

Rights attached to the securities

The rights attaching to the Dowlais Shares, upon Admission, will be uniform in all respects (including with respect to pre-emption rights) and they will form a single class for all purposes, including with respect to voting and for all dividends and distributions thereafter declared, made or paid on the ordinary share capital of the Company.

Rank of securities in the issuer’s capital structure in the event of insolvency

The Dowlais Shares do not carry any rights to participate in a distribution (including on a winding-up) other than those that exist under the Companies Act 2006. The Dowlais Shares will rank *pari passu* in all respects.

Restrictions on the free transferability of the securities

The Dowlais Shares are freely transferable and there are no restrictions on transfer.

Dividend policy

It is the intention of the board of directors of the Company to adopt a progressive dividend policy taking into account the size and performance of the Dowlais Group.

Where will the securities be traded?

Application will be made to the FCA for all the Dowlais Shares to be admitted to the premium listing segment of the Official List of the FCA (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Dowlais Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities. The London Stock Exchange’s main market for listed securities is a regulated market.

What are the key risks that are specific to the securities?

- There is no existing market for the Dowlais Shares and an active trading market for the Dowlais Shares may not develop or be sustained.

- As with all securities traded on the London Stock Exchange, the market price of the Dowlais Shares may fluctuate and the market price of the Dowlais Shares may decline disproportionately in response to developments that are unrelated to the Dowlais Group's operating performance.
- Dowlais's ability to pay dividends in the future depends, among other things, on the Dowlais Group's financial performance and capital requirements.
- Dowlais may decide to offer additional Dowlais Shares in the future, potentially diluting the interests of existing Dowlais Shareholders and potentially materially and adversely affecting the market price of Dowlais Shares.
- Dowlais Shareholders may not be able to exercise pre-emption rights or participate in certain future issues of Dowlais Shares and Overseas Shareholders may not be able to participate in future issues of Dowlais Shares.

Key information on the admission to trading on a regulated market

Why is this prospectus being produced?

This Prospectus does not constitute an offer or invitation to any person to subscribe for or purchase any shares in the Company. It is intended solely for holders of Melrose Shares and has been prepared in connection with the application to be made to the FCA for admission of the Dowlais Shares to the premium listing segment of the Official List and to the London Stock Exchange for admission of the Dowlais Shares to trading on the London Stock Exchange's main market for listed securities.

It is expected that Admission will become effective and that dealings will commence at 8:00 a.m. (London time) on 20 April 2023.

PART II RISK FACTORS

Before making an investment decision with respect to the Dowlais Shares, prospective investors should consider carefully all of the information set out in this Prospectus. Prospective investors should have particular regard to, among other matters, the risk factors set out in this Part II (Risk Factors). Should they become realised, the risk factors set out in this Prospectus, alone or collectively, may reduce the value of the Dowlais Shares and could result in a loss of all, or a portion, of an investor's investment in the Dowlais Shares. The risk factors set out in this Prospectus are not exhaustive and do not necessarily comprise all the risks associated with an investment in the Dowlais Shares. There may be other risks which are not presently known to the Directors, or which the Directors deem immaterial, which may also materially and adversely affect the Dowlais Group's results of operations, business and financial condition.

Prospective investors should note that the risks relating to the Dowlais Group and the Dowlais Shares summarised in Part I (Summary) of this Prospectus are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Dowlais Shares. However, as the risks which the Dowlais Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in Part I (Summary) of this Prospectus but also, among other things, the risks and uncertainties described below in this Part II (Risk Factors).

An investment in the Dowlais Shares involves complex financial risks and is suitable only for investors who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Prospective investors should consider carefully whether an investment in the Company is suitable for them in light of all the information in this Prospectus and the financial resources available to them.

RISKS RELATING TO THE DOWLAIS GROUP'S BUSINESS, INDUSTRY AND REGULATORY ENVIRONMENT

1. The Dowlais Group's future financial performance and success largely depend on its ability to implement its business strategies successfully

The Dowlais Group's ability to implement its business strategies depends on, among other things, its ability to finance its operations and product development activities, maintain high quality and efficient manufacturing operations, restructure certain facilities with minimal disruption to its operations, manage production to meet customer demand, respond to competitive and regulatory changes, access quality raw materials in a cost effective and timely manner, accurately anticipate and plan for future market developments and customer demand, and retain and attract highly skilled technical, managerial, engineering, commercial, operations, finance and other personnel. Any failure to develop, revise or implement its business strategies could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

The Dowlais Group's business strategies are based on assumptions about future demand for its current products and the new products and applications it is developing, as well as on its continuing ability to produce its products profitably. For example, part of the Dowlais Group's business strategy anticipates higher end-consumer demand for electric vehicles ("EVs") relative to internal combustion engine ("ICE") vehicles in the future and correspondingly provides for increasing investments in products that are specific to EVs, such as eDrive systems and components and permanent magnets, and limiting investments in ICE-specific products, such as propshafts. With respect to GKN Powder Metallurgy, faster than anticipated reduction in demand for ICE vehicles could lead to transitory adverse effects on revenue while the business transitions to more EV component production. With respect to GKN Automotive, if end-consumer demand for EVs is weaker than anticipated, for reasons such as higher than anticipated electricity costs, unanticipated changes in governmental incentives or otherwise, the Dowlais Group may be unable to realise the anticipated benefits of its investments and business strategies. Conversely, if end-consumer demand for EVs is stronger than anticipated, with a higher degree of component in-sourcing from automotive OEMs, this could negatively affect GKN Automotive revenues. The realisation of any of these risks could adversely affect the Dowlais Group's profit margin, and, in turn, this could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

2. Global capital and credit market issues and the Dowlais Group's status as a newly independent borrower could negatively affect its ability to borrow for working capital requirements and/or general corporate purposes and/or increase its costs of borrowing in the future

The Dowlais Group will depend on stable, liquid, and well-functioning capital and credit markets to borrow when it is deemed necessary for financing working capital requirements, mergers and acquisitions and for other general corporate purposes. Although the Directors believe that the Dowlais Group's operating cash flows, financial assets, access to capital and credit markets, and liquidity arrangements will permit it to meet its financing needs for at least the next 12 months following the date of this Prospectus, there can be no assurance that, in the longer term, volatility or disruption in the capital and credit markets will not impair the Dowlais Group's liquidity and/or ability to borrow when it is deemed necessary. The Dowlais Group may not have access to preferred sources of liquidity when needed or on terms it finds acceptable, or its costs of borrowing or refinancing existing debt could increase. A worsening of the current economic or credit crisis, or a continued increase in interest rates and costs of borrowing, could impair the availability of funds in the capital and credit markets and the Dowlais Group's ability to raise financing in the longer term when needed, which, in turn, could have a material adverse effect on its results of operations, business and financial condition.

Additionally, prior to the Demerger, the Dowlais Group benefitted from being a member of the Melrose Group, which contained seasoned borrowers and issuers of securities, which enabled the Melrose Group as a whole to utilise its relationships and experience in the capital markets in order to obtain credit and financing on favourable terms. After the completion of the Demerger, the Dowlais Group will no longer be part of the Melrose Group. Although it will initially retain largely the same shareholder base as Melrose and will benefit from continuity of leadership, in particular initially retaining Simon Peckham and Geoffrey Martin from Melrose as Executive Directors on the board of Dowlais, it will need to cement its longer-term relationships with lenders and other participants of capital and credit markets. Notwithstanding the continuity in leadership at Dowlais, the Dowlais Group's status as a newly independent borrower or issuer of securities could have an adverse impact on its ability to obtain financing on terms similar to those which were available to the Dowlais Group when it was a part of the Melrose Group, which could have a material adverse impact on its results of operations, business and financial conditions.

3. Revenues can be significantly affected by global light vehicle demand and production levels, both of which are beyond the Dowlais Group's control

A significant proportion of the Dowlais Group's business is focused on supplying parts to OEMs. OEMs' vehicle production levels, and therefore the demand for products supplied by the Dowlais Group, could be significantly impacted by macroeconomic events and other circumstances beyond the Dowlais Group's control. For instance, various sanctions imposed on Russia have threatened the global supply of certain precious metals widely used in the automotive industry, notably titanium and palladium, which are produced in significant proportion in Russia. While titanium and palladium are not used in GKN Automotive products, a disruption in their supply may negatively affect the demand for GKN Automotive products. Generally, any such fluctuation in demand for the products supplied by the Dowlais Group may have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

4. The Dowlais Group could be adversely affected if it is unable to recover increases in input and operating costs from its customers or reduce or eliminate those costs

The Dowlais Group's input and operating costs, such as commodity, energy, labour and transportation costs, can be impacted by a variety of factors outside the Dowlais Group's control including, among others, changes in trade laws, tariffs, macroeconomic conditions and global political events. For example, many of the Dowlais Group's products require steel and energy to manufacture, and so its operating results may be affected by the prices of such commodities. The Dowlais Group may in the future experience labour shortages in certain geographies and increased competition for qualified candidates, which may increase its labour costs and reduce its ability to meet customer demand. Additionally, if recent dislocations in global supply chains persist or recur, such as port congestion or truck driver shortages, the Dowlais Group's transportation costs may increase. The realisation of any of these risks could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

Input and operating costs have risen sharply over the past two years, reflecting higher rates of inflation globally. The Dowlais Group continues both to work with customers to address material cost increases by way of pass-through and other measures and to take a range of measures to improve efficiency and to reduce its cost base generally. Any past success the Dowlais Group has had in recovering or reducing such cost increases can

provide no assurance that increases in such costs will not adversely impact the Dowlais Group's results of operations, business and financial condition in the future.

5. Disruptions in the Dowlais Group's supply chain may negatively impact the Dowlais Group

The Dowlais Group's suppliers are key to its business, and the Dowlais Group depends upon its suppliers and subcontractors for high standards of delivery performance, cost and reliability. The Dowlais Group's supply chain network is exposed to potentially adverse events such as operational disruption at suppliers' or sub-suppliers' production facilities (including disruption caused by accident, adverse weather, other 'Acts of God', cyber or ransomware attacks or labour disruption), disruption to freight transportation, availability of materials and components and the insolvency of suppliers or sub-suppliers, any of which could impact its ability to deliver orders to its customers. Despite Dowlais's successful drive towards a regionalised footprint with production and supply bases that can flexibly accommodate OEM customers in any world region, the global supply chains for the industries in which the Dowlais Group operates generally rely on a "just in time" model, which tends to exacerbate the impact of supply disruptions. Additionally, as noted in risk factor 4 above, the cost of producing the Dowlais Group's products can be significantly affected by the cost of the underlying commodities and materials from which they are made. Supply chain disruption can result from global events beyond the Dowlais Group's control. For instance, the conflict in Ukraine has disrupted the global supply of neon gas and other components necessary to the production of semiconductor chips and has halted the supply of Russian natural gas to Europe, while tensions between the US and China over the status of Taiwan (a dominant producer of semiconductors) may cause supply chain disruption in the future. Contingency plans implemented within the Dowlais Group's supply chain for gas shortages, and any plans it may develop for any other materials or production input shortages arising from actual or potential global conflicts, may not succeed in limiting shortages in supply of, or increases in the price it pays for, such inputs.

Any supply chain disruption, or the supply of defective products to the Dowlais Group by its suppliers, could negatively affect its ability to meet its customers' requirements. In turn this could result in the Dowlais Group facing liabilities which could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

6. The Dowlais Group's future acquisition strategy carries timing, implementation and other common risks associated with mergers and acquisitions

The mergers and acquisitions activity expected to be undertaken by the Company as part of its business model can involve significant risks, including:

- limited availability of suitable acquisition targets;
- integration and restructuring costs;
- dividing the Board's attention with ongoing business operations;
- failing to achieve the anticipated benefits of, or expected trading results from, acquired businesses;
- the timing of disposals and the ability to achieve attractive valuations;
- foreign exchange volatility that may increase the cost to the Company of acquisitions denominated in currencies other than Sterling;
- exposure to litigation or other potential liabilities including, but not limited to, environmental liabilities related to entities that the Dowlais Group acquires or divests;
- liabilities that may be acquired in connection with a potential acquisition; and
- unanticipated and unknown liabilities.

Before any acquisition is made, the Dowlais Group expects to conduct due diligence it deems reasonable and appropriate based on the facts and circumstances applicable to that acquisition and subject to the availability of and access to such information afforded to the Dowlais Group. When conducting due diligence and making an assessment regarding an acquisition, the Dowlais Group will be required to rely on resources available to it, including information provided by the target of the acquisition and, in some circumstances, due diligence conducted by third parties. There can be no assurance that due diligence investigations with respect to any investment opportunity will reveal or highlight all relevant facts and circumstances that may be necessary or helpful in evaluating such opportunity. In making acquisitions, there is a risk of unforeseen facts and circumstances, such as the discovery of liabilities which were not known at the time of the due diligence process but which arose in the business before it was acquired. Any such limitations in the due diligence

process in identifying relevant facts and circumstances could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

The success of the Dowlais Group's acquisition strategy depends on identifying available and suitable targets, obtaining any consents or authorisations required to carry out an acquisition and procuring the necessary financing. Further, once an acquisition is completed, there are risks that the Dowlais Group's anticipated success in driving strategic operational improvements to achieve the expected post-acquisition trading results or value which were originally anticipated may not materialise, or that commercialising acquired products and technologies may not be successful. Additionally, a newly-acquired business may require significantly greater resources and investment than anticipated. If anticipated benefits are not realised or trading by acquired businesses falls below expectations, it may be necessary to impair the carrying value of these assets. The Dowlais Group's financial performance may suffer from goodwill or other acquisition-related impairment charges, or from the identification of additional liabilities not known at the time of the acquisition. Any or all of these factors could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

7. Product quality and safety is key to the Dowlais Group's business and the Dowlais Group may be exposed to warranty, product recall and liability claims in the event that its products fail to perform as required or are unsafe

Maintaining a high level of product quality and safety is essential to the Dowlais Group's business. The Dowlais Group could be exposed to warranty, product recall and liability claims in the event that its products fail to perform as agreed with its customers, or are unsafe.

The Dowlais Group's products, particularly in its automotive business, often form safety critical components for its customers' products, which means that any quality concerns or defects in these components may be considered a vehicle safety concern and result in a product recall, which may in turn increase the amount and number of potential claims against the Dowlais Group. In particular, the costs associated with vehicle recalls can be significantly higher than the cost of simply replacing defective products. This risk increases with respect to eDrive due to the significant increase in content value of the components. The realisation of any of these risks, among others, may result in higher losses than anticipated, negatively impacting the Dowlais Group's results of operations, business and financial condition, as well as potentially its reputation. The Dowlais Group may not be able to recover these costs from third parties, and this could have a material adverse effect on the Dowlais Group's reputation, results of operations, business and financial condition.

Additionally, the Dowlais Group may be the subject of lawsuits, including product liability claims in the event that the use of its products is alleged to have resulted in third party injury or property damage.

Litigation, including litigation resulting from product liability claims, can be expensive to defend, depending on the scale of the alleged issue, and can divide the attention of management and other personnel for long periods of time, regardless of the ultimate outcome of the litigation with respect to such claims. While the Dowlais Group currently maintains product liability insurance coverage (and will continue to maintain it after the Demerger), it may not provide adequate coverage against all potential product liability claims. A successful claim brought against the Dowlais Group with respect to a defective product or batches of products in excess of available insurance coverage, if the Dowlais Group's coverage is applicable, or a requirement to participate in a major product recall, could have a material adverse effect on the Dowlais Group's reputation, results of operations, business and financial condition.

8. Since the Dowlais Group sells its products outside the United Kingdom and has substantial operations in foreign countries, including certain operations it does not unilaterally control, it and the markets in which it operates are subject to the economic and political conditions of foreign nations

During the Financial Year 2022, revenue was £4,595 million. In terms of revenue by destination, £172 million of the revenue was generated in the UK, £1,495 million was generated in the rest of Europe, £1,946 million was generated in North America and £982 million was generated in the rest of the world.

For the Financial Year 2022, revenue from Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"), its longstanding automotive joint venture in China with local partner HUAYU Automotive Systems Co Limited ("HASCO"), represented 12% of adjusted revenues of the Dowlais Group. SDS, in which the Dowlais Group has a 50% ownership interest, produces driveshafts, all wheel drive ("AWD") components and eDrive systems, predominantly for the domestic Chinese market, from 10 production sites in China, and generated £1,321 million in revenue in the Financial Year 2022. As the Dowlais Group does not unilaterally control

SDS, if the Dowlais Group's and HASCO's objectives for the joint venture were ever to diverge, this could adversely impact its financial performance and consequent contribution to the Dowlais Group's results of operations and financial condition. Additionally, because the Dowlais Group's continued business operations in China are part of its current and future growth plans, adverse changes in the economic and political policies relating to China, as well as any future legal disputes with HASCO, could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition in the future.

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

- foreign governments and/or authorities may impose limitations on the Dowlais Group's ability to repatriate funds;
- foreign governments and/or authorities may impose withholding or other taxes on remittances and other payments to the Dowlais Group, or the amount of any such taxes may increase;
- foreign governments and/or authorities may impose lockdown measures and international travel restrictions in response to the continued COVID-19 pandemic or other international health crises, which may reduce the Dowlais Group's manufacturing capacity or demand for the Dowlais Group's products;
- an outbreak or escalation of any insurrection, armed conflict or act of terrorism, or other forms of political, social or economic instability, may occur;
- natural disasters may occur, and local governments may have difficulties in responding to these events;
- as a result of the industries in which the Dowlais Group operates, the governments of several countries and EU authorities currently operate regulatory regimes that could apply to the Dowlais Group's products and those of its suppliers, and may impose additional limitations on imports or exports of the Dowlais Group's products or the products of its suppliers;
- foreign governments may nationalise foreign assets or engage in other forms of governmental protectionism;
- foreign governments and/or authorities may impose or increase investment barriers, customs or tariffs, or other restrictions affecting the Dowlais Group's business;
- continued development, implementation and monitoring of systems of internal controls of the Dowlais Group's international operations, including disclosure controls and procedures and internal controls over financial reporting, may be difficult and expensive; and
- labour cost inflation and changes in labour and other practices.

The occurrence of any of these conditions could disrupt the Dowlais Group's business in particular countries or regions of the world, or prevent it from conducting business in particular countries or regions, which could reduce sales and adversely affect profitability. In particular, the pursuit of a 'Zero COVID' policy in China caused widespread lockdowns throughout 2022. This ended in late 2022, having contributed to global supply chain issues throughout the year 2022. These issues and knock-on supply chain effects could recur if a similar policy or other lockdowns are reinstated and could adversely affect the Dowlais Group's results of operations, business and financial condition.

9. Climate change may have a long term impact on the Dowlais Group's business through changing regulatory and technological requirements

Regulation relating to emissions and energy efficiency is increasing and is gaining more widespread market approval as consumers expect companies to play a role in addressing climate change. In anticipation of this trend, as one of its strategic priorities, the Dowlais Group has made significant investments in developing technology to support the ongoing decarbonisation of the global automotive sector. Key risks and challenges relating to such investments include keeping pace with demand and/or regulatory changes of the kind discussed in risk factor 11 below.

Additionally, changing climate regulations, such as carbon taxes and other potential regulatory interventions, could increase operating costs, reduce revenues, introduce additional liability for the Dowlais Group or increase the cost of raw components in manufacturing. The Dowlais Group's reputation and access to capital could also be negatively affected if consumers or investors develop a stronger preference for lower-emitting activities and the Dowlais Group does not meet demand. Some manufacturing companies that the Dowlais Group may be

interested in acquiring could operate in industries that are the hardest to decarbonise, which intensifies such risks relative to some other industries. Any or all of these factors could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

10. Fluctuations in foreign exchange rates could have a negative impact on the Dowlais Group's business

The revenues, expenses, assets and liabilities denominated in currencies other than Sterling were translated into Sterling for the purposes of compiling the carve-out historical financial statements. A large proportion of the Dowlais Group's historical revenues are denominated in currencies other than Sterling, particularly the US dollar, the Euro and the Chinese Yuan. The Dowlais Group's reported results of operations will fluctuate with average exchange rates and its reported net assets will fluctuate with year-end exchange rates.

The Dowlais Group has in the past used, and may in the future use, hedging strategies to manage and minimise the impact of exchange rate fluctuations on its cash flow and economic profits. There are complexities inherent in determining whether and when foreign exchange exposures will materialise, in particular given the possibility of unpredictable revenue variations arising from schedule delays and contract postponements. Furthermore, if the Dowlais Group uses hedging strategies in the future, it could be exposed to the risk of non-performance of its hedging counterparties. Additionally, the successful implementation of its hedging strategy in the future may depend on the willingness of hedging counterparties to extend credit. Accordingly, no assurances may be given that the Dowlais Group's exchange rate hedging strategy would protect it from significant changes or fluctuations in revenues, expenses, assets and liabilities denominated in Sterling. The materialisation of any or all of these risks could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

11. The Dowlais Group must continue to innovate and improve its products, in alignment with changing regulations and industry standards, to maintain its competitive advantage

The Dowlais Group's ability to maintain and grow its market share depends in part on its ability to continue to develop high quality, innovative products, such as integrated eDrive systems and driveshafts for EV applications.

In addition, certain of the Dowlais Group's products must be designed and manufactured to meet various regulatory requirements and other standards, whether imposed on the Dowlais Group or its customers or otherwise adopted by its customers. The Dowlais Group must continue to modify regulated products to meet applicable standards as such standards develop and may become more stringent over time. The Dowlais Group cannot make assurances that its investments in product innovation and technological development will be sufficient or that it will be able to create and market new products to enable it to successfully compete with new products or technologies developed by its competitors or to meet heightened regulatory requirements or other standards in the future. The Dowlais Group may lose market share or be subject to additional market pressure if it fails to address material discrepancies that arise between the technologies it develops and market demand. For example, the Dowlais Group faces risks in anticipating relative demand for EV parts compared to ICE vehicle parts and/or producing sufficient parts in scale to meet quickly-changing technological requirements. The realisation of any of these potential risks may reduce revenues and/or increase the operating costs the Dowlais Group expends in research and development and the capital expenditures the Dowlais Group needs to make in specialist machinery. Additionally, the failure to launch new products, new product applications or derivatives of existing products to meet customer requirements could impact the future profitable growth of the Dowlais Group. The occurrence of any of these adverse events could in turn have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

12. The Dowlais Group operates in highly competitive markets with customer decisions typically based on price, quality, technology, service and reputation

The Dowlais Group operates in highly competitive markets with customer decisions based on a number of factors, including product quality, reliability and timeliness of delivery, accuracy, new product innovation, price competitiveness, technical expertise and development capability, product design capability, manufacturing expertise, operational flexibility, customer service, sustainability performance, reputation and overall customer management.

The Dowlais Group's contracts for major programmes are subject to competitive bidding processes and the strength of its competitors and general market conditions can drive pricing pressure and challenging contractual terms. The Dowlais Group's operating profit could come under pressure if competition increases or as a result

of customer actions. Customer vertical integration (including OEMs taking production in-house) and the entry of new competitors, including those developed or supported by OEMs, also contribute to increased competition. An inability or delay in developing or maintaining sufficient or appropriate engineering and manufacturing capabilities in the Dowlais Group's markets could further increase the risk of losing competitive advantages. Competition risk, if not addressed, could result in reduced sales and profit margins and potentially lost growth opportunities. Additionally, an inability to secure new business awards on major programmes could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

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

13. Customers may require the Dowlais Group to maintain larger amounts of inventory

Some of the Dowlais Group's customers and potential customers may require the Dowlais Group to maintain a certain level of inventory to cover a number of days' worth of production due to anticipated or perceived fears about delays in receiving timely delivery, such as due to supply chain disruption. If the Dowlais Group is required to maintain increased levels of inventory, a greater level of cash could be required to be invested in its inventory. If the Dowlais Group is unable to maintain or finance the necessary levels of inventory, it may lose certain of its existing customer contracts or fail to win new customer contracts requiring these terms, which could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

14. Entering into new long term contracts requires active, longer-term risk management by the Dowlais Group

The Dowlais Group's automotive business enters into design and build contracts which can include commitments relating to pricing, quality and safety, and technical and customer requirements. These are complex contracts that are often long term in nature, so it is important that the contracted risk is carefully managed.

A failure to fully understand contract risks, to anticipate technical challenges and estimate costs accurately at the outset of a contract, to accurately document the parties' obligations under the contract, or to accurately and appropriately manage changes to the contract throughout its life, can lead to unexpected liabilities, increased costs and reduced profitability, which may in turn have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

15. Ineffective programme management could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition

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

Ineffective programme management, including any resulting failure to launch a programme on time, could result in the Dowlais Group incurring significant liabilities to its customers for any such delay, a deterioration of customer relationships, cancellation of customer contracts or reputational damage. Poor performance against a contract could also undermine the Dowlais Group's ability to win future contracts and could result in cost overruns and significantly lower returns than expected from the deployed investments. This could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

Additionally, the failure of the Dowlais Group to deliver its products to its customers on time or to launch a program on time for any other reason, including for the reason of any failure in the performance of its suppliers and subcontractors, may cause the Dowlais Group to become liable to its customers for the delay in the launch and/or sale of customer products. The Dowlais Group may not be able to recover costs associated with these liabilities from third parties, and this could have a material adverse effect on the Dowlais Group's reputation, results of operations, business and financial condition.

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

The success of the Dowlais Group may depend, in part, on its ability to protect its current and future innovations and technologies by securing, enforcing and defending its intellectual property rights. The Dowlais Group will rely on a combination of patents, copyright, utility models, designs, know-how, trade secrets, trade marks and contractual restrictions to establish and protect proprietary rights in its innovations, products, processes and technical data. The Dowlais Group's intellectual property, whether owned or licensed, is a valuable asset that helps to protect its investment in technology. However, apart from the GKN brand, it is considered that no one piece of intellectual property used by the Dowlais Group is material in the context of the Dowlais Group as a whole. There can be no assurance that these intellectual property rights and contractual provisions will be adequate to prevent the misappropriation, infringement or other unauthorised use of the innovations, products, processes and technical data of the Dowlais Group by third parties which could harm it. There can be no guarantees that patents will be granted for new products or processes.

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

There is no certainty that the Dowlais Group does not and will not infringe a third party's intellectual property rights. The Dowlais Group may be required to defend claims of patent infringement, infringement of third party proprietary rights or breach of confidence or to take action to protect its own proprietary rights, even if any such claims have no or limited merit. Such proceedings could be burdensome and costly and the Dowlais Group may not prevail. Any claim against the Dowlais Group, even for an inadvertent misuse of a third party's intellectual property, may subject the Dowlais Group to damages, cause it to cease making, using or selling certain products that incorporate the disputed intellectual property, require it to redesign its products, divert management time and attention and/or require it to enter into costly licensing royalty or licensing agreements, in each case which may have a material adverse effect on its reputation, results of operations, business and financial condition.

17. Any shortfall in the Dowlais Group's pension schemes may require additional funding

The Dowlais Group operates certain defined benefit pension plans which benefit qualifying employees and former employees of certain subsidiaries. The most significant defined benefit pension plans in the Dowlais Group are the GKN Group Pension Schemes (Numbers 2 and 3) in the UK, the GKN Driveline Pension Plan and the GKN Sinter Metals Pension Plan in the United States, and the defined benefit pension plans offered in Germany.

All of the defined benefit pension plans are closed to new members and the UK and US plans are closed to future accrual. As at 31 December 2022, the GKN Group Pension Schemes (Numbers 2 and 3) had a net surplus of £15 million on an accounting basis (after deducting post-retirement liabilities of £2 million), the GKN Driveline Pension Plan and the GKN Sinter Metals Pension Plan had an aggregate deficit of £54 million (after deducting post-retirement liabilities of £33 million) and the GKN defined benefit pension plans offered in Germany had an unfunded liability of £405 million. Smaller schemes in the rest of the world had a net liability of £17 million. Changes in discount rates, inflation, asset values or mortality assumptions could lead to a materially higher deficit. For example, the cost of a buyout on a discontinued basis uses more conservative assumptions and is likely to be significantly higher than the accounting deficit. Alternatively, if the plans are managed on an ongoing basis, there is a risk that the plans' assets, such as investments in equity and debt securities, will not be sufficient to cover the value of the retirement benefits to be provided under the plans. The implications of a higher pension deficit include a direct impact on valuation, credit rating and potential additional funding requirements at subsequent triennial reviews. In the event of a major disposal that generates significant cash proceeds which are returned to Dowlais Shareholders, the Dowlais Group may be required to make additional cash payments to the plans or provide additional security.

The Dowlais Group monitors its pension strategy on an ongoing basis. A decline in pension asset values, different actuarial assumptions and/or changes in discount rates, inflation or mortality assumptions may result in an increase in pension liability. Annual contributions to the Dowlais Group's defined benefit pension plans are expected to be approximately £33 million in the Financial Year 2023. Although well-hedged against changes in inflation expectations or interest rates, an increase in longevity or decrease in the market value of the securities held by the plans, or certain other changes, could adversely affect the status of the Dowlais Group's plans and affect the level and timing of required contributions. Any permanent shortfall in the Dowlais Group pension scheme funding obligations would require additional cash funding.

18. The UK Pensions Regulator has statutory powers to impose certain liabilities on the Dowlais Group

The Pensions Regulator in the UK has statutory powers to impose pension liabilities on companies connected or associated with an employer in a defined benefit pension plan (such as other entities within a group), under a Financial Support Direction or Contribution Notice. The Dowlais Group could, in principle, therefore, be made liable for the GKN Group Pension Schemes (Numbers 1 and 4), which are sponsored by the GKN Aerospace business for a period of up to six years after the completion of the Demerger. If the Pensions Regulator were to impose such liabilities on the Dowlais Group and the Melrose Group were not to reimburse such assessments, it could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

19. The Dowlais Group is subject to litigation and compliance risks

The Dowlais Group is subject to applicable laws and regulations in the jurisdictions and industries in which it operates globally. This includes certain territories where ethical standards may be lower than in the United Kingdom or where markets in which the Dowlais Group operates are regulated. Regulations include those related to export and trade, the environment, health and safety, security, product safety (as noted in risk factor 7 above), tax, intellectual property rights, competition, money laundering, employment and labour, data protection and other business practices. Failure to comply with applicable laws and regulations could expose the Dowlais Group to fines, penalties, damage to reputation, suspension or debarment from government contracting and/or suspension of export privileges. Legal or regulatory proceedings can be protracted and costly. In addition, regulatory authorities could adopt new or more stringent regulations, or heighten regulatory oversight and, as a result, the Dowlais Group could incur unforeseen expenses to comply with these requirements all of which may have a material adverse effect on its results of operations, business and financial condition.

Companies in the Dowlais Group have been involved, and may be involved from time to time, in legal and arbitration proceedings. Such proceedings could involve substantial claims for damages relating to, for example, product liability, breach of warranty obligations, contractual penalties for late delivery or disputes over termination of contracts or claims for modification, adjustment or replacement of products sold, or could involve the payment of fines or other payments. The Dowlais Group is also subject to litigation risk, claims for damages or other actions or proceedings based on unforeseen facts and circumstances in connection with the acquisition of a business or which arose in the business before it was acquired, or unknown liabilities that may reside in the Dowlais Group companies (or, in each case, any of their predecessor companies) as a result of discontinued and/or non-core businesses that were run by any of those companies. Dowlais Group companies are subject to anti-trust and competition laws in many of the markets in which they operate and may be subject to regulatory scrutiny and/or legal proceedings in these jurisdictions. As with a number of globalised industries, the automotive sector as a whole has historically been the subject of proceedings and enforcement actions by competition and antitrust authorities. The outcomes of any legal proceedings, including regulatory actions, intellectual property disputes and employee lawsuits, are inherently difficult to predict, and the Company cannot guarantee that Dowlais Group companies will succeed in defending any current or future claims, that judgments will not be rendered against them with respect to any or all current or future proceedings or that reserves set aside or to be set aside and coverage taken out or to be taken out under insurance policies will be adequate to cover any such judgments. The realisation of any of these risks could have a material adverse effect on the results of operations, business and financial condition of the Dowlais Group.

The Dowlais Group is also exposed to the risk that its employees or agents could engage in anti-competitive behaviour or seek to influence the awarding of contracts in other impermissible ways. The Dowlais Group maintains a compliance programme including relevant compliance policies, employee education, training and awareness programmes, counterparty due diligence and employee disclosure and whistleblowing procedures, including an externally facilitated employee disclosure hotline and portal to foster a culture of compliance. The Dowlais Group investigates cases of potentially non-compliant behaviour and, if necessary, takes specific steps

to prevent such non-compliant conduct in the future. However, the Dowlais Group's compliance programme may be insufficient to deter all misconduct. Moreover, if it becomes aware of allegations of non-compliant conduct, the Dowlais Group may have difficulty investigating such conduct and gathering evidence. If such cases were to arise, and misconduct was determined to have occurred, the Dowlais Group could be subject to fines, blacklisting and litigation.

Conducting business on a worldwide basis will require the Dowlais Group to comply with anti-corruption laws and regulations such as the US Foreign Corrupt Practices Act of 1977 and the UK Bribery Act 2010. Additionally, as a result of conducting business in foreign countries, the Dowlais Group will be exposed to a risk of violating anti-corruption laws and sanctions regulations applicable in those countries where it, its partners or agents operate.

While the Dowlais Group has policies and procedures designed to assist its compliance with applicable anticorruption laws and sanctions regulations, it seeks to continuously improve its systems of internal controls, to remedy any weaknesses that are identified through appropriate corrective action depending on the circumstances, including additional training, improvement of internal controls and oversight and deployment of additional resources. The Dowlais Group also takes appropriate action in case of any breach of the Dowlais Group's rules and procedures which might include disciplinary measures, suspensions of employees and ultimately termination of such employees. There can be no assurance, however, that policies and procedures of the Dowlais Group will be followed at all times or will effectively detect and prevent violations of applicable anticorruption laws and sanctions regulations by one or more of its employees, consultants, agents or partners, and as a result, the Dowlais Group could be subject to criminal and civil penalties and other remedial measures such as including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts (and termination of existing contracts) and revocations or restrictions of licences. The failure by the Dowlais Group to prevent any such violations and any subsequent penalties or remedial measures that could be imposed on it could have material adverse consequences for the Dowlais Group's results of operations, business and financial condition. Further detecting, investigating, and resolving these matters is expensive and could consume significant time and attention of the Company's senior management.

20. The Dowlais Group is dependent on a skilled and available workforce and labour disruptions or cost increases could adversely affect the Dowlais Group's business

The Dowlais Group is dependent on its skilled and available workforce to meet customer demand for its products. Industrial action or labour unavailability could negatively impact the Dowlais Group's ability to comply with its contractual obligations. A production stoppage at one of the Dowlais Group's facilities, whether caused by industrial action or labour unavailability, could cause it to face claims from its customers, lose sales and incur increased costs. A plant shutdown or a substantial modification to employment terms could result in material gains or losses or the recognition of an asset impairment. As collective bargaining agreements agreed with unions and other employee representatives expire and until negotiations are completed, it is not known whether the Dowlais Group will be able to negotiate collective bargaining agreements on the same or more or less favourable terms as the current agreements, or at all, without production interruptions, including labour stoppages. Any such industrial action could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

21. The Dowlais Group is subject to environmental, health and safety risks. Compliance with laws and regulations in these areas is costly and non-compliance with such laws and regulations could result in substantial costs, fines, sanctions and claims

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

The Dowlais Group operates global facilities that are subject to a broad array of environmental laws and regulations relating to pollution, the health and safety of employees, protection of the public, protection of the

environment, the storage and handling of hazardous substances and waste materials and the clean-up of contaminated properties. It is the policy of the Dowlais Group to comply with all relevant laws and regulations. The Dowlais Group actively manages these risks through regular compliance and performance improvement assessments and key performance indicators and the engagement of competent health, safety and environmental coordinators at each of its sites. However, violations of applicable laws and regulations, in particular provisions of environmental and health and safety laws, or changes in such laws and regulations (such as the imposition of more stringent standards for discharges into the environment), could result in litigation and damage to the reputation of the Dowlais Group as above, temporary or permanent restrictions on the operations of the facilities of the Dowlais Group, damages, fines, clean-up costs or other civil or criminal sanctions and/or increased costs of compliance (including capital expenditures).

As such, the Dowlais Group may incur increased costs associated with future environmental or climate change compliance (including capital costs or operating expenditures associated with achieving or maintaining compliance), with remediation obligations or with litigation if claims are made with respect to damages resulting from its operations. These and any future costs associated with environmental or climate change issues currently unknown to the Dowlais Group could have a material adverse effect on its results of operations, business and financial condition.

22. An impairment of goodwill or other intangible assets could adversely affect the Dowlais Group's results of operations and financial condition

The Dowlais Group has a material amount of goodwill, intangible assets and other long-lived assets. At least annually, it will review goodwill for impairment. Long-lived assets, identifiable intangible assets and goodwill are also reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. If the carrying value of a long-lived asset is considered impaired, a non-cash impairment charge is recorded for the amount by which the carrying value of the long-lived asset or reporting unit exceeds its recoverable amount at the time of measurement. The Dowlais Group's determination of future cash flows, future recoverability and fair value of its long-lived assets includes significant estimates and assumptions. Changes in those estimates or assumptions or lower-than-anticipated future financial performance may result in the identification of an impaired asset and a non-cash impairment charge, which could be material. Any such charge could materially adversely affect the Dowlais Group's results of operations and financial condition.

23. The Dowlais Group will be subject to a number of tax regimes

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

24. The Dowlais Group is dependent on management, employees and other skilled and qualified personnel and may not be able to attract and retain sufficiently qualified, experienced and motivated people

The Dowlais Group's ability to deliver its strategic objectives is dependent upon the recruitment and retention of sufficiently qualified, skilled, experienced and motivated people. As with most businesses operating in a technical field, it is critical for the Dowlais Group to secure and maintain the relevant capabilities it needs in specific geographical regions and disciplines in both existing markets and to support growth markets, as well as to secure the appointment of directors and employees with particular managerial, engineering or technical skills. The failure to recruit, or the loss of, key personnel, and the failure to plan adequately for succession or

develop the potential of employees may impact the Dowlais Group's ability to deliver its strategic and financial objectives which may have a material adverse effect on its results of operations, business and financial condition.

25. The Dowlais Group does not own the GKN Trade Marks but will continue to use them after the Demerger pursuant to certain trade mark licence agreements with one of its former affiliate companies, and use of the name by other parties or the termination of the Dowlais Group's trade mark licence agreements may harm the Dowlais Group's business

Upon completion of the Demerger, entities in the Dowlais Group will continue to license the use of the GKN Trade Marks pursuant to certain trade mark licence agreements with one of their former affiliate companies as detailed further in Section 17.7 (*Trade Mark Agreements*) of Part XV (*Additional Information*) of this Prospectus. The GKN brand is well-known in the automotive and powder metallurgy industries and has historically, but not exclusively, been associated with the Dowlais Group's business.

As the Dowlais Group does not own the GKN Trade Marks, and will not be the exclusive user of the GKN brand, it may be unable to prevent any damage to goodwill that may occur as a result of the activities of the owners or other licensed users of the GKN brand name. Any of these events could disrupt the recognition of the Dowlais Group's products in the marketplace, damage any goodwill the Dowlais Group may have generated and otherwise have a material adverse effect on its results of operations, business and financial condition.

26. Factors outside the Dowlais Group's control, such as fires, floods and other natural disasters, any epidemics or pandemics, any major disruption to the Dowlais Group's information systems, or man-made problems such as computer viruses, theft of critical data, terrorism, protests or other harassment could have a material adverse effect on its results of operations, business and financial condition

The Dowlais Group's sources for components or other supplies, as well as shipments of manufactured goods, are vulnerable to damage or interruption from fires, floods, pandemics (including continued disruptions caused by the COVID-19 pandemic), power losses, telecommunications failures, terrorist attacks, human errors, break-ins and similar events. A significant natural disaster, such as a fire or flood, whether at a facility owned by the Dowlais Group or at a third-party facility which holds stock belonging to the Dowlais Group, could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition, and the Dowlais Group's insurance coverage may be insufficient to compensate it for losses that may occur. Any damages or contractual penalties the Dowlais Group is entitled to in the event that a supplier of the Dowlais Group does not meet its obligations with respect to timeliness and quality, may fail to mitigate the harm to the Dowlais Group's business caused by any such contractual breaches. In particular, shortages or interruptions in the supply of components or delays in the shipment of manufactured goods as a result of such an event could delay shipments of the Dowlais Group's products or increase its production costs. This in turn could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition.

The Dowlais Group could be impacted negatively by information technology security threats including unauthorised access to intellectual property or other controlled information or cyber or ransomware attacks intended to disrupt the Dowlais Group's operations. Interruptions to the Dowlais Group's information systems could adversely affect its day-to-day operations. A major disruption to information systems could have a material adverse effect on the Dowlais Group's results of operations, business and financial position. The loss of confidential information, intellectual property or controlled data could result in fines, liability to customers and other counterparties and damage to the Dowlais Group's reputation, and could adversely affect its ability to win future contracts.

RISKS RELATING TO THE DEMERGER

1. The Dowlais Group may fail to realise any or all of the anticipated benefits of the Demerger

The extent to which the anticipated benefits of the Demerger, including, among others, the creation of a standalone public company with a leadership team with independent control of its strategy and capital allocation decisions and the maximisation of shareholder value, may be realised, is subject to a number of factors, including many which are outside of Dowlais's control. There can be no guarantee that the anticipated benefits of the Demerger will be realised in full or in part, or as to the timing when any such benefits may be realised. Failure to realise the anticipated benefits of the Demerger, in full or in part, or in a timely manner, could result in a delay in the execution of the strategic objectives of Dowlais and/or have a disruptive effect on

Dowlais's management and employees. This could in turn have a material adverse effect on Dowlais's results of operations, business, financial condition and prospects.

2. Dowlais will incur new costs in its transition to a standalone public company and its management team will be required to devote substantial time to new compliance matters

As a standalone publicly listed company, Dowlais will incur additional legal, accounting, financing and other expenses, including the costs of recruiting and retaining non-executive directors, costs resulting from complying with public company reporting obligations, costs associated with tax and treasury management and the rules and regulations regarding corporate governance practices, including the listing requirements of the FCA and the admission requirements of the London Stock Exchange.

If the time and/or financial resources needed to comply with these requirements are materially greater than expected, this could have a material adverse effect on the Dowlais Group's results of operations, business and financial condition. The Dowlais Group expects to incur incremental annual costs of approximately £30 million (calculated on a full run-rate basis) in the medium term to operate as an independent listed company. Approximately £10 million of these estimated incremental annual costs represent central costs that were previously borne by the Melrose Group.

3. Following the Demerger, Dowlais will need to operate as an independent publicly listed company and the Dowlais Group could fail to meet the challenges involved in operating successfully as such

Following the Demerger, Dowlais will need to operate as an independent publicly listed company, separate from the Melrose Group.

The Dowlais Group's operations have historically benefitted from certain of the Melrose Group's central office resources, including, among other things, access to its finance and treasury, company secretariat and legal functions.

Following the Demerger, the Dowlais Group will take on responsibility for these activities and, in preparation, it has enhanced its standalone arrangements in a wide range of areas, including finance and treasury, company secretariat and investor relations. However, the Dowlais Group will continue to have access for a limited period to certain resources of the Melrose Group under the terms of the Transitional Services Agreement. Any significant disruption or other issues in the services provided by the Melrose Group under the Transitional Services Agreement, even if they give rise to a contractual claim, may cause operational difficulties that could negatively impact the Dowlais Group's performance and results of operations. The Board has full discretion as to whether it utilises such services provided by the Melrose Group and retains the right to terminate the transitional services agreement at any time in accordance with the provisions of the Transitional Services Agreement. Any directors common to both the Dowlais Group and Melrose Group boards would recuse themselves from any issues arising under the Transitional Services Agreement.

In addition, there is a risk that the actual costs of the standalone arrangements could be higher than expected and/or that the Dowlais Group will need to further invest in new services and functions. These risks, individually or together, could have a material adverse effect on the Dowlais Group's business, financial condition, results of operations and prospects.

4. For a period following the Demerger, Dowlais may be reliant on the Melrose Group for the provision of certain services and any disruption to such services could be costly and disruptive and materially and adversely affect the Dowlais Group's results of operations, business, strategy, financial condition and prospects

In connection with the Demerger, Melrose and Dowlais have entered into a Transitional Services Agreement. Services to be procured by the Dowlais Group under the Transitional Services Agreement include finance and treasury, company secretariat and legal, tax and certain strategic advisory services, each of which shall be provided as required by the Dowlais Group for an agreed transitional period. Dowlais has already put in place most of the additional resources and systems required to carry out these services independently of the Melrose Group.

Following the transitional period set out in the Transitional Services Agreement, the Dowlais Group will be required to provide these services internally or obtain these services from a third-party provider. Whilst the Dowlais Group expects to have implemented these capabilities well ahead of the end of their respective transitional periods as set out in the Transitional Services Agreement, if the Dowlais Group has not effectively developed and implemented these, and it is unable to extend the transitional periods or source further

arrangements from third-party providers on a cost effective basis, its results of operations, business, financial condition and prospects could be materially and adversely affected.

RISKS RELATING TO THE DOWLAIS SHARES

1. There is no existing market for the Dowlais Shares and an active trading market for the Dowlais Shares may not develop or be sustained

Prior to Admission, there has been no public trading market for the Dowlais Shares. Although application will be made to the FCA for admission of the Dowlais Shares to the premium listing segment of the Official List and to the London Stock Exchange for admission of the Dowlais Shares to trading on its main market for listed securities, the Company can give no assurance that an active trading market for the Dowlais Shares will develop or, if developed, could be sustained following Admission. If an active trading market is not developed or maintained, the liquidity and trading price of the Dowlais Shares could be materially and adversely affected.

2. As with all securities traded on the London Stock Exchange, the market price of the Dowlais Shares may fluctuate and the market price of the Dowlais Shares may decline disproportionately in response to developments that are unrelated to the Dowlais Group's operating performance

Dowlais Shareholders should be aware that the value of an investment in the Dowlais Group may fluctuate and could be highly volatile. The price at which Dowlais Shares may be quoted and the price which investors may realise for their Dowlais Shares will be influenced by a large number of factors, some specific to the Dowlais Group and its operations, and some which may affect the Dowlais Group's industry as a whole, other comparable companies or publicly traded companies as a whole. Dowlais and its share price will be more exposed to changes in the sectors in which it operates and the customers and suppliers in those sectors, as well as the market's perception of those sectors.

The sentiments of the public market regarding the Demerger will be one such factor. Following Admission, there may be a period of relatively high-volume trading in the Dowlais Shares as Dowlais's shareholder register finds its natural composition. For example, the Dowlais Shares may be less attractive to certain classes of Melrose Shareholders. Dowlais is unable to predict whether substantial amounts of the Dowlais Shares will be sold in the open market following Admission. Sales of a substantial number of the Dowlais Shares in the public market after Admission, or the perception that these sales might occur, could depress the market price of the Dowlais Shares.

This potential factor, together with other factors including the actual or anticipated fluctuations in the financial performance of the Dowlais Group and its competitors, market fluctuations and/or factors generally affecting consumers could lead to fluctuations in the market price of the Dowlais Shares.

3. Dowlais's ability to pay dividends in the future depends, among other things, on the Dowlais Group's financial performance and capital requirements

There can be no guarantee that Dowlais will be able to pay dividends in the future. Under the Companies Act, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. As a holding company, Dowlais's ability to pay dividends in the future will be affected by a number of factors, including having sufficient distributable reserves and its ability to receive sufficient dividends from subsidiaries. The ability of companies within the Dowlais Group to pay dividends and Dowlais's ability to receive distributions from its investments in other entities are subject to restrictions, including, but not limited to, the existence of sufficient distributable reserves and cash. If the performance of the companies within the Dowlais Group is below market expectations then their capacity to pay dividends to Dowlais will suffer.

4. Dowlais may decide to offer additional Dowlais Shares in the future, potentially diluting the interests of existing Dowlais Shareholders and potentially materially and adversely affecting the market price of Dowlais Shares

Dowlais has no current plans for an offer of shares. However, if Dowlais decides to offer additional Dowlais Shares or other securities convertible into Dowlais Shares in the future, including as consideration for any acquisitions, this could dilute the interests of existing Dowlais Shareholders and/or have a material adverse impact on the market price of Dowlais Shares as could the public perception that an offering may occur.

5. Dowlais Shareholders may not be able to exercise pre-emption rights or participate in certain future issues of Dowlais Shares and Overseas Shareholders may not be able to participate in future issues of Dowlais Shares

In the case of a future allotment of new Dowlais Shares for cash, existing Dowlais Shareholders have certain statutory pre-emption rights, unless those rights are disapplied by a special resolution of the Dowlais Shareholders at a general meeting. An issue of new Dowlais Shares not for cash or when pre-emption rights have been disapplied could dilute the interests of the then-existing Dowlais Shareholders.

Securities laws of certain jurisdictions may restrict Dowlais's ability to allow participation by Dowlais Shareholders in future offerings. In particular, shareholders in the United States may not be entitled to exercise these rights, unless either the Dowlais Shares and any other securities that are offered and sold are registered under the US Securities Act, or the Dowlais Shares and such other securities are offered pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Dowlais cannot assure prospective investors it will register any such offers or sales under the US Securities Act, that any exemption from such overseas securities law requirements would be available to enable US or other Dowlais Shareholders to exercise their pre-emption rights or, if available, that Dowlais will utilise any such exemption.

6. The ability of Overseas Shareholders to bring actions or enforce judgments against Dowlais or the Directors may be limited

The ability of an Overseas Shareholder to bring an action against Dowlais may be limited under law. Dowlais is a public limited company incorporated in England and Wales. The rights of holders of the Dowlais Shares are governed by English law and by the Articles. These rights differ from the rights of shareholders in typical US corporations and some other non-UK companies. In particular, English law currently limits significantly the circumstances under which the shareholders of English companies may bring derivative actions. Under English law, in most cases, only Dowlais may be the proper plaintiff for the purposes of maintaining proceedings in respect of wrongful acts committed against it and, generally, neither an individual shareholder, nor any group of shareholders, has any right of action in such circumstances. English law does not afford appraisal rights to dissenting shareholders in the form typically available to shareholders in a US company. In addition, it may not be possible for an Overseas Shareholder to enforce any judgments in civil or commercial matters or any judgments in securities laws of countries other than the UK against some or all of the Directors or executive officers of Dowlais who are resident in the UK or countries other than those in which judgment is made.

7. Overseas Shareholders may be subject to exchange rate risk

The Dowlais Shares are, and any dividends to be paid in respect of them will be, denominated in Sterling. An investment in Dowlais Shares by an investor whose principal currency is not Sterling exposes the investor to foreign currency exchange rate risk. Any depreciation of Sterling in relation to such foreign currency will reduce the value of the investment in the Dowlais Shares or any dividends in foreign currency terms.

PART III
EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the following times and dates in the table below is indicative only and subject to change. References to a time of day are to London time.

<u>Event</u>	<u>Time and Date</u>
Publication of this Prospectus and the Melrose Circular	3 March 2023
Latest time and date for receipt of Proxy Forms, CREST electronic proxy appointment instructions and registration of online votes from Qualifying Melrose Shareholders in respect of the General Meeting .	10:00 a.m. on 28 March 2023
Melrose’s General Meeting	10:00 a.m. on 30 March 2023
Announcement of result of General Meeting	10:30 a.m. on 30 March 2023 (or as soon as practicable after the conclusion of the General Meeting, if later)
Latest time and date for transfers of Melrose Shares to be registered on the Melrose Share Register at the Consolidation Record Time and the Demerger Record Time	6:00 p.m. on 19 April 2023
Record time for the Melrose Share Consolidation (being the “ Consolidation Record Time ”)	6:00 p.m. on 19 April 2023
Melrose Share Consolidation becomes effective	immediately after 6:00 p.m. on 19 April 2023
Record time for the Demerger Distribution (being the “ Demerger Record Time ”)	10:00 p.m. on 19 April 2023
Demerger Distribution to Qualifying Melrose Shareholders becomes effective	7:59 a.m., immediately prior to Admission on 20 April 2023
Admission and commencement of dealings in Dowlais Shares on the London Stock Exchange	8:00 a.m. on 20 April 2023
CREST accounts credited with uncertificated Dowlais Shares	as soon as practicable after 8:00 a.m. on 20 April 2023
Despatch of definitive share certificates (where applicable) for the Dowlais Shares in certificated form	by 5 May 2023

PART IV

IMPORTANT INFORMATION

1. General

This Prospectus comprises a prospectus for the purposes of Article 6 of the UK Prospectus Regulation and is issued in compliance with the Listing Rules.

Investors should rely solely on the information contained in this Prospectus. No representation or warranty, express or implied, is made and no responsibility or liability is accepted by any person other than the Company and the Directors, as to the accuracy, completeness, verification or sufficiency of the information contained herein, and nothing in this Prospectus is, or may be relied upon as, a promise or representation by any of the Company's advisers (including the Banks) or any of their respective affiliates in this respect, as to the past or future, and each of the Company's advisers and their respective affiliates, directors, officers, employees and advisers accordingly disclaims, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this document or any such statement. No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Company.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to Section 87G of FSMA, Article 23 of the UK Prospectus Regulation and Rule 3.4 of the Prospectus Regulation Rules, neither the publication of this Prospectus nor any subscription or sale made under this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Dowlais Group taken as a whole since the date hereof or that the information contained herein is correct as at any time subsequent to its date.

This Prospectus has been filed with, and approved by, the FCA and has been made available to the public in accordance with the Prospectus Regulation Rules. This Prospectus does not constitute an offer or invitation to sell or issue, or a solicitation of an offer or invitation to purchase or subscribe for, any securities offered by any person in the Company, nor shall this Prospectus alone (or any part of it), or the fact of its distribution, form the basis of, or be relied upon in connection with, or act as any inducement to enter into, any contract or commitment whatsoever with respect to any offer, invitation or otherwise.

The validity of this Prospectus will expire on 3 March 2024.

The Company will update the information provided in this document by means of a supplement hereto if a significant new factor that may affect Admission occurs prior to Admission or if this document contains any material mistake or material inaccuracy.

The contents of this Prospectus are not to be construed as legal, business or tax advice. Recipients of this Prospectus should consult their legal advisers, financial advisers or tax advisers for legal, financial or tax advice.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Directors, any of the Company's advisers (including the Banks) or any of their affiliates or representatives regarding the securities of the Company.

None of the Company, the Directors or the Banks accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Company and the Dowlais Group. None of the Company, the Directors or the Banks make any representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

The Banks and their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to Melrose and its affiliates, for which they received customary fees. The Banks and their respective affiliates may provide such services to Melrose, the Company and their respective affiliates in the future.

Apart from the responsibilities, if any, which may be imposed on any of the Banks by FSMA or the regulatory regime established thereunder to the extent the exclusion of responsibility under the relevant regulatory regime would be illegal, void or unenforceable, none of the Banks nor any of their respective subsidiaries, holding companies, branches or affiliates nor any of their respective directors, officers, employees, agents or advisers, owes or accepts any duty, responsibility or liability whatsoever (whether direct or indirect and whether arising in contract, in tort, under statute or otherwise) to any person in relation to this Prospectus or for any acts or

omissions of the Company and no representation or warranty, express or implied, is made by any of them as to the contents of this Prospectus, including its accuracy, completeness, verification or sufficiency, or for any other statement made or purported to be made by the Company, or on its behalf, or by any of the Banks, or on their behalf, in connection with the Company or the Dowlais Shares, and nothing in this Prospectus should be relied upon as a promise or representation in this respect, whether or not to the past or future. To the fullest extent permitted by law, each of the Banks and their respective subsidiaries, holding companies, branches and affiliates and their respective directors, officers, employees, agents, or advisers accordingly disclaims all and any responsibility or liability whatsoever (whether direct or indirect and whether arising in tort, contract, under statute or otherwise (save as referred to above)), which they might otherwise have in respect of this Prospectus or any such statement.

2. Presentation of financial information

As Dowlais was incorporated on 13 January 2023, the financial information presented in this Prospectus has been derived from the aggregated historical financial information of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses along with certain Head Office functions. Dowlais's financial year runs from 1 January to 31 December.

Unless otherwise stated, the financial information in this Prospectus has been prepared in accordance with the requirements of the UK Prospectus Regulation, the Listing Rules and the basis of preparation included in Note 1 of Part B of Part XII (*Historical Financial Information*) of this Prospectus. The historical financial information is prepared for inclusion in this Prospectus for the purposes of admission to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange, and has been prepared in accordance with the requirements of the UK Prospectus Regulation and Listing Rules. The basis of preparation describes the extent to which the historical financial information has been prepared in accordance with IFRS. The accounting policies applied and stated in the historical financial information are included in Part B of Part XII (*Historical Financial Information*) of this Prospectus.

2.1 Pro forma financial information

This Prospectus presents certain pro forma financial information for the Dowlais Group to illustrate the impact of the Demerger (together, the “**Pro Forma Transactions**”) on the net assets of the Dowlais Group as if the Pro Forma Transactions had taken place on 31 December 2022.

The unaudited pro forma statement of net assets of the Dowlais Group has been prepared on the basis of the Historical Financial Information as at 31 December 2022, the date to which the latest Historical Financial Information was prepared. The unaudited pro forma statement of net assets of the Dowlais Group has been prepared in accordance with Annex 20 of the Prospectus Delegated Regulation and pursuant to Listing Rule 13.3.3R in a manner consistent with the accounting policies of the Company.

Because of its nature, the unaudited pro forma statement of net assets addresses a hypothetical situation and, therefore, does not represent the Dowlais Group's actual financial position or results. It may not, therefore, give a true picture of the Dowlais Group's financial position or results nor is it indicative of the results that may, or may not, be expected to be achieved in the future. The pro forma statement of net assets has been prepared for illustrative purposes only and in accordance with Annex 20 of the Prospectus Delegated Regulation.

3. Alternative performance measures

This Prospectus contains certain financial measures that are not defined or recognised under IFRS, including Adjusted Revenue, Adjusted Operating Profit, Adjusted Operating Margin and Net Working Capital, each as defined below.

The Directors consider these metrics to be the non-IFRS financial measures used by the Dowlais Group to help evaluate growth trends, establish budgets and assess operational performance and efficiencies. The Directors believe that these non-IFRS financial measures, in addition to IFRS measures, provide an enhanced understanding of the Dowlais Group's results and related trends, therefore increasing transparency and clarity into the Dowlais Group's results and business. There are no generally accepted accounting principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company. These measures, by themselves, do not provide a sufficient basis to compare the Dowlais Group's performance with that of other companies and should not be considered in isolation or as a substitute for operating profit or loss or any other measure as an indicator of operating performance, or as an alternative to cash generated from operating activities as a measure of liquidity. The Dowlais Group does not regard these non-IFRS financial measures as a substitute to, or superior to, the equivalent measures that are calculated in

accordance with IFRS. The non-IFRS financial measures presented in this Prospectus may not be comparable to other similarly titled measures used by other companies, have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Dowlais Group's operating results as reported under IFRS.

The following non-IFRS measures are presented in this Prospectus:

- “Adjusted Revenue” means statutory revenue plus revenue from equity accounted investments, the largest of which is a 50% interest in SDS within the GKN Automotive segment. The Directors believe that the use of Adjusted Revenue enables comparability between reporting periods.
- “Adjusted Operating Profit” means operating profit/(loss) adjusted for amortisation of intangible assets acquired in business combinations, restructuring costs, movement in derivatives and associated financial assets and liabilities, equity accounted investments adjustments, net releases and changes in discount rates of fair value items, acquisition and disposal-related gains and losses, impairment of assets, and the impact of guaranteed minimum pension (“GMP”) equalisation on UK pension schemes. The Directors believe that the use of Adjusted Operating Profit provides a useful and more comparable measure of the ongoing performance of the Dowlais Group.
- “Adjusted Operating Margin” means for any given financial year, Adjusted Operating profit divided by Adjusted Revenue. The Directors believe that the use of Adjusted Operating Profit Margin provides a useful and more comparable measure of the ongoing performance of the Dowlais Group.
- “Net Working Capital” means inventories, current trade and other receivables, non-current other receivables (excluding retirement benefit surpluses), current trade and other payables and non-current other payables.

For further detail on the calculation of these non-IFRS financial measures, including reconciliations to their nearest IFRS measures, see Part IX (*Selected Financial Information—Other Financial Data*).

4. Rounding

Certain numerical figures included in this Prospectus have been rounded. Discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding. In addition, percentages in tables have been rounded and accordingly may not add up to 100%.

5. Market and industry data

This Prospectus contains economic, industry and market data and statistics, forecasts and other information relating to markets, market sizes, market shares, market positions and other industry data pertaining to the Dowlais Group's business and markets. Unless otherwise indicated, such information is based on the Directors' analysis of various sources, including peer financial and operating data and third-party market research and reports, in aggregate representing the beliefs of management and the Directors. The Company confirms that all third-party data contained in this Prospectus has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this Prospectus, the source of such information has been identified. While industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, the accuracy and completeness of such information is not guaranteed. The Company has not independently verified any of the data obtained from third-party sources, nor has the Company ascertained the underlying economic assumptions relied upon therein. Similarly, internal surveys, industry forecasts and market research, which the Company believes to be reliable based upon the Directors' knowledge of the industry, have not been independently verified.

References in this Prospectus to S&P Global (December 2022) are to the S&P Global Mobility: Alternative Propulsion Forecast, December 2022.

6. Currency information

Unless otherwise indicated, all references in this Prospectus to “Sterling” or “£” are to the lawful currency of the United Kingdom, all references in this Prospectus to “USD” or “\$” are to the lawful currency of the United States, all references in this Prospectus to “Euro” or “€” are to the lawful currency of the EU member states that comprise the euro area and all references in this Prospectus to “Chinese Yuan” are to the lawful currency

of the People's Republic of China. The Historical Financial Information is prepared, and the Dowlais Group will prepare its financial information, in Sterling.

7. Forward-looking statements

This Prospectus includes certain forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Company's control and all of which are based on the Directors' current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "would", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "goal", "continues", "assumes", "positioned", "anticipates" or "targets" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the intentions, beliefs or current expectations of the Directors or the Company concerning, among other things, the future results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Company and the industry in which it operates. In particular, the statements under the headings "Risk Factors", "Business Description" and "Operating and Financial Review" regarding the Company's strategy, targets and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Company. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed or implied in such forward-looking statements.

Forward-looking statements contained in this Prospectus speak only as at the date of this Prospectus. The Company, the Directors and the Company's advisers expressly disclaim any obligation or undertaking to update these forward-looking statements contained in this Prospectus to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Regulation Rules, the Listing Rules, the Disclosure Guidance and Transparency Rules or the UK Market Abuse Regulation. The statements above related to forward-looking statements should not be construed as a qualification of the working capital statement contained in Section 18 (*Working capital statement*) of Part XV (*Additional Information*) of this Prospectus.

8. No incorporation of website information

The contents of www.dowlais.com or any website directly or indirectly linked to www.dowlais.com, including www.gknautomotive.com, www.gknpm.com and www.gknhydrogen.com, have not been verified and do not form part of this Prospectus, and information contained therein should not be relied upon.

9. US securities law considerations

The Dowlais Shares have not been and will not be registered under the US Securities Act or under any other relevant federal securities laws or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, pledged, renounced, transferred or delivered, directly or indirectly, in or into the United States at any time without registration or an applicable exemption from or in a transaction not subject to the registration requirements of the US Securities Act and in compliance with state securities laws. Any recipient of Dowlais Shares pursuant to transactions that are exempt from the registration requirements of the US Securities Act may be required to make such acknowledgements and representations to and agreements with the Company as the Company may require to establish that they are Eligible US Holders. The Dowlais Shares may not be offered or sold within the United States or to, or for the account or benefit of, US persons except to Eligible US Holders. If you are an "accredited investor" as defined in Rule 501(a) under the US Securities Act but are not an Institutional Accredited Investor as defined herein, please contact the Company as soon as possible to discuss your options. The Dowlais Shares will not be transferred to any US Person (as defined under Regulation S) that, so far as the Company and/or Melrose is aware, is not an Eligible US Holder, but will instead be sold in the market on behalf of Melrose and the net cash proceeds of such sale will be remitted by cheque to such US Person based on the number of the Dowlais Shares they would otherwise have been entitled to hold in connection with the Demerger.

The Dowlais Shares will be "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act. **Accordingly, holders of the Dowlais Shares are advised to consult legal counsel prior to**

making any offer, resale, pledge or other transfer of any of the Dowlais Shares held by them or for their account or benefit.

Any person in the United States who obtains a copy of this Prospectus and who is not an Eligible US Holder is required to disregard it. Any recipient of the Dowlais Shares pursuant to transactions that are exempt from the registration requirements of the US Securities Act may be required to make such acknowledgements and representations to and agreements with the Company as the Company may require to establish that they are Eligible US Holders.

Each person who has acquired the Dowlais Shares in connection with the Demerger, by voting in favour of the Demerger and its acceptance of the Dowlais Shares, will be deemed to have acknowledged, represented to and agreed with the Company as follows:

- (1) It understands and acknowledges that the Dowlais Shares have not been and will not be registered under the US Securities Act or any applicable state securities law; and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the US Securities Act or any applicable state securities law, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraph (5) below.
- (2) It is not an “affiliate” (as defined in Rule 144 under the US Securities Act) of the Company or acting on behalf of the Company and it is either:
 - (a) an Eligible US Holder and is aware that the acquisition of the Dowlais Shares will be for its own account or for the account of another Eligible US Holder; or
 - (b) not a US person, nor is it acquiring for the account of a US person, and is acquiring the Dowlais Shares outside the United States in an offshore transaction in accordance with Regulation S.
- (3) It acknowledges that neither the Company, nor any person representing the Company, has made any representation to it with respect to the distribution of the Dowlais Shares, other than the information contained in this Prospectus, which Prospectus has been delivered to it and upon which it is relying in making its investment decision with respect to the Dowlais Shares. It also acknowledges that it has had access to such financial and other information concerning the Dowlais Group as it has deemed necessary in connection with its decision to acquire any of the Dowlais Shares, including an opportunity to ask questions of, and request information from, the Company and has such knowledge and experience in financial and business matters that make them capable of evaluating the merits and risks of purchasing the Dowlais Shares.
- (4) It is acquiring the Dowlais Shares for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the US Securities Act or any state or other securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Dowlais Shares pursuant to Rule 144A, Regulation S or any other exemption from registration available under the US Securities Act.
- (5) It agrees, on its own behalf and on behalf of any investor account for which it is acquiring the Dowlais Shares, and each subsequent holder of the Dowlais Shares by its acceptance thereof will be deemed to agree, not to offer, sell or otherwise transfer such Dowlais Shares prior to the date (the “**Resale Restriction Termination Date**”) that is one year after the later of the date of acquisition of the Dowlais Shares from the Company and the last date on which the Company or any of its affiliates was the owner of such Dowlais Shares (or any predecessor thereof), except (i) to the Company or any subsidiary thereof; (ii) pursuant to a registration statement that has been declared effective under the US Securities Act; (iii) for so long as the Dowlais Shares are eligible pursuant to Rule 144A under the US Securities Act, to a person it reasonably believes to be a “qualified institutional buyer” (“**QIB**”) in accordance with Rule 144A under the US Securities Act in the United States that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A under the US Securities Act; (iv) a limited number of institutional “accredited investors”, as defined in Rule 501(a)(1), (2), (3), (4) or (7) under the Securities Act; (v) pursuant to an offshore transaction to persons who are not US persons and who are outside the United States within the meaning of Regulation S under the US Securities Act and in reliance on Regulation S under the US Securities Act or (vi) pursuant to any other available exemption from the registration requirements of the US Securities Act, subject in each of the

foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws and any applicable local laws and regulations, and further subject to the Company's rights prior to any such offer, sale or transfer (I) pursuant to clauses (v) or (vi) prior to the Resale Restriction Termination Date to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them, (II) in each of the foregoing cases, to require that an applicable certificate of transfer is completed and delivered by the transferor to the Company, (III) agrees that it will give to each person to whom the Dowlais Shares is transferred a notice substantially to the effect of this paragraph (5) and (IV) pursuant to clause (iv), to require the delivery of a purchaser's letter as below concurrent with its purchase of the Dowlais Shares:

- (6) It agrees that it will give to each person to whom it transfers the Dowlais Shares notice of any restrictions on transfer of such Dowlais Shares.
- (7) It acknowledges that the Company and the Registrar, as applicable, will not be required to accept for registration of transfer any Dowlais Shares except upon presentation of evidence satisfactory to the Company and the Registrar, as applicable, that the restrictions set forth therein have been complied with.
- (8) It acknowledges that the Company and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its acquisition of the Dowlais Shares are no longer accurate, it will promptly notify the Company. If it is acquiring any Dowlais Shares as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.
- (9) It understands that no action has been taken in any jurisdiction (including the United States) by the Company that would result in a public offering of the Dowlais Shares or the possession, circulation or distribution of this Prospectus or any other material relating to the Dowlais Shares in any jurisdiction where action for such purpose is required.
- (10) Either (i) no portion of the assets used to acquire or hold any Dowlais Shares, or any interest therein, constitutes the assets of any (a) "employee benefit plan" (within the meaning of Section 3(3) of the US Employee Retirement Income Security Act of 1974, as amended ("ERISA")) that is subject to the fiduciary responsibility or prohibited transaction provisions of Title I of ERISA, (b) plan, individual retirement account or other arrangement that is subject to the prohibited transaction provisions of Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or provisions under any other U.S. or non-US federal, state, local or other laws or regulations that are similar to such provisions of Title I of ERISA or Section 4975 of the Code (collectively, "Similar Laws"), or (c) entity whose underlying assets are considered to include the assets of any of the foregoing described in clauses (a) and (b), pursuant to ERISA or otherwise or (ii) its acquisition and holding of the Dowlais Shares will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

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

PART V MARKET OVERVIEW

Unless indicated otherwise, the information set out in this Part V (Market Overview) constitutes the Directors' views of the market in which the Dowlais Group operates. Unless indicated otherwise, all market, industry, market share and competitive position data set out in this Part V (Market Overview) and elsewhere in this Prospectus that relate to the market in which the Dowlais Group operates are estimates and should be treated with caution. The Company has obtained market data from internal surveys and studies as well as from information derived from third-party publications, studies and surveys, market interviews, market and web-based research including historical competitor annual accounts and reports assimilated by third parties. Where information from third parties has been used in this Part V (Market Overview), the source of such information has been identified. Third-party reports, publications, studies and surveys generally state that the data contained therein has been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data.

The Company confirms that all third-party information contained in this Part V (Market Overview) and elsewhere in this Prospectus has been accurately reproduced, and, so far as the Company is aware and has been able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nonetheless, the data on market sizes and projected growth rates should be viewed with caution. Moreover, in considering the market-wide trends and opportunities discussed below and elsewhere in this Prospectus, investors should be aware that given the Dowlais Group's particular strengths and strategies, on the one hand, and its risks, on the other, the impact on the Dowlais Group of such trends and opportunities may be more or less than their impact on the market as a whole. In addition, certain of the market, industry, market share and competitive position data contained in this Prospectus come from the Company's own internal research, records, data and estimates based on the knowledge and experience of the Company's management in the markets in which the Company operates (some of which may have been assimilated by third parties in their reports). While the Directors reasonably believe that such research, records, data and estimates are reasonable and reliable, they, and their underlying methodology, have not been verified by any independent source for accuracy or completeness. Additional factors which should be considered in assessing the usefulness of the market and competitive data and, in particular, the projected growth rates are described elsewhere in this Prospectus, including those set out in Part II (Risk Factors) of this Prospectus. Accordingly, undue reliance should not be placed on any of the market, industry, market share and competitive position data contained in this Prospectus.

This Part V (Market Overview) provides prospective investors with an overview of the macroeconomic drivers of the Dowlais Group's market and the Company's competitive landscape.

1. DOWLAIS: COMPANY OVERVIEW

The Dowlais Group includes three businesses: GKN Automotive, GKN Powder Metallurgy and the early-stage growth business, GKN Hydrogen. These businesses have been under the ownership of the Melrose Group prior to the Demerger. Since Melrose's acquisition of GKN plc in 2018, GKN Automotive and GKN Powder Metallurgy have undergone directed restructuring and have benefitted from substantial investments to promote growth and efficiency across the businesses. These investment efforts have focused on improvements to commercial and operational efficiencies and investment in research and development, thereby promoting growth and positioning both businesses to optimally address and benefit from the automotive industry's transition to hybrid and electric vehicles and achieve their target operating margins. GKN Hydrogen's technology was grown organically out of GKN Powder Metallurgy, and GKN Hydrogen is focused on developing and commercialising proprietary metal hydride technology to store and secure hydrogen in a safe, compact and green manner that can be used in a wide range of industrial and commercial applications.

2. GKN AUTOMOTIVE

2.1 Business overview

GKN Automotive is the global market leader in automotive drive systems and the trusted partner for over 90% of automotive Global OEMs. GKN Automotive components are present on approximately 50% of individual nameplates of Global OEMs. The business's leading largely powertrain-agnostic core product portfolio is well-positioned to benefit from the electrification of the automotive industry, as it includes sustainable electric drive system technology that it continues to proactively develop and innovate. GKN Automotive's technology roadmap is driven by customer needs, such as increasing efficiency by increasing vehicle range and reducing the weight and size of components. The business continues to capture strong, long term commercial positions

and profitable success in the transition to EVs, especially in its core driveline business, which is transitioning ahead of what is already an expanding and accelerating market.

The automotive technologies, parts, and products manufactured by GKN Automotive are used in a wide variety of vehicles, categorised as follows:

- ICE vehicles: powered by a regular internal combustion engine, using hydrocarbon fuel
- Battery electric vehicles (“**BEVs**”): powered exclusively using chemical energy stored in rechargeable batteries
- Plug-in hybrid electric vehicles (“**PHEV**”): powered by an electric motor that relies on batteries as well as by an internal combustion engine
- Mild hybrid and full hybrid (“**FHEV**”) vehicles: powered by a regular combustion engine and rechargeable batteries, where full hybrid vehicles are able to operate the engine using the battery solely

BEVs, PHEVs and FHEVs are collectively referred to as “**xEVs**”.

GKN Automotive’s principal end market is the automotive industry where it has market-leading positions across its portfolio of drive system products which it supplies to large automotive manufacturers globally.

GKN Automotive is well-integrated amongst automotive OEMs worldwide and works closely with 90% of automotive Global OEMs. This includes traditional OEMs as well as emerging OEMs with a singular focus on EVs. According to an Ipsos MORI customer survey from January 2022, among those surveyed, GKN Automotive ranked first for both favourability amongst its automotive parts supplier peers and for percentage of customers who would advocate for the company. It also ranked second most trusted amongst its peers.

2.2 Market overview

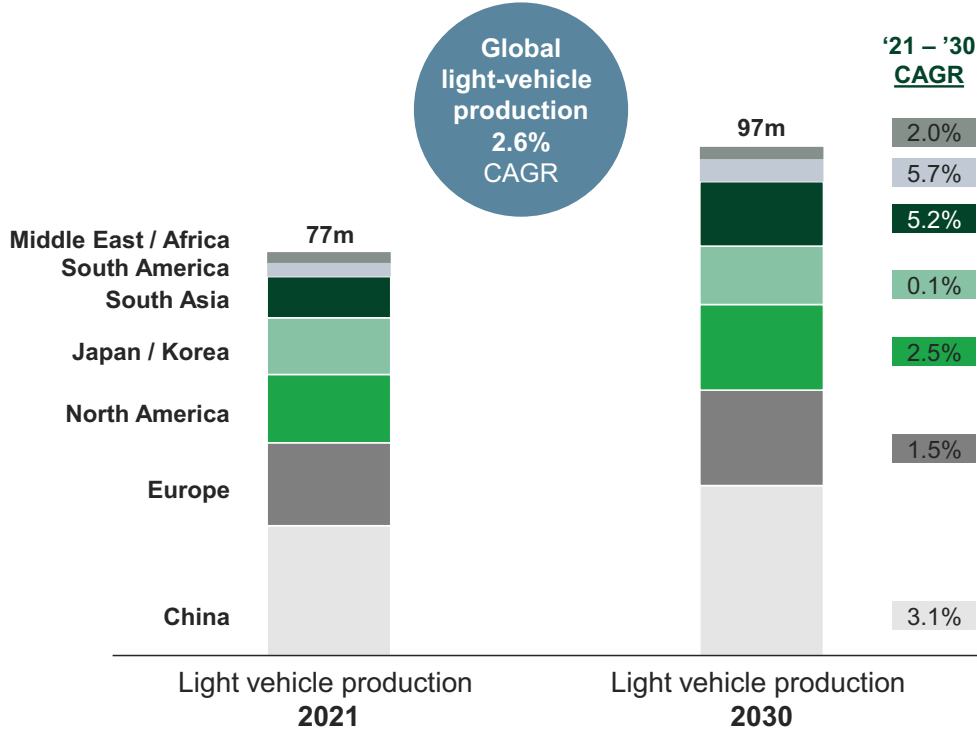
The automotive industry value chain consists of OEMs, including large automotive manufacturers, and automotive part suppliers, which generally have agreements with OEMs to develop and supply components and systems to meet their technological and regulatory requirements. Automotive parts suppliers are referred to as either Tier 1, Tier 2, or Tier 3 depending on their place in the supply chain for any particular part, with Tier 1 suppliers being direct suppliers to OEMs. As a direct supplier of parts to OEMs for the vast majority of its production output, GKN Automotive is considered a Tier 1 supplier.

Additionally, automotive suppliers produce a smaller portion of their products for the aftermarket, the market of spare parts that are used in the maintenance and repair of light and commercial vehicles.

China, where GKN Automotive has a longstanding and successful joint venture, is the world’s largest consumer of automotive parts, followed by the United States, Japan and Germany, according to Automotive Parts First Research (2022). China is forecast to account for 32% of the 81.8 million light vehicles expected to have been produced in 2022, a share that is expected to stay constant to 2024, with production expected to remain strong in the face of economic headwinds, according to S&P Global (December 2022). Other important regions include Europe, North America, and Japan and Korea together, accounting for 19%, 18%, and 14% of 2022 production, respectively, according to S&P Global (December 2022).

GKN Automotive primarily operates in the global light vehicle market. The total number of light vehicles produced globally in 2021 is estimated to have been 77 million and is projected to have increased to 82 million in 2022, a 6% year-over-year increase, according to S&P Global (December 2022). This is mainly driven by growth in production in North America, which is projected to have increased 10% year-over-year over that same period. S&P Global (December 2022) also forecasts light vehicle production to grow at a compound annual growth rate (“**CAGR**”) of 2.6% between 2021 and 2030, reaching approximately 97 million vehicles, with the majority of growth from China (3.1% CAGR), North America (2.5% CAGR) and South Asia (5.2% CAGR).

The following chart compares the total number of light vehicles produced globally in 2021 with the total number of light vehicles expected to be produced globally in 2030, shaded according to region.



Source: S&P Global light vehicle production forecast December 2022

Currently, GKN Automotive’s addressable market reflects the following key market trends:

Increasing demand for and production of light vehicles

A key growth driver for the automotive parts industry is the increasing demand for new light vehicles, underpinned by recovery following the COVID-19 pandemic, economic expansion, and continued demand from emerging markets. Short-term demand is likely to be buoyant as supply constraints on OEMs ease and build rates rise to service supply-constrained order books. The sale of automotive parts to OEM customers is derived from their production schedules; therefore, as build rates rise, revenues for parts suppliers rise. GKN Automotive is expected to grow at a faster rate than the rate of growth in new light vehicles driven by an increase in value of its core products as well as increased penetration of its advanced eDrive portfolio, making it strategically positioned to benefit from the industry shift to electrification.

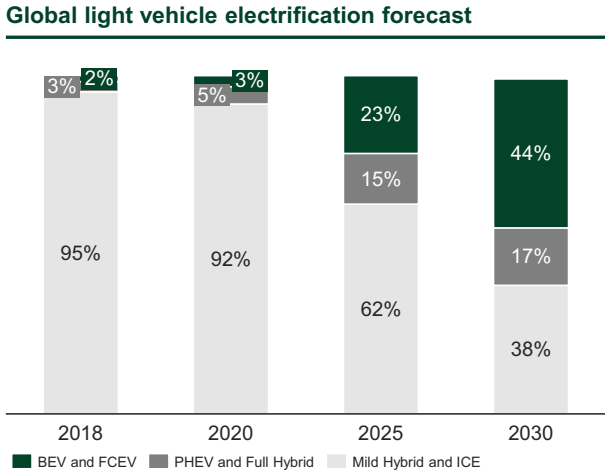
Accelerated electrification

The global light vehicle market is characterised generally by an increasing pace of electrification, with S&P Global (December 2022) expecting the global light vehicle BEV penetration rate of approximately 10% in 2022 to triple by 2028. Other indications of this industry-wide trend include:

- Production of global light vehicles is expected to reach approximately 97 million vehicles by the end of 2030, of which more than 62% will be hybrid or electric vehicles, according to S&P Global (December 2022).
- Electrification of vehicles is expected to progress significantly over the next decade, led strongly by China and Europe, where S&P Global (December 2022) expects BEV and fuel cell electric vehicles to represent 58% and 63% of light vehicles produced, respectively, in 2030. North America is expected to also accelerate adoption, where S&P Global (December 2022) projects that BEV and fuel cell electric vehicles will represent 39% of total light vehicle production in 2030.
- Government incentives, laws and regulations, such as the US Inflation Reduction Act of 2022’s tax credit of up to \$7,500 for certain new BEV purchases and the European Union’s pending legislation to ensure all new cars and vans registered in the European Union will be zero-emission by 2035, are expected to encourage an accelerated electrification transition.

- Large OEMs have all made announcements and commitments to electrify in coming decades, including Volvo, Mercedes Benz and Mini (BMW) by 2030, Volkswagen in Europe by 2033, and GM, Ford and Toyota in Europe by 2035.

The following chart illustrates the anticipated growth in the proportion of light vehicles with some degree of electrification produced globally between 2018 and 2030.



Source: S&P (December 2022). Forecast for “light vehicles” includes passenger car and light commercial vehicles.

Regionalised recovery from industry-wide shocks

Recent years have provided a challenging environment for many industries, combining the COVID-19 pandemic, related freight and supply chain dislocations, semiconductor shortages, inflation and the war between Russia and Ukraine. As a result, the light vehicle production volume recovery has been progressively postponed from 2019 to 2022, leaving a global automotive recovery opportunity of approximately 8% as compared to 2019 levels. Light vehicle production volume recovery rates also vary by region, with Europe and North America seeing the largest recovery opportunities relative to 2019 levels. This results in the majority of Dowlais revenues being derived from regions with significant recovery opportunity, as 33% of Dowlais’s revenues derived from North America where, as of 2022, there is a 12% recovery opportunity to reach 2019 light vehicle production levels, and 34% of its revenues derive from Europe where, as of 2022, there is a 25% recovery opportunity of the same.

GKN Automotive benefits from a regionalised presence that enables it to separately address these production volume recovery rates and paces of electrification that differ by region, using shorter supply chains to offset global supply chain disruptions. With capabilities to manufacture its product portfolio in any region of the world, its distributed presence also enables it to flexibly serve customers who are regionalising their own supply chains as well as to win new business.

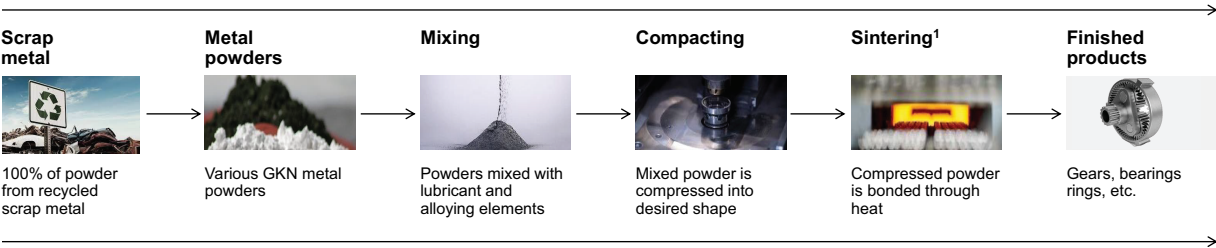
3. GKN POWDER METALLURGY

3.1 Business overview

GKN Powder Metallurgy is a global market leader in both high precision powder metal parts for the automotive and industrial sectors and in the production of metal powders, each by revenue, through its prized vertically integrated business platform. GKN Powder Metallurgy benefits from a similar global reach and regional footprint to GKN Automotive. Dowlais has committed to consider its future ownership in GKN Powder Metallurgy.

Powder metallurgy is a materials processing technology used to create parts by fusing metal powders as base materials through a sintering process (the application of heat to the metal powders in a furnace to the point where they become a compact, solid piece). The use of powder metal over conventional metal fabrication techniques has various benefits, such as the flexibility to develop mechanical parts with a diverse composition requiring high dimensional accuracy, strong wear resistance, excellent surface finishes, and most importantly net shape capabilities and high material utilisation, thereby minimising additional subtractive processing and energy inputs, and reducing the detrimental impact on the environment.

Sinter process



(1) Sintering is required for powder and metal additives.

GKN Powder Metallurgy’s products and offerings in powder metallurgy are defined as follows:

Powders—Hoeganaes is a world-class supplier and developer of atomised metal powders for various applications. The business is a leader in the powder metallurgy industry where it develops powders that allow the production of parts with more complex geometries, higher densities and improved dynamic properties in comparison with traditional techniques and materials. GKN Powders—Hoeganaes is the number two global producer of metal powders, according to Management estimates, producing 250,000 tons of powder per annum.

Sinter Metals is by revenue the world’s leading manufacturer of high precision powder metal products, which includes sintered structural parts, sub-assemblies, soft magnetic components, and electric motor solutions. The business is a world-class supplier with a long engineering heritage and a key focus on operational excellence and digitisation, supplying sintered structural components to automotive and general industry applications. GKN Sinter Metals is the number one global supplier of sintered metal products by revenue, according to Management estimates, producing approximately 10 million parts per day.

Additive builds on GKN Powder Metallurgy’s dual expertise in powder production and metal processing to promote industrialization across the whole Additive manufacturing value chain. The business provides components and materials for 3D prototypes, medium series and aftermarket applications.

Additive process



(2) Inputs can be plastic as well.

GKN Powder Metallurgy’s production is vertically integrated and covers the entire value system, from producing metal powders to finished products through mixing, compacting and sintering or through additive printing.

Metal powder is used in various end markets, including the automotive, industrial, aerospace and defence, medical and dental sectors. GKN Powder Metallurgy has longstanding, well entrenched and strong relationships with a broad blue-chip customer base in the automotive sector (including both automotive OEM and automotive supply chain manufacturers) and the industrial sector. Within the automotive sector, GKN Powder Metallurgy produces core products of sintered metal parts, which already feature on ICE vehicles and largely transfer to xEVs, and is pursuing incremental long-term growth opportunities from BEV-specific components such as magnets, which are integral to electric motors.

3.2 Market overview

Powder metallurgy technology is used in various end markets, most importantly the automotive and industrial sectors.

Approximately 80% of GKN Powder Metallurgy sales in the Financial Year 2022 were related to the automotive industry with end applications including transmission, body and chassis and engines. Management estimate that every car produced globally contains on average approximately 23 parts that have been manufactured by GKN Powder Metallurgy. As a variety of metals are used in automotive components and

parts, the usage of powder metallurgy technologies brings attractive benefits such as minimising machining and scrap losses, offering long term performance reliability in critical applications and optimising costs.

Given GKN Powder Metallurgy’s significant focus on the automotive sector, its growth outlook, especially with respect to GKN Powders—Hoeganaes and GKN Sinter Metals, is often correlated with the estimated growth of the global light vehicle production market. Management expect GKN Powder Metallurgy to accelerate its growth in the future through a combination of investments to gain market share, expansion of its portfolio and diversification into new, non-automotive industries and applications, such as permanent magnets, which are vital components of EV motors. According to Hubs (2022), the broader industrial 3D printing market to which GKN Additive contributes is forecast to grow at over 20% CAGR between 2020 and 2026.

Currently, GKN Powder Metallurgy benefits from the following key market tailwinds:

Stickiness of customer base and supplier concentration

Current customers of GKN Powder Metallurgy generally choose to consolidate their supplier bases and remain loyal to market and technology leaders that can serve their requirements globally. Customers are also increasingly responding to the challenges and disfunctions of globalisation by regionalising their supplier bases, which is opening up further commercial opportunities for GKN Powder Metallurgy through its rationalised and strategically regionalised manufacturing footprint.

Electrification of vehicles and the permanent magnets market

Expansion into electrified vehicle submarkets, supported by automotive OEMs’ growing demand for manufacturing efficiency and precision parts, is expected to characterise the market going forward. This is exemplified by GKN Powder Metallurgy’s intention to establish a capacity to produce permanent magnets for EV motors, with European and North American markets for this product set to grow at a CAGR of approximately 25% to 2030, according to AVL (2022). Approximately 50% of GKN Powder Metallurgy’s portfolio by revenue is ICE-agnostic, while management expect that its non-ICE core products of sintered metal parts and its planned expansion into incremental products, such as magnets, will generate an increasing proportion of GKN Powder Metallurgy’s revenues in years to come.

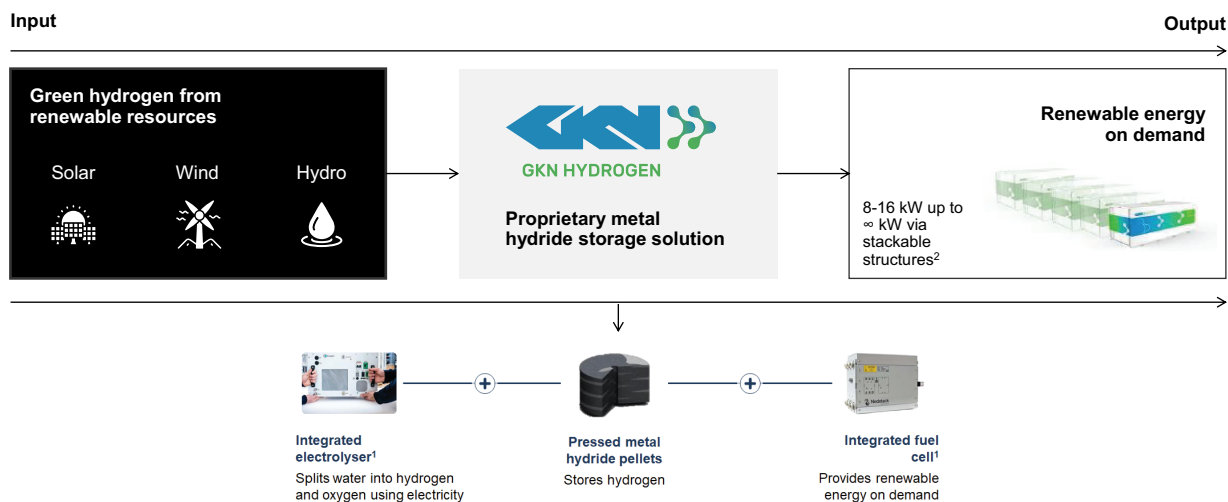
Demand for additive manufacturing techniques

There is expected to be a growing demand for product solutions using additive manufacturing techniques, supported by technological and digitised manufacturing controls and solutions.

4. GKN HYDROGEN


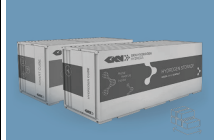



4.1 Business overview

GKN Hydrogen is an early-stage growth business focused on developing and commercialising a state-of-the-art 100% recyclable compact metal hydride storage solution that generates green hydrogen from fluctuating renewable energy sources. This cutting-edge energy storage solution has advantages over other energy storage solutions in terms of cost, safety, recyclability, and lifespan. The business was spun out of GKN Powder Metallurgy to provide the focus necessary to successfully deliver on its commercialisation strategy.



- (1) Integrated electrolyzer and fuel cell included within the “Medi” units.
- (2) Nominal load. 12-18 kW peak load (15 minutes every 12 hours).

GKN Hydrogen’s technology spans several application types and energy load requirements, as illustrated below.

Standalone power supply	Back-up power supply	Energy rebalancing	Auxiliary power supply	Direct feedstock supply
<ul style="list-style-type: none"> ➔ Off-grid energy storage ➔ Multi-year storage 	<ul style="list-style-type: none"> ➔ Alternative to diesel-generated back-up power 	<ul style="list-style-type: none"> ➔ Stores excess energy ➔ Deployed during scarcity 	<ul style="list-style-type: none"> ➔ Power output for multiple purposes (e.g. EV charging) 	<ul style="list-style-type: none"> ➔ Enables heavy industries to decarbonize by providing an alternate fuel source
				

4.2 Market overview

The expansion of both renewable hydrogen and other renewable energy production being pursued by governments worldwide necessitates a corresponding expansion in energy storage. For example, the European Commission’s REPowerEU plan’s ambition is to produce 10 million tonnes of renewable hydrogen from 40 gigawatts of electrolyzers and to import 10 million tonnes of renewable hydrogen into the EU by 2030, with scaling the development of hydrogen infrastructure identified as an area of focus.

GKN Hydrogen is strongly positioned to benefit from the following key market drivers:

Storage and flexibility needs

The global push for and growing demand of renewable energy, including hydrogen, requires the availability and flexibility of storage technologies to stabilise public grids.

Safety requirements

As the usage of renewables is growing, governments and regulatory bodies are enforcing strong safety regulations and grid stability standards in most countries.

Funding and financial support

Energy transition towards renewables is being supported by significant market activation funds, supporting long term investments in the sector.

PART VI THE BUSINESS

The following Part VI (The Business) of this Prospectus should be read in conjunction with the more detailed operating and financial information included in Parts XII (Historical Financial Information) and XIII (Unaudited Pro Forma Financial Information) of this Prospectus. The financial information included in this Part VI (The Business) has been extracted without material adjustment from the carve-out historical financial information in Part XII (Historical Financial Information) of this Prospectus, or the accounting records underlying such financial information. Prospective investors should read the entire Prospectus and not just rely on the information set out below.

1. OVERVIEW

The Dowlais Group includes three businesses: GKN Automotive, GKN Powder Metallurgy and the early-stage growth business, GKN Hydrogen. These businesses have been under the ownership of the Melrose Group prior to the Demerger. Since Melrose's acquisition of GKN plc in 2018, GKN Automotive and GKN Powder Metallurgy have undergone directed restructuring and received investments to promote growth and increased efficiency across the businesses. These efforts have focused on improvements to their commercial and operational efficiencies, promoting growth and positioning both businesses to optimally address and benefit from the automotive industry's transition to hybrid and electric vehicles and achieve their target operating margins.

Under the Melrose Group's ownership, GKN Automotive and GKN Powder Metallurgy have been successfully reshaped into profitable, cash-generative businesses with sustainable world-leading technology and experienced management teams executing successful strategies. In spite of significant market volatility, during its time under Melrose Group ownership GKN Automotive booked effective revenue of over £20 billion, with a book to bill ratio well over 100% each year, with terms consistent with stated operating margin targets. The business's industrial strategy has been redefined, with a focus on end to end manufacturing in single plants to better leverage their prized vertical integration and a streamlining of their operational footprint through the closure or sale of 12 plants across both GKN Automotive and GKN Powder Metallurgy businesses. The Directors believe that this has positioned the Dowlais Group to continue its profitable growth and make further operational gains following the Demerger.

The Dowlais Group will have a three-pillar strategy for delivering attractive shareholder returns. First, to deliver higher adjusted operating margins by building on the investment, cost base and operational improvements already achieved by GKN Automotive and GKN Powder Metallurgy during Melrose ownership, which are expected to be further fuelled by the automotive sector's anticipated recovery in production volumes to pre-pandemic levels. Second, to capture further profitable growth opportunities from the automotive sector's shift to electrification. Third, to seek new, value-accretive merger and acquisition opportunities by way of automotive sector consolidation opportunities and strategic bolt-on acquisitions.

The two principal operating segments of the Dowlais Group are described below.

- *GKN Automotive:* GKN Automotive is the global market leader in automotive drive systems and the trusted partner for over 90% of automotive Global OEMs. GKN Automotive specialises in developing, manufacturing and supplying leading drive system technologies for both conventional and electric vehicles, and has a largely powertrain-agnostic core product portfolio. GKN Automotive has enjoyed profitable success in the transition to EVs, especially in its core driveline, business which is transitioning ahead of what is an expanding and accelerating market.

GKN Automotive is headquartered in the United Kingdom and, as at 31 December 2022, operated across 17 countries with 47 manufacturing sites and six global technology centres, including a leading presence in China owing to its long-standing joint venture with local partner, HASCO. The business has over 24,000 employees, including in its Chinese joint venture.

GKN Automotive accounted for 80% of the adjusted revenue for the Financial Year 2022.

- *GKN Powder Metallurgy:* GKN Powder Metallurgy is a high-quality, market-leading supplier in powder metallurgy, being the number one global supplier of sintered metal products and the number two global supplier of metal powders, in each case, based on revenue. It combines the design and production of advanced powder metals with innovative sintering and additive production technologies to create distinctive metal and polymer products. GKN Powder Metallurgy is utilising its strong market position and technological strengths to continually expand its product platform. It has recently launched electric motors magnet capabilities, currently in their development stage, and benefits from significant EV opportunities in

its core business. Together with other EV transitional improvements and the anticipated market recovery, GKN Powder Metallurgy is expected to deliver annual revenue increases and incremental margin growth in the medium term pursuant to the Demerger.

It operates three divisions: GKN Powders—Hoeganaes, GKN Sinter Metals and GKN Additive.

GKN Powder Metallurgy is headquartered in the United Kingdom and, as at 31 December 2022, operated across the Americas, Europe and Asia with 27 manufacturing sites and two global technology centres across nine countries. The business has over 5,000 employees globally.

GKN Powder Metallurgy accounted for 20% of the adjusted revenue for the Financial Year 2022.

The Dowlais Group will also consist of GKN Hydrogen. GKN Hydrogen is an early-stage growth business grown organically out of GKN Powder Metallurgy, supported by Melrose seed funding, follow-on investment and strategic guidance, and subsequently operationally separated into a standalone business at the end of 2021 to maximise its growth potential. The business is focused on commercialising proprietary metal hydride technology to store and secure hydrogen in a safe, compact and green manner that can be used in a wide range of industrial and commercial applications. The majority of GKN Hydrogen's workforce is in Italy. GKN Hydrogen accounted for an insignificant share of the historical revenue for the Financial Year 2022.

2. STRENGTHS

The Directors believe that the Dowlais Group benefits from the following key strengths:

2.1 A simplified and refocused group of market leading businesses

The Dowlais Group will include two principal businesses, GKN Automotive and GKN Powder Metallurgy, both of which have long-standing market-leading positions and balanced global footprints to serve their diversified customer bases. The Directors believe that there is significant opportunity in uniting these businesses under a refocused Dowlais given their shared qualities such as leading market positions and world-leading technical knowhow, combining a largely propulsion-agnostic core with new cutting-edge electrification capabilities. The nascent and newly commercialised GKN Hydrogen business complements the industry-leading knowledge and expertise held in the two established businesses, GKN Automotive and GKN Powder Metallurgy, to capitalise on the global shift towards renewable energies and the need for greater and safer storage technologies resulting from them.

2.2 GKN Automotive strengths

The global leader in automotive drive systems

GKN Automotive is the global market leader in automotive drive systems based on volume and the trusted partner for over 90% of the world's Global OEMs, representing a market leading position with a comprehensive and geographically balanced customer base. Management estimate that its products are fitted in 50% of vehicles globally, as determined by individual nameplates of Global OEMs.

GKN Automotive is engaged in the manufacture of sids shafts, prop shafts and constant velocity joints for passenger vehicles. For over 90% of the world's global automotive OEMs, GKN Automotive is viewed as the partner of choice to solve their driveline technology needs. This is demonstrated in part by the fact that GKN Automotive's portfolio of sids shafts includes more than 100 joint type and size combinations and by the fact that GKN Automotive is constantly evolving: with approximately 400 active patents in the sids shafts business as at 31 December 2022, its portfolio has the ability to cater to any passenger or light commercial vehicle. GKN Automotive is the global leader in the production of sids shafts, such that one in every two cars sold worldwide by individual nameplates is fitted with sids shafts manufactured by GKN Automotive. GKN Automotive is also the global leader in the production of prop shafts, having a larger market share than any of its competitors.

GKN Automotive also produces AWD systems and eDrive systems. It provides a full range from modular, component solutions to full systems, including control software to help OEMs optimise mass, efficiency and performance. Through its eDrive business, GKN Automotive provides a fully comprehensive offering of components and integrated eDrive systems for hybrid and EVs. The business has delivered over two million units and had approximately 600 active patents as at 31 December 2022. Management expect eDrive to experience strong growth as the global automotive market transitions to EVs, lifting the contribution to revenue of GKN Automotive's incremental, EV-focused products. GKN Automotive's eDrive credibility is founded on

its AWD system heritage, which provided the hardware, software, system integration and control know-how that is critical for EV performance.

GKN Automotive has developed longstanding relationships across a diversified blue-chip customer base. No single automotive customer accounted for more than 14% of the historical revenue for the Financial Year 2022, ensuring the business is not reliant upon any one single customer or vehicle programme.

Clear structural growth in core business, regardless of powertrain mix, and technological leadership

The Directors believe that GKN Automotive is well-positioned to benefit from the industry shift to electrification and, through its strong partnerships with Global OEMs, to mitigate the risks arising from its exposure to ICE products. GKN Automotive's core driveline product, sids shafts, is powertrain-agnostic, and it is just as integral to electrified vehicles as to ICE vehicles. With its leading efficiency and superior performance, and with nearly twice the sids shaft market share of its nearest competitor, the Directors believe that GKN Automotive is well positioned to capitalise on the increasing value and number of sids shafts needed per xEV relative to ICE vehicles. This is because the higher specifications for xEV vehicles necessitates the use of larger sids shafts while the increasing proportion of four wheel drive ("4WD") and AWD vehicles, as well as the shift away from rigid rear axels on sport-utility vehicles ("SUVs"), increases the average number of sids shafts per vehicle.

GKN Automotive is the preferred sids shaft supplier for OEMs across all stages of electrification. It also enjoys key operational advantages. For example, its virtual design and remote testing capabilities reduce development lead times, and its full system and integration capabilities enable flexibility in the delivery of components and systems. GKN Automotive's products as a whole are applicable to all stages of electrification, with many of the AWD and eDrive components and sub-systems migrating into eDrive system solutions. GKN Automotive stands out from its competitors in its ability to supply the automotive industry at every stage of the electric vehicle transition. This market leadership in both powertrain-agnostic and xEV products positions GKN Automotive to grow at a healthy rate.

GKN Automotive's strong track record of innovation and technological progress is expected to continue to be a key driver for further growth. GKN Automotive has had decades of product technology leadership which has culminated in its sids shaft, propshaft and AWD system pre-eminence. GKN Automotive makes significant investments in eDrive engineering each year across its six global technology centres. These centres include the Dowlais Group's Abingdon advanced research centre which is developing ultra-high efficiency Electric Drive Units ("EDUs") in collaboration with the University of Nottingham and Newcastle University, among other projects.

Technological excellence is also present in GKN Automotive's testing and analytical capabilities. For instance, GKN Automotive has created a "real-time" test rig capable of handling the unique requirements of electric vehicles. The rig, installed at GKN Automotive's Offenbach facility, can handle the extreme dynamics and higher torque of electrified powertrains. The "real-time capable" unit can test specific load data provided by customers, from small electric city cars to the most powerful SUVs, and is able to dynamically control speed and torque to replicate wheelspin and other complex driving conditions. This sets new industry standards for precision and quality control in the testing of electric vehicle components.

Well-invested and strategically located global manufacturing footprint

GKN Automotive operates 37 well-invested and strategically located manufacturing sites across the Americas, Europe and Asia (excluding its joint venture in China). As a result, it is able to offer its full product range for OEMs in any region. This large global footprint and ability to manufacture products with consistent quality and delivery in every region is a key differentiator, enabling it to better serve customers who are regionalising their own supply chains as well as to win new business. GKN Automotive has rebalanced its footprint in recent years, closing seven factories in order to increase its use of best-cost manufacturing locations and better balance customer proximity against cost efficiency.

GKN Automotive has a strong presence in Asia, with over 30 years of experience in the market, having been, in 1988, the first automotive supplier to establish a joint venture in China, the world's largest automotive market. The Dowlais Group's revenue from China was £649 million for the Financial Year 2022. In 2013, the SDS joint venture, which at 31 December 2022 included 10 manufacturing sites, one technology centre, and over 4,000 employees, was extended for 50 years, ensuring that GKN Automotive is well placed to continue to grow in the strategically important Chinese market. GKN Automotive holds leadership positions across sids shafts as well as AWD modules, which the Directors believe is bolstered by its presence in China. GKN

Automotive has experienced continued success in China, and the Directors believe that the business is well-positioned in China to capture growth in electrification as the transition progresses.

2.3 GKN Powder Metallurgy strengths

A leading global supplier of precision powder metal components

GKN Powder Metallurgy is the global market leader in powder metallurgy based on its combination of size, technology and digital adaption, offering customers vertically integrated production capabilities that are unique among its competitors with a global presence, including iron powder, parts in sintered metal, metal injection moulding, special filters and additive manufacturing, both in metal and polymers. The business is the number one global supplier of sintered metal products by revenue, with a production rate of 10 million parts per day, and is the number two global supplier of metal powders by revenue, with a production rate of 250,000 tons of powder per annum, according to management estimates. GKN Powder Metallurgy is a leading producer of both core components, such as carriers, differential gears, clutches and steering shock absorbers, and BEV components, such as e-pumps and linear actuators for battery and electric motor thermal management. The integrated offering of powder production and sintering businesses serves as a strong competitive advantage, while the mission-critical nature and low value, relative to the overall cost of the end product, of the components produced accords GKN Powder Metallurgy a significant degree of competitive advantage.

GKN Powder Metallurgy continues to utilise its strong market position and technological strengths to expand its product platform, demonstrating growth particularly in higher value-add precision components. GKN Powder Metallurgy's leading powder and sintering technology capabilities have recently enabled the initial development of electric motors magnet opportunities providing additional revenue potential based on its applications in BEVs. Permanent magnets are a vital component of EV motors, and GKN Powder Metallurgy intends significant investment to establish capacity to produce permanent magnets by 2025. GKN Powder Metallurgy is well-positioned, as it possesses unrivalled manufacturing technology and experience as well as an established global local-to-local footprint, which serves to reduce supply chain stresses. These advantages further embed GKN Powder Metallurgy within the industrial sector in general and the automotive industry in particular.

GKN Powder Metallurgy has strong and enduring relationships with customers operating in the automotive and industrial sectors, spanning over 20 years on average. It has a comprehensive and balanced customer base with concentration amongst the top five customers in terms of revenue at less than 45% in powder metals and less than 30% in sinter, which management believe is lower than typically seen in the powder metallurgy market.

GKN Powder Metallurgy has created a digital culture that drives continuous improvement and competitive advantage. Its manufacturing sites feature more than 1,800 connected machines and over 800 digital, connected measurement stations. Personalised action items direct employees to the next work topic in real time and on demand. Additionally, the business's optical quality control utilises AI machine learning.

While under Melrose ownership, GKN Powder Metallurgy built on its leadership position to drive growth, remaining focused on its core businesses such as sintered metal products on ICE vehicles and increasingly xEVs, and expanding into incremental, long-term growth opportunities such as magnets for xEVs, all while exercising commercial discipline, as evidenced by a significant increase in the share of revenue covered by contractual pass-through mechanisms for certain commodities cost movements, according to management estimates.

Well-invested and strategically located global manufacturing footprint

GKN Powder Metallurgy operates 27 manufacturing sites and two global technology centres, located strategically across the Americas, Europe and Asia. The business's proximity to customers is optimised through this global presence, giving GKN Powder Metallurgy a strategic advantage compared to its competitors when competing to win supply contracts with customers that operate globally. Under Melrose ownership, GKN Powder Metallurgy's core operations have been streamlined by the divestment of a business in the United States and the closure of non-core plants in Canada and Germany, driving efficient utilisation of facilities and cost optimisation. Similar to the GKN Automotive business, GKN Powder Metallurgy has a strong position in China, a key automotive and industrial end market. With over 16 years of experience in the region, GKN Powder Metallurgy serves both local customers and international customers. The business operates out of four production sites in China, three of which are wholly-owned GKN Powder Metallurgy sites and one of which is a joint venture.

2.4 GKN Hydrogen strengths

Growth opportunities in emerging green markets

Metal hydride energy storage systems have several advantages over existing power storage technologies, including the extended lifetime of each system at 15 or more years, the absence of waste products produced during operation (with the exception of pure water), and safety advantages due to the low-pressure level needed for storage. Metal hydride storage has a cost advantage relative to traditional battery storage for capacity over 200 kilowatt-hours and can last for decades without any capacity loss. A metal hydride system maintains 99% of its capacity after 3,500 cycles compared to 70% after 2,000 cycles for a lithium-ion battery system.

GKN Hydrogen's modular products are well-placed to flourish alongside the growth of renewable energy sources, with applications in micro grids and residential building, industry and transportation, power back-up, and off-grid standalone energy storage. With safety requirements, sustainability, and flexibility of great importance to this expansion of energy storage, GKN Hydrogen's technologies are primed for rapid growth in their application as they provide reliable and secure hydrogen storage.

2.5 Strong and sustainable cash-generative businesses, with a robust plan for margin growth

Both GKN Automotive and GKN Powder Metallurgy have benefitted from Melrose ownership, having been transformed since Melrose's acquisition of GKN plc in 2018 to better achieve their potential. The businesses have completed the restructuring required to achieve their stated adjusted operating margin targets pending the expected market recovery, and have substantially de-risked their balance sheets by implementing restructuring projects such as the sale of GKN Automotive's site in Florence in 2021, the closure of GKN Automotive's plant in Birmingham and renegotiating or terminating loss-making contracts.

Both businesses have been sustainably cash-positive on a standalone basis with their cash generation qualities transformed since their acquisition by the Melrose Group in May 2018, resulting in £1.8 billion of cashflow (before capital expenditure) under Melrose ownership, and a cash conversion rate after capital expenditure of 149% of EBITDA. Under Melrose ownership, the Dowlais Group has self-funded substantial capital expenditure and restructuring and returned significant cash to Melrose shareholders between December 2019 and December 2022. Robust cash management initiatives continue to be run in each of the businesses within the Group. During the Financial Year 2022, £31 million was invested in working capital to fund the year-on-year revenue growth in the businesses. Additionally, for both GKN Automotive and GKN Powder Metallurgy, capital expenditures and restructuring projects have been entirely self-funded from operational cash generation since May 2018.

Moreover, both GKN Automotive and GKN Powder Metallurgy have significantly restructured their fixed cost base, closing a combined 12 facilities in high-cost countries and having implemented a reduction of 12% in headcount in GKN Automotive and 18% in GKN Powder Metallurgy as well as a reduction in selling and distribution costs and administration expenses of £109 million in aggregate in the Financial Years 2020 to 2022. A focus on improving purchasing performance has delivered material savings in purchasing, as illustrated by aggregate savings on direct and indirect materials of £79 million achieved at GKN Automotive during the Financial Years 2020, 2021 and 2022. The Directors believe that savings in procurement, operations and fixed costs have positioned GKN Automotive and GKN Powder Metallurgy well for the future with a clear path to an adjusted operating margin of 11% or more, upon market volume return to 2019 levels.

The management teams have also instilled a commercial strategy which prioritises sustainable and profitable business growth, ensuring that growth does not come at the expense of operating margin growth. An approximate £250 million exposure to low-margin or loss-making contracts recognised on acquisition has been resolved and no below-margin target bookings have been taken in the Financial Years 2020 to 2022.

Shareholders of the Dowlais Group will have the opportunity to retain the gains from the announced improvement plans to reach the stated operating margin targets across GKN Automotive and GKN Powder Metallurgy.

2.6 GKN Automotive is on track to deliver an over 10% adjusted operating margin with substantial potential to increase its operating profit upon a market recovery

GKN Automotive is led by an experienced management team which has successfully driven significant operational improvements under the Melrose Group's ownership. The internal work to transform GKN Automotive to achieve its adjusted operating margin target of 10% is complete, while the resultant run-rate benefits are yet to be fully realised due to the impact of supply chain disruptions experienced in recent years and pending the expected market recovery. In addition, further internal improvement and restructuring actions

are under way with a view to generating adjusted operating margins of over 10% upon their completion and the expected market recovery. Over 95% of GKN Automotive's business, by external revenues across its Driveline, AWD, Chinese joint venture and eDrive business groups and excluding certain niche businesses and adjustments, is already at target operating profit margins or is expected to achieve the required higher margins when volumes return to 2019 levels, with ICE and BEV content almost equally profitable. Discretionary investments in the eDrive business have had a disproportionate downward impact on aggregated operating profit margin.

Despite the fact that the automotive market remains depressed in comparison to 2019 levels, GKN Automotive has taken the opportunity to restructure its cost base. Once vehicle production levels return, this should increase existing capacity utilisation and incremental profit should be at a level that is accretive to total operating margins. GKN Automotive has a healthy and growing order book, with more than £14 billion in aggregate Life of Programme Revenue won in the Financial Years 2020 to 2022.

2.7 GKN Powder Metallurgy is on track to deliver a 14% adjusted operating margin with substantial potential to increase its operating profit upon a market recovery

GKN Powder Metallurgy is led by an experienced management team that has successfully driven significant operational improvements under the Melrose Group's ownership. The internal work to transform GKN Powder Metallurgy to achieve its adjusted operating margin target of 14% has been completed, with two-thirds of the business already performing at that level. The business expects to enjoy full run-rate benefits as the end markets recover.

Automotive and industrial market recovery could also present significant opportunities for operating margin improvements driven by higher demand. GKN Powder Metallurgy has a healthy and growing order book, with approximately £3 billion in aggregate Life of Programme revenue won in the Financial Years 2020 to 2022.

2.8 GKN Automotive and GKN Powder Metallurgy are well-positioned to profitably benefit from the industry shift to electrification

For both businesses, underlying demand from the automotive industry's transition to electrification provides incremental growth in existing core products and new EV solutions. The GKN Automotive business has made substantial gains in core driveline products on EVs and hybrids and has developed all aspects of a comprehensive and competitive eDrive system offering. GKN Automotive's EV order book is growing, accounting for over 40% of new orders in 2022.

GKN Powder Metallurgy has seen growing business in core EV components, where sintered parts provide higher strength and lower weight. GKN Powder Metallurgy has also generated customer interest in capturing potential breakthrough structural growth in local-to-local magnet production for EVs.

GKN Automotive is a driving force in the electrification of the automotive industry

The automotive industry has seen significant momentum towards electrification of vehicles. This has been amplified by stringent environmental and other regulation worldwide, higher consumer awareness of and demand for EVs, a concerted effort by OEMs to increase the proportion of electrified vehicles in their fleet and the ongoing emergence of new EV competitors. According to S&P Global (December 2022), plug-in hybrid electric and FHEV vehicle platforms are expected to account for approximately 17% of global light vehicle production in 2030, and BEVs and fuel-cell EVs are expected to account for approximately 44% of global light vehicle production in the same year. This would represent an increase of approximately 12% and 40%, respectively, compared to 2020. GKN Automotive is expected to transition to EVs along with the market, with its projected 2026 total order book propulsion mix based on data available as of August 2022 expected to closely track 2026 global light vehicle production, as forecasted by S&P Global (December 2022).

The shift to electrification enables a higher content per vehicle for GKN Automotive's core sids shaft and eDrive businesses. According to S&P Global (December 2022), BEVs are expected to represent approximately 27% of global automotive production in 2026. According to management estimates, GKN Automotive's total potential maximum content per vehicle, being the maximum total value of components supplied by GKN Automotive per light vehicle produced, is expected to rise from approximately £1,000 per ICE vehicle to approximately over £2,000 per BEV. Management also estimate that prudent investment in sids shafts and eDrive systems and components will enable the share of GKN Automotive revenue derived from powertrain agnostic products to rise from approximately 70% in 2022 to 80% in 2026, thereby significantly increasing the exposure of their portfolio to products that benefit from electrification.

GKN Automotive helped to pioneer the development and industrialisation of electric axle drives for use in PHEV and pure EVs, and is now a leader in the electrification of the automotive parts industry. Heritage AWD expertise, including industry-leading high efficiency transmission systems, lends an advantage in the development of, and flexibility across the full range of, eDrive components and systems, including software development and system integration. Over 110 software engineers who work on eDrive development provide the ability to design, manufacture, and integrate eDrive systems. The Dowlais Group already has relationships with both Global OEMs producing xEVs and also with pure-play EV OEMs.

GKN Powder Metallurgy presents significant opportunities for profitable growth by harnessing electrification requirements

Growth in EVs is demanding new supply chains for specialist components and GKN Powder Metallurgy is seeing a growing number of electrification business wins, with 24% pure EV bookings for 2022.

One such opportunity is the global magnet market for EVs, which management expect will grow to between £5 billion and £10 billion by 2030, with growth in Europe and the United States expected to reach an approximate 25% CAGR for 2021 to 2030 according to AVL (2022). Currently 92% of global magnet production capacity and 61% of rare earth reserves are in China and there is an increasing need for local-to-local high-quality production to ensure stable, sustainable supply. As a world-leading manufacturer of metal powders and sintered parts with unrivalled automotive experience and established local-to-local footprint, GKN Powder Metallurgy is well-positioned to respond to this incremental market demand while reducing production risk by localising production by manufacturing in the US and the EU and reducing sourcing risk by sourcing rare earth materials from outside of China, including North America and Australia, to achieve regional supply diversification.

3. STRATEGIES

The Dowlais Group has a clear and focused three-pillar strategy for delivering attractive shareholder returns. First, to deliver higher adjusted operating margins by building on the investment, cost base and operational improvements already achieved by GKN Automotive and GKN Powder Metallurgy during Melrose ownership, which are expected to be further fuelled by the automotive sector's anticipated recovery in production volumes to pre-pandemic levels. Second, to capture further profitable growth opportunities from the automotive sector's shift to electrification. Third, to seek new, value-accretive merger and acquisition opportunities by way of automotive sector consolidation opportunities and strategic bolt-on acquisitions.

As an independent business, the Dowlais Group will benefit from greater flexibility to pursue its own growth strategy backed by its own balance sheet and independent access to capital.

3.1 Melrose's investment in GKN Automotive and GKN Powder Metallurgy is complete, positioning them to achieve their respective target adjusted operating margins of over 10% and of 14% and providing them the platform to drive their margins further

Management believe that Dowlais can generate further operational gains from GKN Automotive and GKN Powder Metallurgy, building on the investment, restructuring and operational improvements already achieved during Melrose ownership. These gains are expected to be realised upon the automotive sector's anticipated recovery in production volume levels to pre-pandemic levels.

Melrose's implementation of strategic clarity and long term investment, alongside financial and operational discipline, have transformed the cost base of the Dowlais businesses. Under Melrose ownership, GKN Automotive and GKN Powder Metallurgy brought working capital management under strict control and reshaped their footprint to position the businesses for future growth. They have reformulated GKN Automotive's and GKN Powder Metallurgy's respective commercial strategies, overhauled procurement, and reduced selling, general and administrative costs. Thus, management believe that the internal work required to achieve combined 11% adjusted operating margins for GKN Automotive and GKN Powder Metallurgy once volumes return is complete. Further, GKN Automotive and GKN Powder Metallurgy are now re-positioned with clear paths to fully realising their margin targets of over 10% and of 14%, respectively, supported by a healthy balance sheet position. Both businesses are cash generative and have been able to self-fund significant restructuring and commercial capital expenditure over recent years whilst also returning a material amount of cash to Melrose.

As the timing and rate of the market recovery is uncertain, the businesses are also continuing to pursue further operational improvement and restructuring opportunities with a view towards driving their margins beyond their stated targets. In addition to ongoing procurement, energy reduction and productivity initiatives, GKN

Automotive has recently invested in best-cost country floor space and capabilities. In Mexico, the business is expanding its Celaya and Villagran facilities by a total of 28,000 square metres for both manufacturing and engineering capabilities. In January 2023, GKN Automotive also announced the investment in a new plant in Miskolc, Hungary. This will be a state-of-the-art sustainable facility which is expected to be operational at the end of 2023.

3.2 Capture incremental growth from the industry shift to electrification

GKN Automotive's leading and largely propulsion-agnostic core product portfolio is already well positioned to benefit from the growth potential offered by electrification. GKN Automotive has also developed advanced eDrive products over several years, with over £200 million invested in eDrive research and development in the five years to 31 December 2022. This significant investment in eDrive capabilities has established the business as a trusted partner such that the Dowlais Group already has relationships with all the key pure-play EV OEMs, and there is GKN Automotive eDrive content on over 2 million xEVs. This strategy to shift toward electrification has resulted in a high share of electrification business wins, with over 40% BEV and FCEV bookings for 2022. GKN Automotive is well-placed to gain further market share in the accelerated pursuit towards a net zero future.

GKN Powder Metallurgy has been focused on diversifying its offering into new BEV products and pursuing opportunities in EVs where the value proposition for sinter metals is high, such as magnets, which are critical for BEV adoption, as it continues to secure significant EV opportunities.

3.3 Create shareholder value through strategic and transformative acquisitions

The Directors believe that there is further value to be captured for shareholders through sectoral consolidation opportunities, and strategic, bolt-on acquisitions, whether by way of an all-cash acquisition or a share-based transaction, now that Dowlais is its own, independently listed platform. The Dowlais Group will proactively seek strategic and value-enhancing acquisition targets in the automotive sector, and it expects to continue to benefit from the track record and experience of the Melrose team via pre- and post-acquisition support from Melrose's senior management, as backed by transitional support from the wider Melrose team.

The directors believe that the Dowlais Group would be well-positioned to participate in future automotive sector consolidation and would also have the platform and independent access to capital to take advantage of transformative acquisitions. The Directors believe that a combination of a strengthened business, experienced management team and market conditions, including fragmentation in relevant segments, provide a clear opportunity for value creation through mergers and acquisitions.

The Dowlais Group will be guided by a number of key principles in identifying targets. Among others, it will seek targets that can enable the realisation of synergies to further expand its operating margins, provide scale to its current portfolio, extend its vehicle segments to broaden its addressable platforms, accelerate its technology and boost its eDrive capabilities, and increase exposure to new, large and growing international markets.

4. PRINCIPAL ACTIVITIES

The Dowlais Group will be an automotive focused platform, owning GKN Automotive, a world leading supplier of drive system technologies to the global automotive industry, and GKN Powder Metallurgy, a global leader in both the production of metal powders and high precision powder metal parts for the automotive and industrial sectors. It will also own GKN Hydrogen, which is a new business grown organically out of GKN Powder Metallurgy that is focused on commercialising proprietary metal hydride technology to store hydrogen.

4.1 GKN Automotive

GKN Automotive offers an extensive portfolio of drive system products combining value with technological leadership. Its products cater to all light vehicle types, from high-volume and low-cost to premium models for both conventional and electrified propulsion systems.

With a drive system business offering a complete range of siveshaft and propshaft systems, GKN Automotive acts as an integration partner for global automakers. Its siveshaft systems for hybrid and EVs in particular offer a range of solutions to meet the new requirements for electric vehicle siveshafts, from larger articulation angles to address packaging changes to increased stiffness for better oscillation control, and higher efficiency that translates into battery cost savings. It also offers a range of propshaft systems that include cardan, flexible coupling and constant velocity joints, all of which serve to make customisation simple and replace time-consuming assembly processes with a cost-saving connection system.

As government incentives, legislative tightening and a continued public sentiment shift have accelerated the adoption of electrification and new mobility solutions, GKN Automotive continues to accelerate its shift towards electrification by further adapting its portfolio to match the changing demands of new-energy vehicles. During the Financial Year 2022, GKN Automotive's drive systems and ePowertrain businesses completed 60 new programme launches and continued to secure a significant share of new business wins on electrified vehicle platforms, reinforcing the division's industry-leading position through its premium core products and driving margin expansion.

GKN Automotive also offers solutions for all electrified vehicles and is a go-to technology partner for Global OEMs, building upon decades of experience and AWD heritage and leadership to fully integrate eDrive systems.

A leading development partner for major leading electrified vehicle manufacturers, GKN Automotive features components on nine of the top ten addressable BEV platforms outside of China. GKN Automotive offers three main types of powertrain systems:

- Modular eDrive systems, which make driveline electrification simple and are used by automakers to boost performance, regenerate kinetic energy more efficiently and offer a more refined pure electric driving mode. The modular strategy makes integrating the right system for each application simpler, delivering the best combination of intelligent dynamics, efficiency and cost. eDrive systems can either be supplied as "3-in-1", with inverter, motor and transmission and software and controls fully integrated, sourced as "2-in-1" systems (including any two of a gearbox, electric motor and inverter), or alternatively supplied as single modules or components.
- Hybrid transmission systems, which pioneer the development of more cost-effective dedicated hybrid transmission systems for plug-in hybrid vehicles. GKN Automotive's multi-mode dedicated hybrid system offers a simpler, smaller, lighter transmission that helps offset the added battery and power electronics costs of hybrid systems. The scalable unit combines power from an internal combustion engine and an eMotor, with a clutch module seamlessly switching between fully electric, parallel or series hybrid modes. Software control modules manage the transitions between modes, delivering the right comfort, drivability and fuel efficiency for individual applications.
- Torque vectoring AWD systems, which include the scalable eTwinster torque vectoring modules that unlock the full potential of electric power while minimising the effects of battery mass on dynamics. The system's dual-clutch transmission, combined with its software and control modules, make torque vectoring easy to integrate into the driving experience. This improves both on- and off-road performance, by enhancing traction, cornering and efficiency in real-world driving conditions.

Offering a range of modular solutions for front-, rear- and AWD vehicles, GKN Automotive's highly integrated AWD systems help automakers optimise mass, efficiency and performance. Its ActiveConnect AWD system allows vehicles to seamlessly switch between AWD and two-wheel drive depending on road conditions and driver inputs, improving fuel efficiency while retaining the vehicle's traction, dynamics and off-road performance. In addition, the ActiveConnect power transfer unit also serves to disconnect the AWD system upstream of the power transfer unit's hypoid gears, while re-engaging the rear wheels in less than 300 milliseconds when additional traction is needed. A dedicated control unit manages the complete system, continuously monitoring vehicle dynamics and driver inputs.

GKN Automotive's portfolio increasingly benefits from light vehicle electrification. The next generation of sideshafts and eDrive systems is now in development with a focus on reduced weight and increased efficiency and power density.

4.2 GKN Powder Metallurgy

GKN Powder Metallurgy operates three divisions: GKN Powders—Hoeganaes, GKN Sinter Metals and GKN Additive.

GKN Powders—Hoeganaes

GKN Powders—Hoeganaes is a global leader in the supply of metal powders for structural components. It supplies a range of metal powders and develops new alloy systems and customised powder-premixing technologies for higher performance.

This division's product offering comprises materials for powder metallurgy and materials for additive manufacturing, both of which are offered with a complete set of in-house services, including powder evaluation, chemical testing, printing services and physical testing services.

GKN Powders—Hoeganaes continually invests in innovation for a wide variety of applications. Its innovative approach towards metal powders can be evidenced by its use of Acrobond processing for example. Acrobond processing is a novel chemical bonding treatment of premixes that provides superior powder flow with reduced additive segregation, enabling greater depths of fill during compaction and the potential for higher compaction rates because of the enhanced flow.

GKN Powders—Hoeganaes has two main manufacturing facilities in the United States and Romania, allowing it to produce 250,000 tons of powder per annum, and was responsible for 22% of GKN Powder Metallurgy's revenue for the Financial Year 2022.

GKN Sinter Metals

GKN Sinter Metals is a global manufacturer and supplier of sintered structural parts, sub-assemblies, soft magnetic components and electric motor solutions. GKN Sinter Metals provides more than 10,000 complex shape and high-strength products which are used in a wide variety of applications, including automotive vehicles, home appliances, lawn and garden, office equipment, power tools, recreational vehicles and process industry markets.

The division operates a dedicated innovation centre which is focused on technology development through innovation in support of GKN Powder Metallurgy's vision and goals. The analysis and simulation service of these centres covers the entire life cycle of products, from the review of the technical feasibility of new projects and technologies up to the product development and production phase. Management believe that this approach towards research and development keeps GKN Sinter Metals at the forefront of powder metal technology for materials, processes and equipment and allows it to improve product performance, reduce energy consumption and material cost, develop green technology, enhance material properties and performance and increase net shape capabilities.

In 2021, GKN Sinter Metals underwent an improvement plan to streamline its activities, resulting in the divestment of a business in the US and the closure of certain non-core, low-margin plants in Germany and Canada. Moving forward, it is expected that GKN Sinter Metals will continue to focus on more complex, higher margin components while selectively exiting certain lower margin products.

GKN Sinter Metals has 21 manufacturing facilities in Europe the Americas and Asia, allowing it to produce 10 million parts per day, and was responsible for 76% of GKN Powder Metallurgy's revenue for the Financial Year 2022.

GKN Additive

GKN Additive is a leading metal and polymer additive manufacturer. It builds upon GKN Powder Metallurgy's dual expertise in powder production and metal processing to drive industrialisation across the entire additive manufacturing value chain for both automotive and industrial products.

GKN Additive's metal-binder-jetting technique, combined with GKN's expertise in parts sintering, allows for the production of industrial-grade final parts with complex geometries at relatively low cost. Metal-binder-jetting bypasses the limitations of traditional subtractive manufacturing with regards to the possible shapes of parts and is backed by an intelligent global print network for maximum efficiency and prompt delivery to customers. GKN Additive is also able to limit costs associated with the production of plastic components in high-volumes through its multi-jet-fusion technology, which utilises three dimensional printing in order to provide scalable printing solutions and push the boundaries in plastic mass production. GKN Additive also offers direct metal laser sintering prototyping. This technology allows for the delivery of functional and resilient prototypes to customers in as little as two weeks, allowing them to test factors such as usability, ergonomics, manufacturability and materials at the early stage of their development processes and thereby reducing risks and costs.

In 2019, GKN Additive acquired Forecast 3D, a well-established additive manufacturing business in California, focused on serving a variety of customers and markets, primarily with polymer parts. In 2021, GKN Additive expanded its polymers and metal business into Michigan to increase its presence in the Midwest in the United States and serve the global automotive manufacturers in this region.

GKN Additive was responsible for 2% of GKN Powder Metallurgy's revenue for the Financial Year 2022.

4.3 GKN Hydrogen

GKN Hydrogen is the Dowlais Group’s early-stage growth business focused on commercialising proprietary metal hydride technology to store and secure hydrogen in a safe, compact and green manner. The metal hydride storage solution offered by GKN Hydrogen was developed organically out of GKN Powder Metallurgy and has the capability to harness its industry-leading knowledge of powder technology in a wide range of industrial and commercial applications, including electric power, heat and mobility solutions. GKN Hydrogen’s storage solution better handles seasonal imbalances and better provides for high-capacity, long-duration storage requirements than alternatives. Due to its low-pressure storage technology, GKN Hydrogen’s proprietary metal hydrides are safer than traditional high-pressure hydrogen storage solutions and lithium-ion batteries, and they also feature a broader recyclability range as well as a longer lifespan. Furthermore, GKN Hydrogen’s storage solutions also offer a significant cost advantage over battery storage for capacity over 200 kilowatt-hours.

GKN Hydrogen was operationally separated from GKN Powder Metallurgy into a standalone business at the end of 2021 following the successful production and testing of pilot systems during the same period. GKN Hydrogen subsequently moved into commercialisation phase in 2022 in order to capitalise on the global shift towards renewable energies and the need for greater and safer storage technologies resulting therefrom. Management believe that GKN Hydrogen is well-positioned to be at the forefront of hydrogen storage technology while also capturing growth opportunities in this field.

GKN Hydrogen operates in three countries and has one manufacturing facility in Italy, where the majority of its workforce is located.

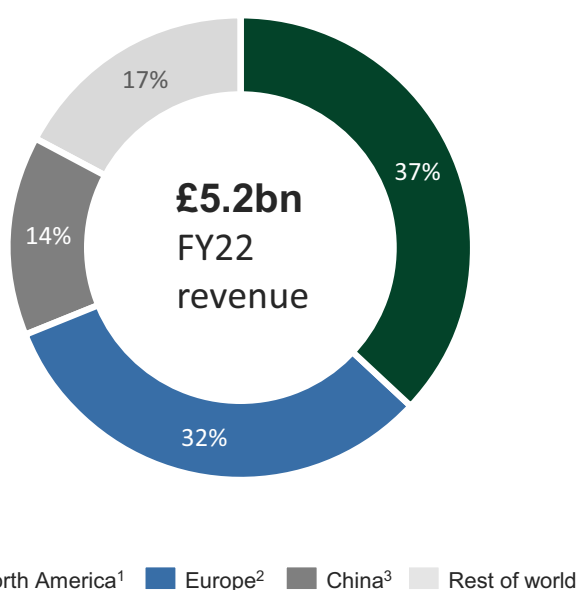
5. PRINCIPAL MARKETS

Both headquartered in the United Kingdom, GKN Automotive and GKN Powder Metallurgy each has a global footprint. GKN Automotive has operations across the Americas, Europe and Asia with 47 manufacturing sites globally (including 10 manufacturing sites operating under its Chinese joint venture and three aftermarket sites) and six global technology centres, as well as a leading presence in China owing to its long-standing joint venture, SDS, with local partner HASCO.

GKN Powder Metallurgy also has operations across the Americas, Europe and Asia with 27 manufacturing sites globally and two global technology centres.

The chart below shows the distribution of Dowlais’s adjusted revenue by destination for the Financial Year 2022:

Share of Dowlais 2022 adjusted revenue by destination



(1) Includes the United States, Canada and Mexico.

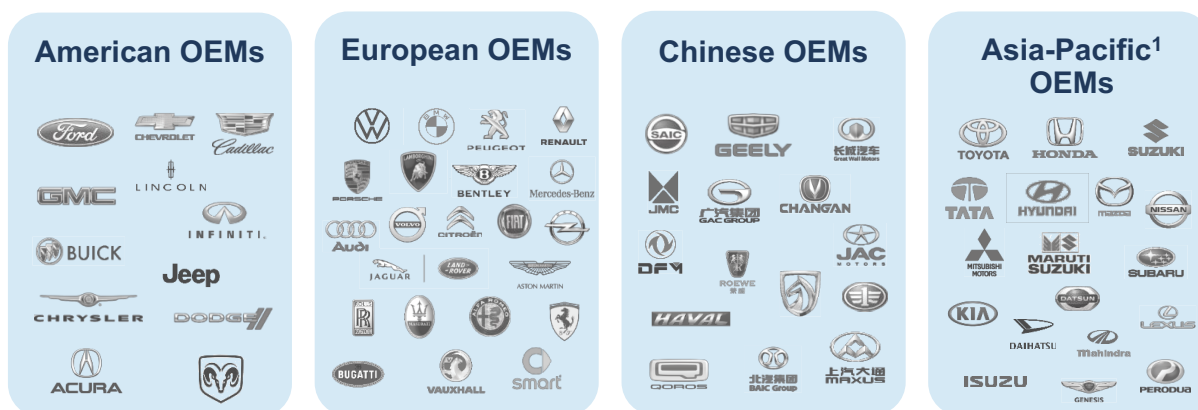
- (2) Includes the UK.
- (3) Includes Dowlais's share of revenues from Chinese joint ventures.

6. CUSTOMERS AND SUPPLIERS

6.1 Customers

GKN Automotive's main customers are predominantly automotive OEMs. Its customers include Ford and General Motors in the Americas, Stellantis and Volkswagen in Europe, SAIC and Geely in China, and Toyota and Honda in the Asia-Pacific region, all of which are customers with global footprints that GKN Automotive serves in multiple regions. In 2021 and 2022, GKN Automotive won total business of approximately £5 billion of lifetime revenue each year, more than one-third of which were for BEVs in 2021 and 37% of which were for BEVs in 2022.

The following chart displays certain vehicle nameplate logos used by GKN Automotive's largest OEM customers by region.



- (1) Excludes China.

GKN Powder Metallurgy's main customers belong to the following markets: automotive OEMs and Tier 1 suppliers and industrials. Its automotive product offering can be further divided into engine, transmission and body/chassis portfolios. Over 75% of GKN Powder Metallurgy's revenues for the Financial Year 2022 derived from the automotive market while over 20% of its revenues for the Financial Year 2022 derived from the industrial market.

6.2 Suppliers

GKN Automotive and GKN Powder Metallurgy benefit from a wide and diversified supplier base, both across geographical as well as end-markets. This wide and diversified supplier base results in the absence of significant supplier concentration and allows for greater operational flexibility.

7. INTELLECTUAL PROPERTY

7.1 GKN Trade Marks

The Dowlais Group's three businesses primarily trade under GKN-related brands, namely GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen. Accordingly, GKN is a meaningful and distinctive brand of importance to the Dowlais Group's business.

The trade mark "GKN" and relevant logos used in connection therewith (the "GKN Trade Marks"), are protected by, as of 4 February 2023, over 400 trade mark registrations and applications in multiple jurisdictions worldwide, providing the Dowlais Group, through its licensed rights, with an extensive level of trade mark coverage that includes rights to relevant word marks and logos in all major markets in which the Dowlais Group operates.

As a result of the proposed Demerger, certain of the Trade Mark Agreements are to be amended and restated to provide a long term framework to legislate for the future use of the GKN Trade Marks. For further detail regarding the Trade Mark Agreements, see Part XV (*Additional Information—Material Contracts*).

7.2 Hoeganaes Trade Marks

In addition to the GKN Trade Marks, certain entities within the GKN Powder Metallurgy business, namely entities within the GKN Powders—Hoeganaes business (which forms part of GKN Powder Metallurgy business), are licensed to use certain trade marks and logos owned by Hoeganaes Corporation (another entity within the Dowlais Group) (the “**Hoeganaes Trade Marks**”). As of 1 March 2023, the Hoeganaes Trade Marks comprise over 200 trade mark registrations and applications in multiple jurisdictions worldwide. Due to the similarity of their trading names and the powder metallurgy markets in which they operate, the Hoeganaes metal powders business, which forms part of GKN Powder Metallurgy, has a licence and co-existence agreement in place with Höganäs AB. This agreement is intended to ensure that both businesses can continue to operate under their existing brands without infringement action being taken by the other.

7.3 Other Trade Marks

In addition to the GKN Trade Marks and the Hoeganaes Trade Marks, the Dowlais Group uses other trade marks, which are protected by, as of 18 February 2023, over 200 trade mark registrations and applications in multiple jurisdictions worldwide. These trade marks are owned by the Dowlais Group and are not licensed for use by third parties. These include trade marks relating to specific products sold by the Dowlais Group and to brands used by GKN Automotive in its aftermarket business. The Dowlais Group does not license-in any brands or marks from third parties.

7.4 Dowlais Trade Mark

The Dowlais Group adopted the trade mark Dowlais as its corporate name. It is initially intended that the Dowlais trade mark will only be used for the activities of the Company rather than the businesses it owns at the point of the Demerger. Prior to adoption, extensive brand clearance work was carried out in all key markets across the full range of goods and services that Dowlais Group operates in and anticipates operating in, and clearance in such key markets was obtained. Trade mark applications have or will be filed in key markets in which the Dowlais Group intends to operate.

7.5 Patents

The GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses employ global patent strategies that endeavour to protect their research and development innovations and commercial products and strengthen their competitive position in the respective markets in which they operate. The Dowlais Group has, as of 4 February 2023, approximately 1,863 granted patents. Additionally, approximately 580 patent applications are currently pending and under examination worldwide.

In the automotive component markets in which the Dowlais Group will principally operate, patents play a vital, but different role than patents in other automotive-related market participants such as the OEMs that serve as its customers. The Dowlais Group’s patents typically focus on all aspects of the automotive component itself, such as the specific design, concept or method of manufacture. This differs from the OEMs, who often patent overall vehicle configurations and systems. Through careful evaluation of the various unique features of each automotive component, the Dowlais Group’s products are often protected by multiple patents covering a variety of distinct features. This results in less reliance on individual patents for a product’s commercial success, and any inability to obtain patent protection for one feature of the product can often be offset by patent protection of a different feature.

The Dowlais Group’s global patent portfolio provides a number of competitive advantages in the automotive component markets in which the Dowlais Group will principally operate. The Dowlais Group’s diversified approach of patenting multiple features of a product can make the market entry of competitors to the Dowlais Group’s key products markets more difficult. Moreover, many of the Dowlais Group’s patents cover technology closely related to the Dowlais Group’s key products, expanding the protective fence of patent protection around a technology generally. Patent protection can delay competitor entry into the market and provide a competitive advantage of time for exclusive sale and development of the technology. The existence of granted patent rights also enables the Dowlais Group to advertise, promote, and mark certain of its products as being patented. This increases competitor awareness of innovative technology being used in the Dowlais Group’s products.

Due to the broad range of its patent portfolio, the Dowlais Group does not consider any single patent to be critical to its overall financial health or success.

In addition to mitigating patent infringement risks, including through the active use of internal patent reviews early in the product development process to assess potential liabilities presented by competitor patents, the

Dowlais Group's businesses invest resources in offensively enforcing patent rights. The businesses routinely monitor the activities of competitors via patent alerts and after investigation may take legal action to assert the Dowlais Group's patent rights when appropriate. This allows the Dowlais Group to retain the competitive advantages provided by the patent portfolio and to protect market share by seeking legal remedies to deter, prevent, or delay competitor entry.

The Dowlais Group's patent portfolio is also utilized as leverage during business negotiations, facilitating the creation of cross-licensing arrangements with customers and competitors. The Dowlais Group's patent portfolio also generates some value through the licensing of patents to outside parties covering technology that is not considered to be of commercial value to the Dowlais Group's businesses.

7.6 Other IP

In addition to the Dowlais Group's large patent and trade mark portfolios, the Dowlais Group further strengthens its competitive position through unregistered forms of intellectual property such as copyright and know-how. The Dowlais Group possesses significant amounts of industry know-how relating to its business operations and manufacturing processes, which is documented in technical drawings and documentation centrally collected and stored in secure IT databases. The Dowlais Group also protects some information and technology via trade secret protection programmes, to ensure the long term secrecy of (and thereby the ability to exclusively exploit) that information and technology.

7.7 Domains

As of 27 February 2023, the Dowlais Group owns over 200 domain names relating to the businesses it operates. Domain names relevant to the Dowlais name including dowlais.com are also owned by the Dowlais Group.

8 DATA PROTECTION, INFORMATION TECHNOLOGY AND SYSTEMS

The Dowlais Group respects privacy and seeks to minimise the amount of personal data that it collects and ensure the robust and sufficiently segregated storage of any data that it holds. The Dowlais Group's processing of personal data is subject to numerous laws, regulations and standards related to the protection of personal data, including, amongst others, the EU-wide General Data Protection Regulation (the "GDPR"). The GDPR and other global data protection laws create significant regulatory responsibilities when processing personal customer, employee and other data in the conduct of the Dowlais Group's business and may lead to significant financial penalties in case of a breach of its requirements. As a result, the Company is required to protect the personal information it collects and to ensure the safe and appropriate usage of its IT systems and processes by employees.

In order to ensure compliance with the GDPR and other global data protection laws, the Dowlais Group has deployed a risk-based governance framework which 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, thereby ensuring clarity and consistency in the assessment of IT and cyber security matters across the Dowlais Group. The Company's cyber security risk profile is reviewed on a quarterly basis by management and specialised consultants through a hosted, externally auditable and multi-componential self-assessment process that provides a complete view of the risk environment. Furthermore, the Dowlais Group reviews its disaster recovery processes, business continuity plans and cyber incidents management on a constant basis.

As Dowlais's operating divisions will function as three independently-operating, standalone businesses (GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen), IT strategy and governance, as well as IT security cyber risks, are managed by the independent business teams. All businesses use the Microsoft suite of products as well as various other leading IT industry solutions to support functional excellence. GKN Automotive's primary enterprise resource planning ("ERP") system is QAD, whilst GKN Powder Metallurgy and GKN Hydrogen utilise Infor LN products. All key systems are fully supported under active support contracts. In addition to the core ERP applications, each business uses OneStream software, which provides a consolidation and reporting system for management, statutory and sustainability reporting. From a security and risk governance position, the three operating divisions also use the Microsoft Power BI reporting tool hosted by Ernst & Young, which provides a quarterly assessment process, a cyber audits programme and Group risk reporting.

Dowlais follows national and international cyber management business accreditations, including the UK's National Cyber Security Strategy, ISO 27001, and the Trusted Information Security Assessment Exchange in

the automotive sector. Dowlais also provides dedicated IT security awareness training as part of its information security strategy.

9. MARKETING AND BRANDING

Dowlais will operate under a new name and brand, distinct from the businesses within the Dowlais Group. It will provide relevant information on the group and group performance through clearly defined communication channels owned and managed by Dowlais, including a company website and targeted investor events. This information will fully comply with all appropriate regulatory reporting requirements.

The customer-facing brands of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen and associated business-to-business marketing activities will continue. These initiatives include social media, trade events, customer engineering days and targeted media engagement to promote the leading-edge technologies and capabilities of each individual business within the Dowlais Group.

10. REGULATION

The Dowlais Group is subject to regulation from national and international regulatory authorities concerning, among other things: (i) working conditions of employees, in particular in connection with environmental hazards in the workplace, (ii) restrictions arising from economic sanctions, export controls and customs, (iii) product liability claims, in particular in connection with products supplied to global production programmes or to consumer end-markets, and (iv) compliance with anti-bribery, anti-corruption and anti-money laundering legislation.

In order to ensure compliance with these regulations, the Dowlais Group regularly monitors existing legal and regulatory matters, both at the group-wide and operating segment levels. The Dowlais Group has a robust control framework in place in order to identify and assess principal risks, underpinned by comprehensive corporate governance and compliance procedures which are periodically reviewed and updated as needed, in line with best practice. Furthermore, the Dowlais Group also maintains insurance coverage for the risks associated with the operations of its businesses, and conducts diligence before purchasing strategic and value-enhancing targets to ensure compliance with applicable regulations. The Dowlais Group's businesses have received certification in respect of quality management, environmental management and health and safety procedures from the International Organisation for Standardisation.

Subject to the foregoing, the Company believes that it is in compliance in all material respects with the regulations it is subject to. However, the Company cannot ensure that any future changes in the requirements or mode of enforcement of these laws and regulations will not have a material adverse effect on its business, financial condition, results of operations and cash flow.

11. ENVIRONMENTAL MATTERS

The Dowlais Group is subject to numerous supranational, national and local environmental laws and regulations, including in connection with the operation of its physical premises. The Dowlais Group could incur significant costs, including fines, penalties and other sanctions, third-party claims and environmental clean-up costs, if violations of or liabilities under environmental laws and regulations or operational permits and licenses required thereunder were to arise.

The Company believes that its operations are currently in substantial compliance with all applicable environmental laws and regulations, and that any legacy environmental contamination that may be present at any of the Dowlais Group's sites is not material to the Dowlais Group's financial position. Although environmental matters have not had a material impact on the Dowlais Group's business to date, the Company cannot ensure that environmental conditions identified and/or environmental obligations imposed on its business in the future relating to any of its prior, existing or future properties will not have a material adverse effect on its business, financial condition, results of operations or cash flow.

PART VII
DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Simon Mackenzie Smith, Independent Non-Executive Chair Liam Butterworth, Chief Executive Officer Roberto Fioroni, Chief Financial Officer Simon Peckham, Executive Director Geoffrey Martin, Executive Director Celia Baxter, Senior Independent Director Philip Harrison, Independent Non-Executive Director Alexandra Innes, Independent Non-Executive Director Fiona MacAulay, Independent Non-Executive Director Shali Vasudeva, Independent Non-Executive Director
Company Secretary	John Nicholson
Registered Office	2nd Floor Nova North 11 Bressenden Place London SW1E 5BY England
Sponsor	N. M. Rothschild & Sons Limited New Court St Swithin's Lane London EC4N 8AL
Joint Financial Advisers	N. M. Rothschild & Sons Limited New Court St Swithin's Lane London EC4N 8AL Citigroup Global Markets Limited 33 Canada Square Canary Wharf London E14 5LB J.P. Morgan Securities plc 25 Bank Street Canary Wharf London E14 5JP
Corporate Broker	Investec Bank plc 30 Gresham Street London EC2V 7QP
Legal Advisers to the Company	Simpson Thacher & Bartlett LLP CityPoint One Ropemaker Street London EC2Y 9HU

Legal Advisers to the Sponsor	Linklaters LLP One Silk Street London EC2Y 8HQ
Auditor and Reporting Accountant	Deloitte LLP 2 New Street Square London EC4A 3BZ United Kingdom
Registrar	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

PART VIII
DIRECTORS, SENIOR MANAGERS, EMPLOYEES AND CORPORATE GOVERNANCE

1. Directors

The following table lists the name and position of each Director:

Name	Position
Simon Mackenzie Smith	Independent Non-Executive Chair
Liam Butterworth	Chief Executive Officer
Roberto Fioroni	Chief Financial Officer
Simon Peckham	Executive Director
Geoffrey Martin	Executive Director
Celia Baxter	Senior Independent Director
Philip Harrison	Independent Non-Executive Director
Alexandra Innes	Independent Non-Executive Director
Fiona MacAulay	Independent Non-Executive Director
Shali Vasudeva	Independent Non-Executive Director

The business address of each of the Directors (in such capacity) is 2nd Floor Nova North, 11 Bressenden Place, London, England, SW1E 5BY.

A brief description of the Directors' business experience and principal business activities outside Dowlais is set out below:

Simon Mackenzie Smith

Independent Non-Executive Chair

Mr Mackenzie Smith has a wealth of experience in corporate finance and M&A, following an investment banking career of over 35 years. Before retiring in 2021, he was Chair of Corporate and Investment Banking UK and Ireland at Bank of America Merrill Lynch. Simon joined Merrill Lynch in 1996 from Morgan Grenfell. He has advised on some of the UK's largest mergers and acquisitions including Royal Dutch Shell Plc's \$52 billion takeover of BG Group Plc in 2016. He qualified as a chartered accountant with KPMG in 1985.

Liam Butterworth

Chief Executive Officer

Mr Butterworth has extensive experience in the automotive industry. He started his career at Lucas Industries as an apprentice toolmaker, before moving into marketing, sales and purchasing at FCI Automotive. Liam joined Delphi Automotive in 2012 and subsequently became CEO of Delphi Technologies in December 2017 leading its demerger and admission to the New York Stock Exchange. He subsequently joined GKN Automotive as CEO in 2018. Liam is a non-executive director of United Utilities PLC, where he is a member of the Audit, Corporate Responsibility and Nomination Committees, and of United Utilities Water Limited.

Roberto Fioroni

Chief Financial Officer

Mr Fioroni is Chief Financial Officer at Dowlais and has a wealth of experience in the automotive industry. Roberto joined GKN Automotive in 2019 and was instrumental in the development and execution of GKN Automotive's margin expansion plan. Roberto joined from WABCO, a NYSE listed leading player in braking and steering systems for commercial vehicles, where he was Chief Financial Officer. Prior to that Roberto was Vice President, Finance for Goodyear's Europe, Middle East and Africa business unit. Before joining Goodyear in 2009, Roberto held several senior positions during a 13-year career with General Electric (GE) across their GE Security and GE Consumer & Industrial divisions, as well as with GE Corporate.

Simon Peckham

Executive Director

Mr Peckham has been Chief Executive Officer at Melrose since 2012, having previously served as Chief Operating Officer from May 2003. He has widespread expertise in corporate finance, mergers and acquisitions,

strategy and operations. Simon qualified as a solicitor in 1986, before moving to Wassall PLC in 1990, where he became an executive director in 1999.

Geoffrey Martin

Executive Director

Mr Martin has been Group Finance Director at Melrose since 2005. He has considerable public company experience and expertise in corporate finance, raising equity finance and financial strategy. A chartered accountant, Geoffrey qualified with Coopers & Lybrand, where he worked within the corporate finance and audit departments. In 1996, Geoffrey joined Royal Doulton PLC, serving as Group Finance Director from October 2000 until June 2005.

Celia Baxter

Senior Independent Director

Ms Baxter brings a global perspective and deep understanding of industrial companies and organisations that have grown by acquisition. She spent her executive career in Human Resources, beginning her career with Ford Motor Company before moving to KPMG. She has also held executive HR positions with Hays Plc, Enterprise Oil Plc and Tate & Lyle PLC. Most recently in her executive career she was Director of Group HR at Bunzl plc where she was responsible for HR and sustainability across the Group. Previously Celia was an independent director for NV Bekaert SA, a leader in steel wire transformation and coatings and RHI Magnesita NV, a global leader in refractories. Currently, Celia is the Senior Independent Director and Remuneration Committee Chair of Senior plc and a Non-Executive Director and Remuneration Chair of D S Smith Plc.

Philip Harrison

Independent Non-Executive Director

Mr Harrison has extensive international financial leadership experience across a range of sectors and at all points in the business cycle. He is Chief Financial Officer at Balfour Beatty plc, a role he has performed since 2015. Philip began his career with Texas Instruments before moving to Rank Xerox and then to Compaq, where he remained following the merger with Hewlett Packard. He has also held board and executive committee positions as Group Finance Director at VT Group Plc and Hogg Robinson Group Plc. Philip is a Fellow of the Chartered Institute of Management Accountants.

Alexandra Innes

Independent Non-Executive Director

Ms Innes brings capital markets insight and sustainability expertise to the development of strategy. Alexandra's early career was focused on investment banking and investment management in the technology sector. She was Director of Global Markets at Bank of America Merrill Lynch and later Managing Director and Head of Equity and Multi-Strategy Prime Origination, EMEA at Barclays Plc. She is a Fellow of Chapter Zero, a Chartered Banker Green and Sustainable Finance Professional, a Chartered Member of the CISI, holds an MA Hons Cantab (Economics) and the CFA Institute Certificate in ESG Investing. Alexandra is a Non-Executive Committee Member at the Bank of England, a Non-Executive Adviser and board member at Knight Frank LLP, and a Non-Executive Director at Waverton Investment Management Group Ltd, Securities Trust of Scotland Plc, Schroder Real Estate Investment Trust Limited, Facilities by ADF Plc and the 2023 Cycling World Championships Ltd.

Fiona MacAulay

Independent Non-Executive Director

Ms MacAulay is an experienced board director within the resources and industrials sectors, with particular experience in ESG topics. She has held senior roles across both large and small cap companies, having begun her career as a geologist with Mobil and Amerada Hess before joining British Gas in international geological operations. Latterly Fiona was Chief Operating Officer of Rockhopper Exploration Plc and Chief Executive of Echo Energy Plc. Fiona is the Senior Independent Director and Remuneration Committee Chair of Ferrexpo Plc and a Non-Executive Director of Chemring Plc and Costain Plc, where she is Chair of the Remuneration Committee. Fiona is currently Chair of the board of gas and infrastructure operator IOG PLC but is standing down from that role at the annual general meeting to be held in May 2023.

Shali Vasudeva

Independent Non-Executive Director

Ms Vasudeva has extensive experience of technology and business transformation, spanning the UK, Europe and Asia. Since 2019 Shali has been the Chief Operating Officer UK and Ireland AXA Insurance UK & Ireland leading on IT, data, digital strategy, property and procurement. She previously served as the Chief Operating Officer at Prudential UK where she was responsible for all operations including all customer and broker services. Shali spent the first phase of her career in leadership roles in the outsourcing sector with Cap Gemini and Capita Business Services. She subsequently held operational roles with insurance companies, Resolution Life Group Holdings and Hiscox Plc.

2. Senior managers

Other than the Executive Directors listed in Section 1 above, there are no individuals with responsibility for day-to-day management of the Dowlais Group's business.

3. Employees

The average number of employees employed by the Dowlais Group, not including employees employed by its joint ventures and associated undertakings, for the Financial Year 2020, the Financial Year 2021 and the Financial Year 2022 was 26,473, 25,244 and 24,257, respectively.

The table below shows the breakdown of the average number of employees for the Financial Year 2020, the Financial Year 2021 and the Financial Year 2022 by business, not including employees employed by joint ventures and associated undertakings of the businesses.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
GKN Automotive	18,520	19,141	20,040
GKN Powder Metallurgy	5,672	6,080	6,433
GKN Hydrogen	65	23	—
Total	24,257	25,244	26,473

4. Corporate governance

The Board is committed to the highest standards of corporate governance. From Admission, the Board will comply with the Corporate Governance Code. The Company will report to its shareholders on its compliance with the Corporate Governance Code in accordance with the Listing Rules.

The Corporate Governance Code recommends that at least half of the board of directors of a premium listed company, excluding the chair, should comprise non-executive directors whom the board considers to be independent. As at the date of this Prospectus, the Board consists of the Chair, the Chief Executive Officer, the Chief Financial Officer, two executive directors nominated by Melrose, a senior independent non-executive director and four other independent non-executive directors. At Admission, the Company will comply with the Corporate Governance Code recommendations on the number of independent non-executive directors on the board of directors of a company with a premium listing on the Official List, since five of the nine Directors (excluding, for these purposes, the Chair) are regarded by the Company as independent for the purposes of the Corporate Governance Code.

The Corporate Governance Code recommends that the chair of a company should be independent on appointment when assessed against the circumstances set out in the Corporate Governance Code. The Chair was deemed independent on appointment.

The Corporate Governance Code recommends that the board of directors of a company should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Celia Baxter has been appointed as the Senior Independent Director.

The Corporate Governance Code further recommends that directors should be subject to annual re-election. The Company intends to comply with this recommendation.

5. Board committees

As envisaged by the Corporate Governance Code, the Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee. If considered appropriate, the Board may set up additional committees following Admission.

5.1 Audit Committee

The Board has established an Audit Committee which will assist the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing and monitoring the integrity of the Dowlais Group's annual and interim financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors, overseeing the Dowlais Group's relationship with its external auditors, reviewing the effectiveness of the external audit process, and reviewing the effectiveness of the Dowlais Group's internal audit, internal financial controls, whistleblowing and fraud systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The Audit Committee will give due consideration to applicable laws and regulations, the provisions of the Corporate Governance Code and the requirements of the Listing Rules and the Disclosure Guidance and Transparency Rules. The Audit Committee is also responsible for (i) making recommendations to the Board regarding an acceptable risk appetite level for the Dowlais Group; and (ii) reviewing the Company's internal financial controls systems and other internal control and risk management systems. When appropriate and upon invitation, members of the executive management team may meet with the Audit Committee. The Audit Committee will meet not less than three times a year, at least one of which (or part thereof) will be without management present.

The Corporate Governance Code recommends that an audit committee should comprise at least three members, that all members should be independent non-executive directors, that at least one member should have recent and relevant financial experience and that the committee as a whole should have competence relevant to the sector in which the company operates. The chair of the board of directors of a company should not be a member of the Audit Committee. At Admission, in compliance with the Corporate Governance Code, the Audit Committee will be chaired by Philip Harrison and its other members will be Celia Baxter and Shali Vasudeva.

The Directors consider that Philip Harrison has recent and relevant financial experience and that the Audit Committee as a whole has competence relevant to the sector in which the Dowlais Group operates. Philip Harrison, Celia Baxter and Shali Vasudeva are independent non-executive directors.

The Audit Committee will take appropriate steps to ensure that the statutory auditor is independent of the Company and obtain written confirmation from the statutory auditor that it complies with guidelines on independence issued by the relevant accountancy and auditing bodies.

5.2 Nomination Committee

The Board has established a Nomination Committee which will assist the Board in discharging its responsibilities relating to the composition and make-up of the Board and any committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as directors or committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge, diversity and experience and the size, structure and composition of the Board and committees of the Board, and retirements and appointments of additional and replacement directors and committee members, and will make appropriate recommendations to the Board on such matters. The Nomination Committee will meet not less than two times a year.

The Corporate Governance Code recommends that a majority of the members of a nomination committee should be independent non-executive directors, and that the chair of the board of directors of a company should not chair the Nomination Committee when it is dealing with the appointment of a successor to the chair position. At Admission, in compliance with the Corporate Governance Code, the Nomination Committee will be chaired by Simon Mackenzie Smith and its other members will be Celia Baxter, Philip Harrison, Alexandra Innes, Fiona MacAulay and Shali Vasudeva.

5.3 Remuneration Committee

The Board has established a Remuneration Committee which will assist the Board in discharging its responsibilities in relation to executive directors' remuneration, including determining the Company's policy on executive remuneration, setting the over-arching principles, parameters and governance framework of the

Dowlais Group's remuneration policy and setting the individual remuneration and benefits package of the Chair and each of the Executive Directors, and setting the remuneration of senior management by reviewing the remuneration decisions taken by the Chief Executive Officer so as to satisfy themselves that the remuneration of senior management is consistent with the requirements of the Corporate Governance Code and the Remuneration Committee's terms of reference. The Remuneration Committee will give due regard to the provisions and recommendations in the Corporate Governance Code when determining the remuneration policy. The Remuneration Committee will meet not less than two times a year.

The Corporate Governance Code recommends that a remuneration committee should comprise at least three members and that all members should be independent non-executive directors. The chair of the board of directors should only be a member of the Remuneration Committee if they were independent on appointment, and cannot chair the Remuneration Committee. In addition, the chair of the Remuneration Committee should have served on a remuneration committee for at least 12 months prior to his or her appointment as such. At Admission, in compliance with the Corporate Governance Code, the Remuneration Committee will be chaired by Celia Baxter (who has previously served on a remuneration committee for at least 12 months) and its other members will be Simon Mackenzie Smith, Alexandra Innes and Fiona MacAulay.

6. Share dealing code

The Company has adopted, with effect from Admission, a code of securities dealings in relation to the Dowlais Shares, which is based on the requirements of the UK Market Abuse Regulation. The code adopted will apply to the Directors and other relevant employees of the Dowlais Group.

7. Remuneration

Details regarding remuneration of the Directors are set out in Section 11 (*Directors' service agreements and letters of appointment*) of Part XV (*Additional Information*) of this Prospectus.

PART IX
SELECTED FINANCIAL INFORMATION

The Selected Financial Information set out below has been extracted without material adjustment from Part B of Part XII (Historical Financial Information) of this Prospectus.

The selected non-IFRS financial information set out below has been calculated on the basis set out in Part IV (Important Information—Alternative Performance Measures).

The selected financial and operating information presented below should be read in conjunction with Part X (Operating and Financial Review).

SELECTED CARVE-OUT HISTORICAL FINANCIAL INFORMATION

1. Carve-out Income Statement

	Financial Year		
	2022	2021	2020
	£ millions		
Continuing Operations			
Revenue	4,595	4,123	4,126
Cost of sales	<u>(3,937)</u>	<u>(3,542)</u>	<u>(3,656)</u>
Gross profit	658	581	470
Share of results of equity accounted investments	49	38	32
Net operating expenses	<u>(649)</u>	<u>(740)</u>	<u>(758)</u>
Operating profit/(loss)	58	(121)	(256)
Finance costs	<u>(272)</u>	<u>(208)</u>	<u>(107)</u>
Finance income	<u>151</u>	<u>75</u>	<u>139</u>
Loss before tax	(63)	(254)	(224)
Tax	<u>(14)</u>	<u>(44)</u>	<u>28</u>
Loss after tax for the year	<u>(77)</u>	<u>(298)</u>	<u>(196)</u>

2. Carve-out Balance Sheet

	Financial Year		
	2022	2021	2020
	£ millions		
Non-current assets			
Goodwill and other intangible assets	3,075	3,098	3,382
Property, plant and equipment	1,813	1,742	1,972
Interests in equity accounted investments	424	422	422
Loans receivable from Related Parties ⁽¹⁾	2,826	3,378	3,295
Deferred tax assets	99	87	141
Derivative financial assets	9	1	3
Retirement benefit surplus	42	75	—
Other receivables	<u>21</u>	<u>11</u>	<u>7</u>
Total non-current assets	<u>8,309</u>	<u>8,814</u>	<u>9,222</u>
Current assets			
Inventories	498	436	437
Trade and other receivables	638	505	607
Derivative financial assets	24	7	10
Current tax assets	20	7	14
Cash and cash equivalents	<u>270</u>	<u>275</u>	<u>141</u>
Total current assets	<u>1,450</u>	<u>1,230</u>	<u>1,209</u>
Total assets	<u>9,759</u>	<u>10,044</u>	<u>10,431</u>
Current liabilities			
Trade and other payables	1,188	1,008	1,131
Loans payable to Related Parties ⁽¹⁾	2,176	2,547	2,602
Lease obligations	25	23	23

	Financial Year		
	2022	2021	2020
	£ millions		
Derivative financial liabilities	10	77	8
Current tax liabilities	109	111	120
Provisions	140	173	207
Total current liabilities	3,648	3,939	4,091
Net current liabilities	(2,198)	(2,709)	(2,882)
Non-current liabilities			
Other payables	28	26	13
Lease obligations	134	140	149
Derivative financial liabilities	2	3	82
Deferred tax liabilities	293	268	260
Retirement benefit obligations	503	603	748
Provisions	186	230	284
Total non-current liabilities	1,146	1,270	1,536
Total liabilities	4,794	5,209	5,627
Net assets	4,965	4,835	4,804
Invested Capital			
Net investment by Melrose	4,885	5,032	4,908
Translation and hedging reserve	41	(230)	(133)
Equity attributable to owners of Melrose	4,926	4,802	4,775
Non-controlling interests	39	33	29
Total invested capital	4,965	4,835	4,804

(1) Related Parties comprise Melrose, or other entities outside of the Dowlais Group that are controlled by Melrose.

3. Carve-out Statement of Cash Flows

	Financial Year		
	2022	2021	2020
	£ millions		
Net cash from operating activities	210	223	390
Investing activities			
Disposal of businesses, net of cash disposed	—	(13)	—
Purchase of property, plant and equipment	(202)	(155)	(173)
Proceeds from disposal of property, plant and equipment and intangible assets	23	9	7
Purchase of computer software and capitalised development costs	(20)	(13)	(12)
Dividends received from equity accounted investments	59	52	54
Acquisition of subsidiaries, net of cash acquired	—	—	(19)
Interest received	3	5	3
Net cash used in investing activities	(137)	(115)	(140)
Financing activities			
Repayment of loans with Related Parties ⁽¹⁾	(78)	—	(339)
Drawings on loans with Related Parties ⁽¹⁾	—	48	—
Repayment of principal under lease obligations	(22)	(22)	(25)
Net cash (used in)/from financing activities	(100)	26	(364)
Net (decrease)/increase in cash and cash equivalents, net of bank overdrafts	(27)	134	(114)
Cash and cash equivalents, net of bank overdrafts at the beginning of the year	275	141	255
Effect of foreign exchange rate changes	15	—	—
Cash and cash equivalents, net of bank overdrafts at the end of the year	263	275	141

(1) Related Parties comprise Melrose, or other entities outside of the Dowlais Group that are controlled by Melrose.

OTHER FINANCIAL DATA

	Financial Year		
	2022	2021	2020
	£ millions		
	(unless otherwise indicated)		
Adjusted Revenue ⁽¹⁾	5,246	4,731	4,711
Adjusted Operating Profit ⁽²⁾	333	242	104
Adjusted Operating Margin ⁽³⁾ (%)	6.3%	5.1%	2.2%
Net Working Capital ⁽⁴⁾	(59)	(82)	(93)

- (1) Adjusted Revenue is defined as statutory revenue plus revenue from equity accounted investments, the largest of which is a 50% interest in SDS within the GKN Automotive segment.

The table below presents a reconciliation of Adjusted Revenue to revenue for the year:

	Financial Year		
	2022	2021	2020
	£ millions		
Revenue	4,595	4,123	4,126
Revenue from equity accounted investments	651	608	585
Adjusted Revenue	5,246	4,731	4,711

- (2) Adjusted Operating Profit is defined as operating profit/(loss) adjusted for amortisation of intangible assets acquired in business combinations, restructuring costs, movement in derivatives and associated financial assets and liabilities, equity accounted investments adjustments, net releases and changes in discount rates of fair value items, acquisition and disposal-related gains and losses, impairment of assets, and the impact of GMP equalisation on UK pension schemes.

The table below presents a reconciliation of Adjusted Operating Profit to operating profit/(loss) for the year:

	Financial Year		
	2022	2021	2020
	£ millions		
Operating profit/(loss)	58	(121)	(256)
Amortisation of intangible assets acquired in business combinations	198	191	199
Restructuring costs	54	165	108
Equity accounted investments adjustments	29	28	30
Impairment of assets	20	—	51
Acquisition and disposal-related gains and losses	3	(9)	(1)
Movement in derivatives and associated financial assets and liabilities	(15)	14	2
Net releases and changes in discount rates of fair value items	(14)	(26)	(30)
Impact of GMP equalisation on UK pension schemes	—	—	1
Adjusted Operating Profit	333	242	104

- (3) Adjusted Operating Margin is defined as Adjusted Operating profit divided by Adjusted Revenue for any given financial year.
- (4) Net Working Capital is defined as inventories, current trade and other receivables, non-current other receivables (excluding retirement benefit surpluses), current trade and other payables and non-current other payables.

The table below sets out the components of Net Working Capital as at each respective balance sheet date:

	Financial Year		
	2022	2021	2020
	£ millions		
Inventories	498	436	437
Current trade and other receivables	638	505	607
Non-current other receivables	21	11	7
Current trade and other payables	(1,188)	(1,008)	(1,131)
Non-current other payables	(28)	(26)	(13)
Net Working Capital	(59)	(82)	(93)

PART X OPERATING AND FINANCIAL REVIEW

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Dowlais Group's results of operations and financial condition. The historical results of the Dowlais Group may not indicate its future performance. Some of the information in this Part X (Operating and Financial Review), including information in respect of the Dowlais Group's plans and strategies for the business and expected sources of financing, contains Forward-looking Statements that involve risk and uncertainties and are based on assumptions about the Dowlais Group's future business. Actual results could differ materially from those contained in such Forward-looking Statements as a result of a variety of factors, including the risks discussed in Part II (Risk Factors) included elsewhere in this Prospectus. Potential investors should read Part IV (Important Information—Forward-looking Statements) for a discussion of the risks and uncertainties related to those statements and should also read Part II (Risk Factors) for a discussion of certain factors that may affect the results of operations, business or financial condition of the Dowlais Group.

The following discussion should be read in conjunction with Part IV (Important Information), Part V (Market Overview), Part VI (The Business), Part IX (Selected Financial Information) and Part XII (Historical Financial Information) of this Prospectus. The financial information set out in this Part X (Operating and Financial Review) is extracted without material adjustment from the financial information set out in that Part XII (Historical Financial Information). The accounting policies applied and set out in Part B of Part XII (Historical Financial Information) of this Prospectus are those expected to be applied to future financial information reported by the Company.

In the discussion below, references to "periods under review" are to the Financial Years 2022, 2021 and 2020.

OVERVIEW

The Dowlais Group includes three businesses: GKN Automotive, GKN Powder Metallurgy and the early-stage growth business, GKN Hydrogen.

GKN Automotive is the global market leader in automotive drive systems and the trusted partner for over 90% of automotive Global OEMs. GKN Automotive specialises in developing, manufacturing and supplying leading drive system technologies for both conventional and electric vehicles, and has a largely powertrain-agnostic core product portfolio. GKN Automotive has enjoyed profitable success in the transition to EVs, especially in its core driveline business, which is transitioning ahead of what is an expanding and accelerating market.

GKN Powder Metallurgy is a high-quality, market-leading supplier in powder metallurgy, being the number one global supplier of sintered metal products and the number two global supplier of metal powders, in each case, by revenue. It combines the design and production of advanced powder metals with innovative sintering and additive production technologies to create distinctive metal and polymer products. Dowlais has committed to consider its future ownership in GKN Powder Metallurgy.

GKN Hydrogen is an early-stage growth business, grown organically out of GKN Powder Metallurgy, focused on commercialising proprietary metal hydride technology to store and secure hydrogen in a safe, compact and green manner that can be used in a wide range of industrial and commercial applications.

The Dowlais Group will have a three-pillar strategy for delivering attractive shareholder returns. First, to deliver higher adjusted operating margins by building on the investment, cost base and operational improvements already achieved by GKN Automotive and GKN Powder Metallurgy during Melrose ownership, which are expected to be further fuelled by the automotive sector's anticipated recovery in production volumes to pre-pandemic levels. Second, to capture further profitable growth opportunities from the automotive sector's shift to electrification. Third, to seek new, value-accretive merger and acquisition opportunities by way of automotive sector consolidation opportunities and strategic bolt-on acquisitions.

In the Financial Year 2022, the Dowlais Group recorded revenue of £4,595 million and operating profit/(loss) of £58 million, compared to £4,123 million and £(121) million, respectively, in Financial Year 2021 and £4,126 million and £(256) million, respectively, in Financial Year 2020.

KEY FACTORS AFFECTING THE DOWLAIS GROUP'S RESULTS OF OPERATIONS AND FINANCIAL POSITION

Discussed below are the most significant factors that have affected the Dowlais Group's results of operations and financial condition for the Financial Years 2022, 2021 and 2020 and which the Directors currently believe

may affect its financial results in the future. Factors other than those discussed below could also have a significant effect on the Dowlais Group's financial results in the future.

1. Electrification and product development

The electrification of vehicles continued to expand during the periods under review, driven by a shift in focus by certain OEMs toward battery and hybrid electric vehicles, government regulations related to emissions and consumer demand for greater vehicle performance, enhanced functionality, increased electronic content and vehicle connectivity, reduced environmental impact and affordable convenience options. This industry development has significantly increased demand for the products offered by the Dowlais Group, which have remained in line with, and sometimes ahead of, such industry developments. For the Financial Year 2022, 69% of GKN Automotive's revenue was generated by eDrive systems, ePowertrain components and sideshafts and 50% of GKN Powder Metallurgy's revenue was generated by non-ICE automotive products (transmission, body and chassis) and industrial products, which are all products that would experience higher demand from the industry shift towards greater electrification of vehicles.

GKN Automotive has made significant investments during the periods under review in advanced eDrive systems. This investment is delivering innovations that are essential for the growth of the business. One of most notable achievements for eDrive in 2022 was the development of GKN Automotive's next-generation inverter, offering OEMs 800-volt EV technology. Aside from efficiency and light-weighting improvements, 800-volt technology enables faster charging times, increased battery size, and improved performance for future EVs. The potential for reuse of rare-earth magnets in future electric motors may enable GKN Automotive to improve product sustainability, reducing embedded emissions and the use of raw materials as well as lowering production costs.

GKN Powder Metallurgy also made significant investments in new technologies during the periods under review, particularly to prepare for the transition to EVs. For example, in 2021, the Sinter Metals Bruneck plant launched an electric pump for hybrid and battery electric transmission vehicles. Traditional oil pump components for car engines and transmission lubrication combine a variety of technologies, including machined steel or machined aluminium die casting, to produce their components. In contrast, having pursued research and development leadership in oil pump components over the last few years, GKN Powder Metallurgy has developed a fully powder metal design that can produce all components within an electric pump system. This technological innovation targets notable efficiencies and carbon dioxide reductions driven by component precision, as well as attractive cost benefits delivered through manufacturing process improvements such as cost effective machining and more reliable quality verification than can be achieved through traditional methods. To convert customers to powder metal solutions in this area, a total redesign of traditional electric pump systems was required, promoting increased use of GKN Powder Metallurgy's components within these systems. GKN Powder Metallurgy is also working on harnessing its unique powder technologies in connection with break-through technologies for magnets for electric motors. It is pursuing production of permanent magnets for the European and North American markets as intended, and there are advanced commercial discussions ongoing with several key customers.

Dowlais Group businesses have invested significant amounts in electrification technology development and innovation over the periods under review. With the high investment requirements, the businesses believe that they are equipping themselves to be successful and stay relevant with their customers as the automotive market transitions to electrified vehicles.

2. Overhauled commercial strategy

During the periods under review, GKN Automotive and GKN Powder Metallurgy overhauled their commercial strategy to (i) modify their approach from pursuing high sales volumes to pursuing selective profitable growth, (ii) focus on strategic portfolio choices, (iii) pursue high margin new business bookings and (iv) eliminate low-margin or loss-making contracts.

This approach had the following results:

- Growth in the order book, which is illustrated by the Life of Programme Revenues won by GKN Automotive of £4.1 billion, £4.9 billion and £5.0 billion during the Financial Years 2020, 2021 and 2022, respectively, and approximately £3 billion in Life of Programme Revenues won by GKN Powder Metallurgy cumulatively in the Financial Years 2020, 2021 and 2022. Life of Programme Revenues represent aggregate revenues expected to be generated throughout the duration of new contracts that have been secured during a specified period.

- Winning the right business, which is illustrated by the profile of the new business awards that are focused on electrification. Over 40% of GKN Automotive's bookings for Financial Year 2022 were BEV and FCEV and approximately one quarter of the Life of Programme Revenues secured by GKN Powder Metallurgy during the Financial Year 2022 were pure EV.
- Financial discipline, which is illustrated by the absence of below-margin target bookings in the Financial Years 2020, 2021 and 2022 and the resolution of approximately £250 million in low-margin or loss-making contracts recognised on acquisition during this time.

3. Cost management

Transformation programmes and strict cost control measures were executed for the Dowlais Group during the periods under review. These measures included (i) a complete overhaul of the purchasing leadership team, strategy and performance, (ii) significant operational efficiency improvements through automation and a shift of manufacturing to utilise best cost manufacturing locations and (iii) implementation of a streamlined global operating model utilising global business services.

This approach had the following results:

- Annual savings in purchasing, which is illustrated by aggregate savings on direct and indirect materials of £79 million achieved by GKN Automotive in the Financial Years 2020, 2021 and 2022.
- Operational improvements, including footprint and fixed cost rationalisation, as illustrated by a reduction of £109 million in aggregate in selling and distribution costs and administration expenses over the Financial Years 2020, 2021 and 2022.

GKN Hydrogen was operationally separated from GKN Powder Metallurgy into a standalone business under direct management at the end of the Financial Year 2021 with a view to maximise its growth potential.

Management believe that its operating model has proven robust and resilient in the wake of the challenging market conditions experienced in the periods under review such as price reduction, material inflation and labour inflation. To offset these and similar costs in the future, management expect to continue to use measures to increase direct material savings, improve productivity of plants and materials, reduce fixed cost base through footprint rationalisation and increased use of best-cost production locations, and extract overhead efficiencies through the use of shared services. The Dowlais Group will also have the ability to implement structural cost improvements where necessary to offset investments in research and development, information technology and environmental, social and governance efforts.

4. Impact of the COVID-19 Pandemic

In March of 2020, COVID-19 was designated by the World Health Organisation as a pandemic and began to significantly disrupt global automotive production. In an effort to mitigate the spread of COVID-19, many governmental and public health agencies in locations in which the Dowlais Group operates implemented shelter-in-place orders or similar measures. The majority of the Dowlais Group's customers temporarily ceased or significantly reduced production near the end of March 2020, which continued into the second quarter of 2020. As a result, substantially all of the Dowlais Group's manufacturing facilities either temporarily suspended production or experienced significant reductions in volumes during this period.

By the end of the first quarter of 2020, the Dowlais Group's manufacturing locations in Asia, which were impacted by COVID-19 earlier than other global regions, began to stabilise and return to more normalised levels of production. The Dowlais Group restarted operations in North America and Europe in May 2020, and continued to ramp up production, along with its customers and supply base, through the remainder of 2020.

The COVID-19 pandemic as well as global supply chain disruption and the industry-wide semiconductor shortage significantly stalled the predicted recovery of the automotive market in 2021. Even with robust underlying demand, global light vehicle production increased at a slow rate in the periods under review (for example, its production increased by 3.4% in 2021 compared to initial growth projections of 13% at the start of 2021). On the other hand, these factors have led to pent-up demand for new vehicles among consumers. The Dowlais Group expects that, as the automotive market recovers from the effects of the COVID-19 pandemic, global supply chain disruption and industry-wide semiconductor shortages, the Dowlais Group will experience sales growth to meet this pent-up demand and support dealers as they rebuild their inventory levels.

The Dowlais Group's results of operations and financial condition were also impacted during the Financial Year 2022 due to China's pursuit of a 'Zero COVID' policy which, in turn, exacerbated global supply chain issues following widespread lockdowns throughout the year in different parts of China. While the Dowlais Group's

sites in China largely remained open during this period, thereby mitigating against delivery risk, the Dowlais Group, as well as the global economy, was particularly impacted by the lockdown in Shanghai, which lasted more than two months. Shanghai is home to four of SDS' manufacturing plants and also to the world's largest port by cargo throughput, and at certain times during the lockdown, vessels arriving from overseas were forced to either reroute to other ports or were stranded on the water. China pursued a 'Zero COVID' policy for most of 2022. Management was, in 2020 and 2021, highly focused on managing ongoing volatility caused by the COVID-19 pandemic. Management continues to monitor the impact of the COVID-19 pandemic on the Dowlais Group's operations, as well as the operations of its customers and suppliers, as a resurgence in cases could have a sudden and significant impact on its results of operations and financial condition.

5. Foreign exchange

The Dowlais Group trades in various countries around the world and is exposed to movements in a number of foreign currencies and is subject to exchange rate risk that can be categorised into two principal types: transaction and translation risk. The Dowlais Group's foreign exchange 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 Dowlais 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 Dowlais 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 Dowlais Group will hedge 100% at the time the cash flow becomes committed. For forecast and variable cash flows, the Dowlais Group hedges a proportion of the expected cash flows, with the percentage being hedged lowering as the time horizon lengthens. Typically, in total the Dowlais Group hedges approximately 90% of foreign exchange exposures expected over the next twelve months and approximately 60% of exposures expected between 12 and 24 months. This policy does not eliminate the cash risk but does bring some certainty to it.

The translation rate risk is the effect on the Dowlais 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 Dowlais Group, until foreign currency is subsequently converted to Sterling. However, the Dowlais Group utilises its multicurrency 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.

Please refer to Note 21 of the Historical Financial Information for a foreign currency sensitivity analysis for the Financial Years 2022, 2021 and 2020.

CURRENT TRADING AND LISTED COMPANY COSTS

Some of the main macroeconomic challenges experienced in the Financial Year 2022, such as the volatility of the automotive supply chain and inflationary pressures, have continued to impact the financial performance of the Dowlais Group in the current financial year, although to a lower extent. Inflationary pressures have made a subtle shift in impact from predominantly commodities in the Financial Year 2022 to labour in the Financial Year 2023 (with the inflationary pressures on energy costs experiencing about similar levels of impact in both these periods).

Global light vehicle production is forecast to increase by approximately 3% in the Financial Year 2023 compared to the Financial Year 2022, according to S&P Global (December 2022), which assumes a general easing of semiconductor availability shortages. This is largely driven by forecasted growth in Europe (approximately 6%) and North America (approximately 5%). Chinese automotive production levels have been significantly impacted so far in the Financial Year 2023, primarily due to a combination of the renewed outbreak of COVID-19 and the continuing impacts of the removal of purchase tax benefits that occurred at the end of the Financial Year 2022.

Global electric vehicle penetration is also expected to increase in the Financial Year 2023, according to S&P Global (December 2022). The Dowlais Group is carefully positioning itself to benefit from this forecasted trend, as it has developed a largely propulsion agnostic product portfolio, with the additional benefit that BEVs offer a higher content value and technology differentiation opportunity for core products.

GKN Automotive and GKN Powder Metallurgy delivered a strong operating performance in the Financial Year 2022 by offsetting inflationary cost pressures and delivering operating margin expansion with strong cash generation. Management expect GKN Automotive and GKN Powder Metallurgy to repeat this financial performance in 2023, taking further steps towards delivering the operating margin targets, and the operating performance of GKN Automotive and GKN Powder Metallurgy so far in the Financial Year 2023 supports this view.

The Dowlais Group expects to incur incremental annual costs of approximately £30 million (calculated on a full run-rate basis) in the medium term to operate as an independent listed company. Approximately £10 million of these estimated incremental annual costs represent central costs that were previously borne by the Melrose Group. These costs are expected to include, among others, central head office costs, costs in relation to the executive teams (treasury, tax, legal and compliance, company secretarial and communications) and costs in relation to sustainability measures and reporting. This estimate of incremental costs is net of estimated cost savings expected to be realised by the group each year in the medium term.

KEY OPERATING AND PERFORMANCE MEASURES

The table below sets out the Dowlais Group's key operating and performance measures for the Financial Years 2022, 2021 and 2020.

	Financial Year		
	2022	2021	2020
Adjusted Revenue ⁽¹⁾ (£ millions)	5,246	4,731	4,711
Adjusted Operating Profit ⁽¹⁾ (£ millions)	333	242	104
Adjusted Operating Margin ⁽¹⁾ (%)	6.3%	5.1%	2.2%

(1) For a reconciliation of adjusted measures to statutory measures, see Part IX (*Selected Financial Information—Other Financial Data*).

Adjusted Revenue includes revenue from equity accounted investments (“EAI”), the largest of which is a 50% interest in SDS, within the GKN Automotive segment. For the Financial Year 2022, the Dowlais Group's share revenue from EAIs was £651 million of revenue (2021: £608 million, 2020: £585 million), which is not included in the statutory results but is shown within Adjusted Revenue so as not to distort the operating margins reported in the businesses when the share of adjusted operating profit from these EAIs is included.

Adjusting items to statutory operating loss in the year include the items set out in the table below for the Financial Years 2022, 2021 and 2020:

	Financial Year		
	2022	2021	2020
	(£ millions)		
Amortisation of intangible assets acquired in business combinations	198	191	199
Restructuring costs	54	165	108
Equity accounted investments adjustments	29	28	30
Impairment of assets	20	—	51
Acquisition and disposal-related gains and losses	3	(9)	(1)
Movement in derivatives and associated financial assets and liabilities	(15)	14	2
Net releases and changes in discount rates of fair value items	(14)	(26)	(30)
Impact of GMP equalisation on UK pension schemes	—	—	1
Adjustments to statutory operating loss	<u>275</u>	<u>363</u>	<u>360</u>

The amortisation charge on intangible assets acquired in business combinations represented £198 million, £191 million and £199 million for Financial Years 2022, 2021 and 2020, respectively. This charge is excluded from adjusted operating profit 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 represented £54 million, £165 million and £108 million for Financial Years 2022, 2021 and 2020, respectively, including a write down of assets in affected sites of £nil, £54 million and £17 million for Financial Years 2022, 2021 and 2020, respectively. These are shown as adjusting items due to their size and non-trading nature.

- For the Financial Year 2022, these costs included:
 - a charge of £37 million within GKN Automotive. This included multiple restructuring projects which concluded within the year, including two significant footprint consolidation actions in Europe, which commenced in 2021. In addition, restructuring costs were incurred in North America, reflecting the continued movement of production from high-cost to low-cost countries; and
 - a charge of £17 million within GKN Powder Metallurgy. This included multiple restructuring projects, which concluded within the year, including the closure of a factory in Canada.
- For the Financial Year 2021, these costs included:
 - a charge of £147 million within GKN Automotive, primarily relating to two significant footprint consolidation actions in Europe, which significantly progressed during the year, along with costs incurred on multiple worldwide restructuring projects as the business accelerated its efforts to position its cost base during 2022 at a level that would allow it to achieve target operating margins when supply constraints ease; and
 - a charge of £18 million within GKN Powder Metallurgy relating to multiple restructuring projects to position its cost base during 2022 at a level that would allow it to achieve target operating margins when supply constraints ease.
- For the Financial Year 2020, these costs included:
 - a charge of £60 million within GKN Automotive as the business accelerated its efforts to address its high-cost base, inherited on its acquisition by Melrose, and best position itself for the post COVID-19 pandemic; and
 - a charge of £48 million within GKN Powder Metallurgy, including costs associated with realigning the business for future demand, along with consolidation actions started in 2019 and the commencement during 2020 of the closure of an underperforming site in its North American business.

Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts where hedge accounting is not applied) entered into within the businesses 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 its volatility and size. This represented an aggregate credit of £15 million for Financial Year 2022 and aggregate charges of £14 million and £2 million for Financial Years 2021 and 2020, respectively, and are shown as an adjusting item because of their volatility and size.

Equity accounted investments adjustments represented £29 million, £28 million and £30 million for Financial Years 2022, 2021 and 2020, respectively. The profits and losses of equity accounted investments, which are shown after amortisation of acquired intangible assets, interest and tax in the statutory results, are adjusted to show the adjusted operating profit consistent with the adjusted operating profits of the subsidiaries of the Dowlais Group. The profit or loss of equity accounted investments are adjusted because they are considered to be significant in size and are important in assessing the performance of the business.

The net releases and changes in discount rates of fair value items represented £14 million, £26 million and £30 million for Financial Years 2022, 2021 and 2020, respectively. This adjustment represents amounts for items that have been resolved for more favourable amounts than first anticipated. The net release of fair value items is shown as an adjusting item, avoiding positively distorting adjusted results.

- For the Financial Year 2022, this amount included a net release of £7 million in respect of loss-making contract provisions, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period.
- For the Financial Year 2021, this amount included a net release of £18 million in respect of loss-making contract provisions, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period.
- For the Financial Year 2020, this amount included a net release of £29 million in respect of loss-making contract provisions where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period.

Acquisition and disposal-related gains and losses represented £3 million, £(9) million and £(1) million for Financial Years 2022, 2021 and 2020, respectively.

- For the Financial Year 2022, this amount included £4 million of initial costs in respect of the proposed Demerger.
- For the Financial Year 2021, for GKN Automotive this amount included profits and losses related to the disposal of an Italian site and, for GKN Powder Metallurgy, this amount included profits and losses related to the disposal of a site located in North America.
- For the Financial Year 2020, this amount included costs related to GKN Powder Metallurgy's acquisition of Forecast 3D.

Impairment of assets represented £20 million, £nil and £51 million for Financial Years 2022, 2021 and 2020, respectively.

- For the Financial Year 2022, this write down was recognised as a result of exiting any direct trading links with Russian operations because of the Russia/Ukraine conflict.
- For the Financial Year 2021, there was no impairment of assets charge.
- For the Financial Year 2020, this write down was recognised mostly in the first half of the financial year as a result of the impact of the COVID-19 pandemic, which necessitated a review of the operating assets of the Dowlais Group and resulted in the write down of £45 million of fixed assets and £6 million of other net operating assets across certain sites within the Dowlais Group as they adapted to new levels of industry demand.

Impact of GMP equalisation on UK pension schemes represented a charge of £(1) million for Financial Year 2020 in respect of gender equalisation of guaranteed minimum pensions for occupational pension schemes in the United Kingdom. This adjusting item has not recurred since Financial Year 2020.

DESCRIPTION OF KEY CARVE-OUT INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME ITEMS

1. Revenue

Revenue represents amounts receivable for products and services provided in the normal course of business, recognised at the point of transfer of control of goods and services.

2. Cost of sales

Cost of sales represents direct input costs associated with the manufacture of goods and services. This includes costs of procuring materials, labour costs and other manufacturing overhead costs.

3. Gross profit

Gross profit represents revenue less cost of sales.

4. Share of results of equity accounted investments

Share of results of equity accounted investments represents the Dowlais Group's share of the results and equity of joint ventures and associated undertakings.

A joint venture is an entity which is not a subsidiary undertaking but where the interest of the Dowlais Group is that of a partner in a business over which the Dowlais 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 Dowlais Group has a significant influence. The results, assets and liabilities of equity accounted investments are accounted for using the equity method of accounting. The Dowlais Group's share of equity includes goodwill arising on acquisition.

When a Dowlais Group entity transacts with an equity accounted investment of the Dowlais Group, profits and losses resulting from the transactions with the equity accounted investments are recognised in the carve-out financial statements only to the extent of interests in equity accounted investments that are not related to the Dowlais Group.

5. Net operating expenses

Net operating expenses represent selling, distribution and administrative costs not associated with the direct manufacture of goods and services.

6. Operating profit/(loss)

Operating profit/(loss) represents gross profit plus the share of results of equity accounted investments less net operating expenses.

7. Finance costs

Finance costs represent the interest expense on borrowings, retirement benefit obligations, lease obligations and the impact of discounting on provisions.

8. Finance income

Finance income represents interest income on loan receivables and bank deposits.

9. Profit/(loss) before tax

Profit/(loss) before tax represents operating profit/(loss) less finance costs plus finance income.

10. Tax

Tax represents the sum of the current tax and deferred tax. Current tax is based on the Dowlais Group's taxable profit for the year and deferred tax is the tax expected to be payable or recoverable by the Dowlais Group.

11. Profit/loss after tax for the year from continuing operations

Profit/loss for the year from continuing operations represents profit/loss before tax less tax.

CARVE-OUT INCOME STATEMENT

	Financial Year		
	2022	2021	2020
	(£ millions)		
Revenue	4,595	4,123	4,126
Cost of sales	(3,937)	(3,542)	(3,656)
Gross profit	658	581	470
Share of results of equity accounted investments	49	38	32
Net operating expenses	(649)	(740)	(758)
Operating profit/(loss)	58	(121)	(256)
Finance costs	(272)	(208)	(107)
Finance income	151	75	139
Loss before tax	(63)	(254)	(224)
Tax	(14)	(44)	28
Loss after tax for the year	(77)	(298)	(196)

1. Carve-out income statement in Financial Year 2022 compared to Financial Year 2021

1.1 Revenue

Revenue was £4,595 million in the Financial Year 2022, an increase of £472 million, or 11%, from £4,123 million in the Financial Year 2021. This increase was primarily due to (i) maintaining supply volumes largely in line with market production rates, (ii) the pass-through to customers of inflationary impacts on input costs, such as raw materials and (iii) favourable foreign exchange impacts. This increase was despite the supply challenges and inflationary pressures that the Dowlais Group experienced, which were offset through commercial pricing measures.

The following table sets out revenue by segment for the Financial Years 2022 and 2021:

	Financial Year		Per cent
	2022	2021	change
	(£ millions)		
GKN Automotive	3,598	3,175	13%
GKN Powder Metallurgy	996	948	5%
GKN Hydrogen	1	—	NM ⁽¹⁾
Revenue	4,595	4,123	11%

(1) Not meaningful.

GKN Automotive's revenue was £3,598 million in Financial Year 2022, an increase of £423 million, or 13%, from £3,175 million in Financial Year 2021. This increase was primarily due to (i) maintaining supply volumes largely in line with market production rates, (ii) the pass-through to customers of inflationary impacts on input costs, such as raw materials and (iii) favourable foreign exchange impacts. This increase was despite the supply challenges and inflationary pressures that the Dowlais Group experienced, which were offset through commercial pricing measures.

GKN Powder Metallurgy's revenue was £996 million in Financial Year 2022, an increase of £48 million, or 5%, from £948 million in Financial Year 2021. This increase was due to the business tracking improving market volume trends in its regions and despite the supply challenges and inflationary pressures.

GKN Hydrogen's revenue was £1 million in Financial Year 2022, an increase of £1 million from £nil in Financial Year 2021. This increase was primarily due to initial sales for this early-stage growth business.

1.2 Cost of sales

Cost of sales was £3,937 million in Financial Year 2022, an increase of £395 million, or 11%, from £3,542 million in Financial Year 2021. This increase was primarily due to cost increases because of the high rates of inflation experienced in the Financial Year 2022 and the increase in activity during the Financial Year 2022 as the businesses continued to recover from the COVID-19 pandemic and the supply constraints eased.

1.3 Gross profit

Gross profit was £658 million in Financial Year 2022, an increase of £77 million, or 13%, from £581 million in Financial Year 2021. This increase was primarily due to the increase in revenue experienced in the Financial Year as well as the benefits from cost reduction actions.

1.4 Share of results of equity accounted investments

The share of results of equity accounted investments was £49 million in Financial Year 2022, an increase of £11 million, or 29%, from £38 million in Financial Year 2021. This increase was primarily due to the largest of the Dowlais Group's equity accounted investments, based in China, which benefitted from the region's stronger growth.

1.5 Net operating expenses

Net operating expenses were £649 million in Financial Year 2022, a decrease of £91 million, or 12%, from £740 million in Financial Year 2021. This decrease was primarily due to a reduction in adjusting items of £89 million, impacted by restructuring costs which were lower by £111 million partially offset by an impairment of assets of £20 million.

1.6 Operating profit/(loss)

Operating profit was £58 million in Financial Year 2022, an increase of £179 million from a loss of £121 million in Financial Year 2021. This increase was primarily due to the sales growth which drove a higher gross margin as well as lower net operating expenses.

1.7 Finance costs

Finance costs were £272 million in Financial Year 2022, an increase of £64 million, or 31%, from £208 million in Financial Year 2021. This increase was primarily due to a loss recognised from changes in the fair value of cross-currency swaps, impacted by foreign exchange movements, in the period up to maturity in September 2022.

1.8 Finance income

Finance income was £151 million in Financial Year 2022, an increase of £76 million, or 101%, from £75 million in Financial Year 2021. This increase was primarily due to favourable foreign exchange movements on loans with related parties.

1.9 Loss before tax

Loss before tax was £63 million in Financial Year 2022, a decrease of £191 million, or 75%, from a loss of £254 million in Financial Year 2021. This decrease was primarily due to the positive change in operating results.

1.10 Tax

Tax expense was £14 million in Financial Year 2022 compared to a tax expense of £44 million in Financial Year 2021. This was primarily due to disallowable items included within adjusting items.

1.11 Loss after tax for the year

Loss after tax was £77 million in Financial Year 2022, compared to a loss of £298 million in Financial Year 2021. The reasons for the change in various components of loss after tax for Financial Year 2022 as compared to loss after tax for Financial Year 2021 are discussed above.

2. Carve-out income statement in Financial Year 2021 compared to Financial Year 2020

2.1 Revenue

Revenue was £4,123 million in Financial Year 2021, a decrease of £3 million, remaining relatively flat as compared with £4,126 million in Financial Year 2020.

The following table sets out revenue by segment for the Financial Years 2021 and 2020:

	<u>Financial Year</u> <u>2021</u>	<u>Financial Year</u> <u>2020</u>	<u>Per cent</u> <u>change</u> <u>2021</u>
	(£ millions)		
GKN Automotive	3,175	3,240	(2)%
GKN Powder Metallurgy	948	886	7%
Revenue⁽¹⁾	<u>4,123</u>	<u>4,126</u>	<u>NM⁽²⁾</u>

(1) GKN Hydrogen did not generate revenue in the Financial Years 2021 and 2020.

(2) Not meaningful.

GKN Automotive's revenue was £3,175 million in Financial Year 2021, a decrease of £65 million, or 2%, from £3,240 million in Financial Year 2020. This decrease was primarily caused by the COVID-19 pandemic, global supply chain disruption and industry-wide semiconductor shortages that significantly stalled the predicted market recovery in 2021.

GKN Powder Metallurgy's revenue was £948 million in Financial Year 2021, an increase of £62 million, or 7%, from £886 million in Financial Year 2020. This increase was primarily due to strong improvement in activity levels across all geographies. This was driven by production growth of double the wider market, highlighting the increased market share achieved by the business. Growth was particularly strong in the first three months of the Financial Year 2021 but was followed by lower and more erratic demand during the remainder of the Financial Year 2021, which was primarily caused by a semiconductor supply shortage in the automotive industry.

2.2 Cost of sales

Cost of sales was £3,542 million in Financial Year 2021, a decrease of £114 million, or 3%, from £3,656 million in Financial Year 2020. This decrease was primarily due to cost reduction actions undertaken by the businesses in response to the COVID-19 pandemic in order to realign the cost base to a level that would allow target operating margins to be achieved upon an easing of supply constraints.

2.3 Gross profit

Gross profit was £581 million in Financial Year 2021, an increase of £111 million, or 24%, from £470 million in Financial Year 2020. This increase was primarily due to the reduction in cost of sales.

2.4 Share of results of equity accounted investments

The share of results of equity accounted investments was £38 million in Financial Year 2021, an increase of £6 million, or 19%, from £32 million in Financial Year 2020. The largest of the Dowlais Group's equity accounted investments is based in China and the improvement in results arose from a stronger partial recovery in China during the Financial Year 2021 from the COVID-19 pandemic.

2.5 Net operating expenses

Net operating expenses were £740 million in Financial Year 2021, a decrease of £18 million, or 2%, from £758 million in Financial Year 2020. This decrease was primarily due to a £23 million reduction in underlying costs as a result of actions undertaken by the businesses in response to the COVID-19 pandemic. Net operating expenses also include adjusting items which increased by £5 million, and included an increase in restructuring costs of £57 million partially offset by a reduction in impairment of assets of £51 million.

2.6 Operating loss

Operating loss was £121 million in Financial Year 2021, a decrease of £135 million, or 53%, from an operating loss of £256 million in Financial Year 2020. This decrease was primarily due to a reduction in each of the cost of sales and net operating expenses.

2.7 Finance costs

Finance costs were £208 million in Financial Year 2021, an increase of £101 million, or 94%, from £107 million in Financial Year 2020. This decrease was primarily due to a reduction in interest payable on loans and borrowings and a reduced finance charge on pension obligations.

2.8 Finance income

Finance income was £75 million in Financial Year 2021, a decrease of £64 million, or 46%, from £139 million in Financial Year 2020. This decrease was primarily due to lower gains recognised on cross-currency swaps from foreign exchange movements.

2.9 Loss before tax

Loss before tax was £254 million in Financial Year 2021, an increase of £30 million, or 13%, from a loss of £224 million in Financial Year 2020. This decrease was primarily due to the reduction in operating loss and net finance costs for the Financial Year 2021 compared to the Financial Year 2020.

2.10 Tax

Tax expense was £44 million in Financial Year 2021, compared to a tax credit of £28 million in Financial Year 2020. This was primarily due to a tax charge arising from an internal reorganisation in the United States.

2.11 Loss after tax for the period

Loss after tax was £298 million in Financial Year 2021, a decrease of £102 million, or 52%, from a loss after tax of £196 million in Financial Year 2020. The reasons for the change in various components of the loss after tax for Financial Year 2021 as compared to the loss after tax for Financial Year 2020 are discussed above.

LIQUIDITY AND CAPITAL RESOURCES

The Dowlais Group has historically generated sufficient cash from operations to fund its operating expenses and capital investment during the periods under review. As part of the Melrose Group, the Dowlais Group did not undertake borrowing activities on a standalone basis. As at 31 December 2022, the Dowlais Group had cash and cash equivalents of £270 million.

Following the Demerger, Dowlais expects to be able to meet its cash requirements through available cash resources and ongoing cash from operations.

1. Third-party debt arrangements

In connection with the Demerger, certain members of the Dowlais Group have entered into a senior term and revolving facilities agreement with HSBC Bank plc as agent pursuant to which certain term loan facilities and multicurrency revolving credit facilities have been made available. For further detail on these financing arrangements, see Section 17.4 (*Senior Facilities Agreement*) of Part XV (*Additional Information*) of this Prospectus.

2. Other liquidity arrangements

The Dowlais Group has a small number of uncommitted working capital programmes, which 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 2022, the drawings on these facilities were £187 million (31 December 2021: £196 million, 31 December 2020: £208 million).

In addition, some suppliers have access to utilise the Dowlais Group's supplier finance programmes, which are provided by a small number of the Dowlais Group's banks. There is no cost to the Dowlais Group for providing these programmes to its suppliers. These arrangements do not change the date on which suppliers are due to be paid by the Dowlais Group, and therefore there is no additional impact on the Dowlais Group's liquidity. If the Dowlais Group exited these arrangements, there could be a potential impact of up to £57 million on the Dowlais 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 Dowlais Group as determined by the financing banks.

3. Cash flows

The table below sets out the Dowlais Group's cash flows in Financial Years 2022, 2021 and 2020:

	Financial Year		
	2022	2021	2020
	(£ millions)		
Net cash from operating activities	210	223	390
Net cash used in investing activities	(137)	(115)	(140)
Net cash (used in)/from financing activities	(100)	26	(364)
Net (decrease)/increase in cash and cash equivalents, net of bank overdrafts	(27)	134	(114)

As cash management activities related to the Dowlais Group were historically undertaken at the Melrose Group-level, management of the Dowlais Group's business by the management team historically focused on various operating measures and financial measures, including revenue and operating profit, with cash flow measures restricted to operating performance. Following the Demerger, the Dowlais Group's management will be responsible for all cash management activities and, as a result, the Dowlais Group's cash flow may differ materially from its cash flow during the periods under review.

3.1 Net cash from operating activities

Net cash from operating activities was £210 million in the Financial Year 2022, compared to £223 million in Financial Year 2021. This was primarily due to a reduced net working capital cash flow of £38 million and increased tax payments of £35 million, offset by an increase in the adjusted operating result of £91 million.

Net cash from operating activities was £223 million in the Financial Year 2021, compared to £390 million in the Financial Year 2020. This decrease was primarily due to a reduced Net Working Capital inflow of £151 million, increased tax payments of £59 million related to certain tax payments which were deferred in the Financial Year 2020 as a result of the COVID-19 pandemic and larger restructuring and other provision payments of £86 million, partially offset by a reduced operating loss of £135 million.

3.2 Net cash used in investing activities

Net cash used in investing activities was £137 million in Financial Year 2022, compared to cash used in investing activities of £115 million in Financial Year 2021. This was primarily due to higher capital expenditure (see—*Capital Expenditure*).

Net cash used in investing activities was £115 million in Financial Year 2021, compared to cash used in investing activities of £140 million in Financial Year 2020. This decrease was primarily due to slightly lower capital expenditure (see—*Capital Expenditure*).

3.3 Net cash from/(used in) financing activities

Net cash used in financing activities was £100 million in Financial Year 2022, compared to cash from financing activities of £26 million in Financial Year 2021. This was primarily due to a net repayment of loans with related parties that are included within the Melrose Group, but are not included within the Dowlais Group.

Net cash from financing activities was £26 million in Financial Year 2021, compared to cash used in financing activities of £364 million in Financial Year 2020. This was primarily due to significantly lower payments made pursuant to pre-Demerger cash sweeping arrangements in order to reduce net intra-group borrowings with other entities that are included within the Melrose Group, but are not included within the Dowlais Group.

3.4 Net indebtedness

As at 31 December 2022, the Dowlais Group's net indebtedness was £1,391 million. This included (i) net current financial indebtedness of £1,371 million, representing loans payable to related parties of £2,176 million net of cash of £270 million and other current financial assets of £535 million and (ii) non-current financial indebtedness of £20 million. For more information, see Part XI (*Capitalisation and Indebtedness*) of this Prospectus. For the estimated debt of the Dowlais Group after giving effect to the Demerger, see Part B of Part XIII (*Unaudited Pro Forma Financial Information*) of this Prospectus.

CAPITAL EXPENDITURE

The Dowlais Group calculates capital expenditure as the purchase of owned property, plant and equipment and computer software, and expenditure on capitalised development costs during the applicable period, excluding any assets acquired as part of a business combination. Capital expenditure excludes additions of right-of-use assets. Net capital expenditure is calculated as capital expenditure net of proceeds from disposal of property, plant and equipment.

The following table sets out the Dowlais Group's capital expenditure in the Financial Years 2022, 2021 and 2020:

	Financial Year		
	2022	2021	2020
	(£ millions)		
Segment			
GKN Automotive	187	113	130
GKN Powder Metallurgy	44	40	33
GKN Hydrogen	—	1	—
Total	<u>231</u>	<u>154</u>	<u>163</u>

Capital expenditure in the Financial Year 2022 was £231 million, as a result of the increased growth and a return to more normal levels of investment, representing 0.9x depreciation.

Capital expenditure in the Financial Year 2021 was £154 million, and reflected the Dowlais Group's reduced levels of activity due to the effects of the COVID-19 pandemic and global semiconductor shortages compared to historical levels.

Capital expenditure in the Financial Year 2020 was £163 million, which represented lower than normal investment levels due to the Dowlais Group's response to the COVID-19 pandemic and the priority to preserve cash.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2022, the Dowlais Group had no material off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgements and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. A detailed description of certain of the main accounting policies used in preparing the Historical Financial Information is set forth in Note 2 of the Historical Financial Information.

PART XI
CAPITALISATION AND INDEBTEDNESS

The information below should be read together with the carve-out historical financial information included elsewhere in this Prospectus, the information set out in Part XII (Historical Financial Information) of this Prospectus, as well as the information under Part X (Operating and Financial Review) of this Prospectus. The tables below are prepared for illustrative purposes only.

CAPITALISATION

The capitalisation information as at 31 December 2022 set out below has been extracted without material adjustment from the Dowlais Group's historical financial information set out in Part XII (*Historical Financial Information*) of this Prospectus:

	<u>As at 31 December 2022</u> (£ in millions)
Total current debt (including current portion of non-current debt)	
Guaranteed	—
Secured	(25)
Unguaranteed/Unsecured	(2,176)
	<u>(2,201)</u>
Total non-current debt (excluding current portion of non-current debt)	
Guaranteed	—
Secured	(134)
Unguaranteed/Unsecured	—
	<u>(134)</u>
	<u>(2,335)</u>
Shareholders' equity	
Share capital	—
Legal reserves	—
Other reserves	4,926
Total	<u><u>4,926</u></u>

Unsecured debt of £2,176 million relates to loans payable to related parties, which comprise the Ultimate Parent, or other non-Group entities owned by the Ultimate Parent.

NET FINANCIAL INDEBTEDNESS

The following table sets out the Dowlais Group's net financial indebtedness as at 31 December 2022:

	As at 31 December 2022
	(£ in millions)
Cash	270
Cash equivalents	—
Other current financial assets	535
Liquidity	805
Current financial debt (including debt instruments but excluding current portion of non-current financial debt)	(7)
Current portion of non-current financial debt	—
Other current financial debt	(2,169)
Current financial debt	(2,176)
Net current financial indebtedness	(1,371)
Non-current financial debt	—
Debt instruments	—
Non-current trade and other payables	(20)
Non-current financial indebtedness	(20)
Net financial indebtedness	(1,391)

The Dowlais Group had no other indirect or contingent liabilities, or any contingent commitments as at 31 December 2022.

The Dowlais Group's net financial indebtedness in the table above does not take into account the Transactions described in Part XIII (*Unaudited Pro Forma Financial Information*). Except as set out in the preceding sentence, there has been no material change in the Dowlais Group's net indebtedness since 31 December 2022.

PART XII
HISTORICAL FINANCIAL INFORMATION

PART A: ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION

Deloitte.

Deloitte LLP
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London
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United Kingdom

The Board of Directors
on behalf of Dowlais Group plc
2nd Floor Nova North
11 Bressenden Place
London
SW1E 5BY
England

N.M. Rothschild & Sons Limited
New Court
St Swithin's Lane
London
EC4N 8AL
United Kingdom

3 March 2023

Dear Sirs/Mesdames

Dowlais Group plc and, together with its subsidiaries, the "Group"

We report on the financial information of the Dowlais Group for the years ended 31 December 2020, 31 December 2021 and 31 December 2022 set out in Part B of Part XII of the prospectus dated 3 March 2023 of Dowlais Group plc (the "Company") (the "Prospectus"). This report is required by Annex 1 item 18.3.1 of the UK version of the Commission delegated regulation (EU) No 2019/980 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended (the "Prospectus Delegated Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Dowlais Group as at 31 December 2020, 31 December 2021 and 31 December 2022 and of its profits, cash flows and changes in equity and statement of comprehensive income for the years then ended in accordance with the basis of preparation set out in Note 1.1 to the financial information.

Responsibilities

As described in Note 1 the Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in Note 1.1 to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex 1 item 1.3 of the Prospectus Delegated Regulation, consenting to its inclusion in the Prospectus.

Basis of preparation

This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in Note 1.1 to the financial information.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Financial Reporting Council (“FRC”) in the United Kingdom. We are independent of the Company and the Dowlais Group in accordance with the FRC’s Ethical Standard as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Conclusions Relating to Going Concern

In performing this engagement on the financial information, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial information is appropriate.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R(2)(f), we are responsible for this report as part of the Prospectus and declare that to the best of our knowledge the information contained in this report is, in accordance with the facts and that the report makes no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex 1 item 1.2 of the Prospectus Delegated Regulation and for no other purpose.

Yours faithfully

Deloitte LLP

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

PART B: HISTORICAL FINANCIAL INFORMATION

Carve-out Income Statement

	Notes	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
		£m	£m	£m
Revenue	4, 5	4,595	4,123	4,126
Cost of sales		(3,937)	(3,542)	(3,656)
Gross profit		658	581	470
Share of results of equity accounted investments	12	49	38	32
Net operating expenses	7	(649)	(740)	(758)
Operating profit/(loss)	5, 6	58	(121)	(256)
Finance costs	7	(272)	(208)	(107)
Finance income	7	151	75	139
Loss before tax		(63)	(254)	(224)
Tax	8	(14)	(44)	28
Loss after tax for the year		(77)	(298)	(196)
Attributable to:				
Owners of the Ultimate Parent		(82)	(302)	(199)
Non-controlling interests		5	4	3
		(77)	(298)	(196)
Adjusted⁽¹⁾ results				
Adjusted revenue	5	5,246	4,731	4,711
Adjusted operating profit	5, 6	333	242	104
Adjusted profit before tax	6	297	204	51
Adjusted profit after tax	6	218	155	31

(1) Defined in the summary of significant accounting policies (note 2).

Carve-out Statement of Comprehensive Income

	Notes	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Loss after tax for the year		<u>(77)</u>	<u>(298)</u>	<u>(196)</u>
Items that will not be reclassified subsequently to the Carve-out Income Statement:				
Net remeasurement gain on retirement benefit obligations	20	72	120	62
Income tax charge relating to items that will not be reclassified	8	<u>(27)</u>	<u>(27)</u>	<u>(8)</u>
		45	93	54
Items that may be reclassified subsequently to the Carve-out Income Statement:				
Currency translation		272	(110)	(20)
Share of other comprehensive income from equity accounted investments		12	14	15
Income tax (charge)/credit relating to items that may be reclassified	8	<u>(12)</u>	<u>(1)</u>	<u>8</u>
		272	(97)	3
Other comprehensive income/(expense) for the year		<u>317</u>	<u>(4)</u>	<u>57</u>
Total comprehensive income/(expense) for the year		<u>240</u>	<u>(302)</u>	<u>(139)</u>
Attributable to:				
Owners of the Ultimate Parent		234	(306)	(142)
Non-controlling interests		<u>6</u>	<u>4</u>	<u>3</u>
		<u>240</u>	<u>(302)</u>	<u>(139)</u>

Carve-out Statement of Cash Flows

	Notes	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Net cash from operating activities	23	<u>210</u>	<u>223</u>	<u>390</u>
Investing activities				
Disposal of businesses, net of cash disposed		—	(13)	—
Purchase of property, plant and equipment		(202)	(155)	(173)
Proceeds from disposal of property, plant and equipment and intangible assets		23	9	7
Purchase of computer software and capitalised development costs		(20)	(13)	(12)
Dividends received from equity accounted investments	12	59	52	54
Acquisition of subsidiaries, net of cash acquired	10	—	—	(19)
Interest received		<u>3</u>	<u>5</u>	<u>3</u>
Net cash used in investing activities		<u>(137)</u>	<u>(115)</u>	<u>(140)</u>
Financing activities				
Repayment of loans with Related Parties ⁽¹⁾		(78)	—	(339)
Drawings on loans with Related Parties ⁽¹⁾		—	48	—
Repayment of principal under lease obligations	24	(22)	(22)	(25)
Net cash (used in)/from financing activities		<u>(100)</u>	<u>26</u>	<u>(364)</u>
Net (decrease)/increase in cash and cash equivalents, net of bank overdrafts		(27)	134	(114)
Cash and cash equivalents, net of bank overdrafts at the beginning of the year	23	275	141	255
Effect of foreign exchange rate changes		<u>15</u>	—	—
Cash and cash equivalents, net of bank overdrafts at the end of the year	23	<u><u>263</u></u>	<u><u>275</u></u>	<u><u>141</u></u>

(1) Related Parties comprise the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent.

Carve-out Balance Sheet

	Notes	31 December 2022 £m	31 December 2021 £m	31 December 2020 £m
Non-current assets				
Goodwill and other intangible assets	9	3,075	3,098	3,382
Property, plant and equipment	11	1,813	1,742	1,972
Interests in equity accounted investments	12	424	422	422
Loans receivable from Related Parties ⁽¹⁾	17	2,826	3,378	3,295
Deferred tax assets	19	99	87	141
Derivative financial assets	21	9	1	3
Retirement benefit surplus	20	42	75	—
Other receivables	14	21	11	7
		<u>8,309</u>	<u>8,814</u>	<u>9,222</u>
Current assets				
Inventories	13	498	436	437
Trade and other receivables	14	638	505	607
Derivative financial assets	21	24	7	10
Current tax assets		20	7	14
Cash and cash equivalents	15	270	275	141
		<u>1,450</u>	<u>1,230</u>	<u>1,209</u>
Total assets	5	<u>9,759</u>	<u>10,044</u>	<u>10,431</u>
Current liabilities				
Trade and other payables	16	1,188	1,008	1,131
Loans payable to Related Parties ⁽¹⁾	17	2,176	2,547	2,602
Lease obligations	24	25	23	23
Derivative financial liabilities	21	10	77	8
Current tax liabilities		109	111	120
Provisions	18	140	173	207
		<u>3,648</u>	<u>3,939</u>	<u>4,091</u>
Net current liabilities		<u>(2,198)</u>	<u>(2,709)</u>	<u>(2,882)</u>
Non-current liabilities				
Other payables	16	28	26	13
Lease obligations	24	134	140	149
Derivative financial liabilities	21	2	3	82
Deferred tax liabilities	19	293	268	260
Retirement benefit obligations	20	503	603	748
Provisions	18	186	230	284
		<u>1,146</u>	<u>1,270</u>	<u>1,536</u>
Total liabilities	5	<u>4,794</u>	<u>5,209</u>	<u>5,627</u>
Net assets		<u>4,965</u>	<u>4,835</u>	<u>4,804</u>
Invested capital				
Net investment by the Ultimate Parent		4,885	5,032	4,908
Translation reserve	22	41	(230)	(133)
Equity attributable to owners of the Ultimate Parent		<u>4,926</u>	<u>4,802</u>	<u>4,775</u>
Non-controlling interests		39	33	29
Total invested capital		<u>4,965</u>	<u>4,835</u>	<u>4,804</u>

(1) Related Parties comprise the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent.

Carve-out Statement of Changes in Total Invested Capital

	Net investment by the Ultimate Parent	Translation reserve	Equity attributable to owners of the Ultimate Parent	Non-controlling interests	Total invested capital
	£m	£m	£m	£m	£m
At 1 January 2020	5,194	(136)	5,058	26	5,084
(Loss)/profit for the year	(199)	—	(199)	3	(196)
Other comprehensive income	54	3	57	—	57
Total comprehensive (expense)/income	(145)	3	(142)	3	(139)
Transactions with Related Parties ⁽¹⁾ . .	<u>(141)</u>	<u>—</u>	<u>(141)</u>	<u>—</u>	<u>(141)</u>
At 31 December 2020	4,908	(133)	4,775	29	4,804
(Loss)/profit for the year	(302)	—	(302)	4	(298)
Other comprehensive income/(expense)	93	(97)	(4)	—	(4)
Total comprehensive (expense)/income	(209)	(97)	(306)	4	(302)
Dividends paid ⁽²⁾	(34)	—	(34)	—	(34)
Transactions with Related Parties ⁽¹⁾ . .	<u>367</u>	<u>—</u>	<u>367</u>	<u>—</u>	<u>367</u>
At 31 December 2021	5,032	(230)	4,802	33	4,835
(Loss)/profit for the year	(82)	—	(82)	5	(77)
Other comprehensive income	45	271	316	1	317
Total comprehensive (expense)/income	(37)	271	234	6	240
Transactions with Related Parties ⁽¹⁾ . .	<u>(110)</u>	<u>—</u>	<u>(110)</u>	<u>—</u>	<u>(110)</u>
At 31 December 2022	<u>4,885</u>	<u>41</u>	<u>4,926</u>	<u>39</u>	<u>4,965</u>

(1) Transactions with Related Parties include the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent and are detailed in Note 25.

(2) Dividends paid to a non-Group entity controlled by the Ultimate Parent.

Notes to the Carve-out Historical Financial Information

1. Corporate information

Dowlais Group plc comprises the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses along with certain Head Office functions, together referred to as the “Group”. GKN Automotive is a global technology and systems engineer which designs, develops, manufactures and integrates an extensive range of driveline technologies, including electric vehicle components. GKN Powder Metallurgy is a global leader in precision powder metal parts for the automotive and industrial sectors, as well as the production of powder metal. GKN Hydrogen, launched in 2021, offers reliable and secure hydrogen storage solutions.

The Historical Financial Information shows an aggregation of these businesses, which have been the operating segments of the Group during the three years ended 31 December 2022. Dowlais Group plc was incorporated as a company in England and Wales on 13 January 2023. As of 3 March 2023, all of the entities within the Group are owned directly or indirectly by Dowlais Group plc. Further details are given on post balance sheet events in Note 27. The ultimate parent company and controlling party is Melrose Industries PLC (the “Ultimate Parent”), a company incorporated in England & Wales.

A list of all entities that are included in the Group is set in Section 1.1 below. Other entities owned by Dowlais Group plc which do not form part of the Group have been excluded.

Corporate structure

During the year ended 31 December 2021, the Group completed the disposal of two non-core entities (one in the Automotive division and one in the Powder Metallurgy division), which have not been treated as discontinued operations as they do not represent separate major lines of business. These disposals were immaterial to the Group.

On 2 January 2020, the Powder Metallurgy division completed the acquisition of Forecast 3D, a leading US specialist in plastic additive manufacturing and 3D printing services offering a full range of services from concept to series production, for initial consideration of £19 million. Further information is detailed in Note 10.

1.1 Basis of preparation

The combined Historical Financial Information of the Group as of and for the years ended 31 December 2020, 2021 and 2022 has been prepared specifically for the purposes of a Prospectus and in accordance with Regulation (EU) 2017/1129 as supplemented by Commission Delegated Regulation (EU) 2019/980 each as they form part of United Kingdom domestic law by virtue of the EU Withdrawal Act 2018 and in accordance with the basis of preparation set out below.

The Group has not constituted a single legal subgroup throughout the periods presented and accordingly the Historical Financial Information presented has been combined through an aggregation of the results, assets, liabilities and equity of the individual entities within the Group. The Historical Financial Information is presented in Pound Sterling.

International Financial Reporting Standards (“IFRS”) does not explicitly provide guidance for the preparation of combined Historical Financial Information and accordingly, in preparing the Historical Financial Information certain accounting conventions permitted for the preparation of Historical Financial Information for inclusion in investment circulars as described in the Annexure to Standards for Investment Reporting 2000—Standards for Investment Reporting Applicable to Public Reporting Engagements on Historical Financial Information issued by the Financial Reporting Council of the United Kingdom (“SIR 2000”) have been applied where IFRS does not provide specific accounting treatments. The Group has prepared this Historical Financial Information in accordance with IFRS except as disclosed below.

During the reporting periods presented, the Group did not prepare consolidated financial statements as it did not operate as a separate legal group.

The Historical Financial Information reflects the assets, liabilities, revenues, expenses and cash flows of the entities included in the Group. Transactions and account balances related to entities owned by Dowlais Group plc but excluded from the Historical Financial Information, has been recorded against Total Invested Capital during the periods presented.

The following considerations have been applied to this Carve-out Historical Financial Information:

- All transactions and balances between entities included within the Group have been eliminated. Transactions and balances with the Ultimate Parent, or other non-Group entities controlled by the

Ultimate Parent, are classified as related party transactions. Some of these transactions have been recorded through Total Invested Capital as explained in Note 25.

- The Group financed its operations using financing arrangements which are similar in nature to a revolving credit facility, through the Ultimate Parent, and other non-Group entities controlled by the Ultimate Parent. To the extent that an asset, liability, revenue or expense is directly associated with the Group, it is reflected in the Carve-out Historical Financial Information. Because the Group has been part of a wider group of companies controlled by the Ultimate Parent, the Carve-out Historical Financial Information may not reflect the same financing costs had the Group obtained financing on a standalone basis.
- Issued share capital and the share premium accounts of entities that are included in the Group and retained earnings have been aggregated and are classified as the “net investment by the Ultimate Parent”, as such in line with SIR 2000 earnings per share is not presented as it would not provide meaningful information.
- The Group’s current and deferred taxes were computed on an actual return basis.
- General corporate services historically have been provided by the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent to the Group on a very limited basis, comprising tax and treasury support functions that are directly attributable to the Group have been allocated using appropriate and consistent allocation methods, primarily headcount. Executive Directors of the Group, believe the costs of these services charged to the Group are a reasonable representation of the costs that would have been incurred if the Group had performed these functions on a standalone basis.

This Carve-out Historical Financial Information may not be indicative of the Group’s financial performance and does not necessarily reflect what its results of operations, financial position and cash flows would have been had the Group operated as an independent group during the periods presented.

The following entities are fully consolidated within this Carve-out Historical Financial Information:

<u>Entities</u>	<u>Country of incorporation</u>	<u>Equity interest %</u>
G.K.N. Industries Limited	United Kingdom	100%
GKN Firth Cleveland Limited	United Kingdom	100%
GKN Countertrade Ltd	United Kingdom	100%
GKN Sheepbridge Stokes Limited	United Kingdom	100%
GKN Sheepbridge Limited	United Kingdom	100%
GKN Ventures Limited	United Kingdom	100%
G.K.N. Group Services Limited ⁽¹⁾	United Kingdom	100%
GKN Group Pension Trustee (No.2) Limited	United Kingdom	100%
G.K.N. Group Pension Trustee Limited	United Kingdom	100%
GKN Sinter Metals Limited	United Kingdom	100%
G.K.N. Powder Met. Limited	United Kingdom	100%
G.K.N. International Trading (Holdings) Limited ⁽¹⁾	United Kingdom	100%
GKN Powder Metallurgy Holdings Limited	United Kingdom	100%
GKN Sinter Metals Ltda	Brazil	100%
GKN Sinter Istanbul Metal Sanayi Ve Ticaret Ananim Sirketi	Turkey	100%
GKN Sinter Metals Mexico S. De R.L. De. C.V	Mexico	100%
GKN Powder Metallurgy Japan K.K	Japan	100%
GKN Sinter Metals St Thomas Limited	Canada	100%
Hoeganaes Corporation Europe SA	Romania	100%
GKN Sinter Metals Private Limited	India	99.99%
GKN Powder Metallurgy Holdings, Inc	United States of America	100%
Hoeganaes Corporation	United States of America	100%
GKN Sinter Metals LLC	United States of America	100%
GKN Specialty Products Americas Corp	United States of America	100%
Product Slingshot, Inc.	United States of America	100%
GKN Sinter Metals SpA	Italy	100%
GKN Specialty Products Europe SRL	Romania	100%
GKN Sinter Metals Mexico Services S. De R.L. De. C.V	Mexico	100%
GKN Powder Metallurgy Holding GmbH	Germany	100%
GKN Sinter Metals GmbH, Bad Langensalza	Germany	100%

<u>Entities</u>	<u>Country of incorporation</u>	<u>Equity interest %</u>
GKN Powder Metallurgy Engineering GmbH	Germany	100%
GKN Sinter Metals Components GmbH	Germany	100%
GKN Sinter Metals Filters GmbH Radevormwald	Germany	100%
GKN Sinter Metals & Forge Operations GmbH	Germany	100%
GKN U.S. Investments Limited	United Kingdom	100%
GKN USD Investments Limited	United Kingdom	100%
GKN UK Investments Limited	United Kingdom	100%
GKN UK Holdings BV	Netherlands	100%
GKN Driveline Koping AB	Sweden	100%
GKN Automotive Hungary Korlátolt Felelősségű Társaság	Hungary	100%
GKN Overseas Holdings Limited	United Kingdom	100%
Eljas sp. z o.o.	Poland	100%
GKN Driveline Celaya SA de CV	Mexico	100%
GKN Driveline Tochigi Holdings KK	Japan	100%
GKN Driveline Zumaia SA	Spain	100%
GKN Ayra Servicio SA	Spain	100%
GKN Driveline Vigo SA	Spain	100%
GKN Eskisehir Automotive Products Manufacture and Sales AS	Turkey	100%
GKN do Brasil Ltda	Brazil	100%
GKN Driveline Mexico Trading SA de CV	Mexico	100%
GKN Driveline International GmbH	Germany	100%
GKN Driveline Trier GmbH	Germany	100%
GKN Driveline Service GmbH	Germany	100%
GKN Driveline Deutschland GmbH	Germany	100%
GKN Driveline (Thailand) Limited	Thailand	100%
GKN Driveline (India) Limited	India	97.07%
GKN Automotive Management GmbH	Germany	100%
GKN Driveline Malaysia Sdn Bhd	Malaysia	68.42%
GKN China Holding Co. Limited	China	100%
GKN Danyang Industries Company Limited	China	100%
GKN Driveline Slovenja doo	Slovenia	100%
GKN Driveline Brunico SpA	Italy	100%
Dowlais Automotive Limited	United Kingdom	100%
GKN Zhongyuan Cylinder Liner Company Ltd	China	59%
GKN Automotive SAS	France	100%
GKN Driveline Ribemont SARL	France	100%
GKN Freight Services EURL	France	100%
GKN Automotive Management SAS	France	100%
GKN Driveline SA	France	100%
GKN Driveline Polska Sp zoo	Poland	100%
GKN America Corp	United States of America	100%
GKN Driveline Bowling Green Inc.	United States of America	100%
GKN Freight Services Inc.	United States of America	100%
GKN Driveline North America Inc	United States of America	100%
GKN Cylinder Liners LLC	United States of America	100%
XIK LLC	United States of America	100%
GKN North America Services Inc	United States of America	100%
GKN North America Investments Inc	United States of America	100%
GKN Driveline Newton LLC	United States of America	100%
GKN Freight Services Limited	United Kingdom	100%
GKN Automotive Holdings Limited	United Kingdom	100%
GKN Automotive Limited	United Kingdom	100%
GKN EVO eDrive Systems Limited	United Kingdom	100%
GKN Birfield Extrusions Limited	United Kingdom	100%
GKN Driveline Service Limited	United Kingdom	100%
Ball Components Limited	United Kingdom	100%
GKN Automotive Portugal Limitada	Portugal	100%
GKN Hybrid Power Limited	United Kingdom	100%

<u>Entities</u>	<u>Country of incorporation</u>	<u>Equity interest %</u>
GKN Service UK Limited	United Kingdom	100%
GKN Driveline Birmingham Limited	United Kingdom	100%
GKN Driveline UK Limited	United Kingdom	100%
Dowlais Industries Limited	United Kingdom	100%
GKN Marks Limited ⁽¹⁾	United Kingdom	100%
GKN Cylinder Liners UK Limited	United Kingdom	100%
GKN 2 Trustee 2018 Limited	United Kingdom	100%
GKN 3 Trustee 2018 Limited	United Kingdom	100%
GKN Investments III GP Limited	United Kingdom	100%
GKN Investments III LP	United Kingdom	100%
GKN Hydrogen Limited	United Kingdom	100%
GKN Hydrogen GmbH	Germany	100%
GKN Hydrogen Corp	United States of America	100%
GKN Hydrogen SRL	Italy	100%
GKN Hydrogen Italy SRL	Italy	100%
GKN Euro Investments Limited ⁽¹⁾	United Kingdom	100%
Dowlais Group Limited	United Kingdom	100%
GKN Driveline Japan Limited	Japan	100%
GKN Automotive Bengaluru Private Limited	India	100%
GKN Sinter Metals Yizheng Co. Limited	China	100%

(1) Equity interest percentage represents the beneficial interest held as at 31 December 2022, with the legal interest having transferred at a later date following the share register being updated completion of the stamping process. See section 4.2 (*History of the share capital and reorganisation*) of Part XV (*Additional information*) for further details.

The following entities are included as equity accounted or non-controlling investments within this Historical Financial Information:

<u>Entities</u>	<u>Country of incorporation</u>	<u>Equity interest %</u>
Hoeganaes Specialty Metal Powders LLC	United States of America	30%
Taiway Limited	Taiwan	36.25%
GKN (Bazhou) Metal Powder Company Limited	China	40%
Shanghai GKN Driveline Sales Co Limited	China	49%
Shanghai GKN HUAYU Driveline Systems Co Limited	China	50%
GKN HUAYU Driveline Systems (Chongqing) Co Limited	China	34.5%
GKN HUAYU Driveline Systems (Pinghu) Co Limited	China	50%
Transejes Transmisiones Homocineticas de Colombia SA	Colombia	49%
Nanjing FAYN Piston Ring Company Limited	China	19.79%

1.2 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 this Historical Financial Information:

- Amendments to IFRS 3: Reference to the conceptual framework
- Amendments to IAS 16: Property, Plant and Equipment, proceeds before intended use
- Amendments to IAS 37: Onerous Contracts, cost of fulfilling a contract
- Annual Improvements to IFRS Accounting Standards: 2018-2020 cycle

1.3 New Standards, Amendments and Interpretations in issue but not yet effective

At 31 December 2022, 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 disclosure of accounting policies
- Amendments to IAS 8: Definition of accounting estimates
- Amendments to IAS 12: Deferred tax related to assets and liabilities arising from a single transaction

The Executive Directors do not expect that adoption of the above Standards, Amendments and Interpretations will have a material impact on the Group in future periods.

2. Summary of significant accounting policies

Basis of accounting

The Carve-out Historical Financial Information has been prepared on a 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”).

The reconciling items between statutory and adjusted results are listed below and described in more detail in Note 6.

Adjusted revenue includes the Group’s share of revenue from equity accounted investments (“EAIs”).

Adjusted profit measures exclude items which are significant in size or volatility or by nature are non-trading or non-recurring, any item released to the Carve-out Income Statement that was previously a fair value item booked on an acquisition, and include adjusted profit from EAIs.

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;
- Removal of adjusting items, interest and tax on equity accounted investments to reflect operating results;
- Costs associated with the gender equalisation of guaranteed minimum pension (“GMP”) for occupational schemes; and
- The net release of fair value items booked on acquisitions.

Further to the adjusting items above, adjusting items impacting profit before tax include:

- The fair value changes on cross-currency swaps, relating to cost of hedging which are not deferred in equity; and
- The movement in loans with Related Parties as a result of changes in foreign currency exchange rates.

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/(loss) before tax.

Management 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.

Adjusted results are 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 Carve-out Historical Financial Information includes the results of all of the entities detailed in Note 1. 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 Carve-out Historical Financial Information has been prepared on a going concern basis as the Executive Directors consider that adequate resources exist for the Group to continue in operational existence for the foreseeable future.

The Group is currently part of a wider group owned by the Ultimate Parent. The Group has external obligations for ongoing trade operations as well as debt outside of the Group with non-Group entities owned by the Ultimate Parent. At 31 December 2022, the Group was owed more than £650 million by non-Group entities owned by the Ultimate Parent, and has recognised cash balances, net of overdrafts, of £263 million. The Group has also recorded positive operating cash flows for each year of the Historical Financial Information period and is forecast to continue to do so following the proposed demerger. The Ultimate Parent and non-Group entities owned by the Ultimate Parent have banking facilities which are used to fund the Group and other non-Group entities. None of the Ultimate Parent and non-Group entities' banking facility matures in the going concern period following an extension agreed during 2021. The next contractual maturity is in June 2024 and whilst changes to banking arrangements are being considered to facilitate the proposed demerger of the Group, these will only be enacted if the shareholders approve the demerger.

Prior to demerger, the Ultimate Parent intends to complete a reorganisation of its corporate structure to bring all of the companies that comprise the Dowlais Group under the ownership of Dowlais Group plc. Further detail is given on post balance sheet events in Note 27. As part of this reorganisation, the Group intends to pay a dividend, which will be financed by both settling pre-existing loan balances payable to or receivable from non-Group entities owned by the Ultimate Parent and new external debt facilities.

As part of its preparation for the proposed demerger, the Ultimate Parent has agreed revised banking documentation for the non-Group entities owned by the Ultimate Parent and the Group has agreed separate revised banking documentation for the Group entities, which is comparable in nature with existing arrangements which the Ultimate Parent has in place and would provide the Group with sufficient liquidity throughout the going concern period (through standalone financing arrangements), albeit contingent on shareholder approval of the demerger.

Considerations

The Group's going concern assessment takes into account the estimated impact of a continued recovery from the COVID-19 pandemic as well as other end market and operational factors, including supply chain challenges and the continued recovery of inflation on input costs, throughout the going concern period and has been monitored against the actual results and cash generation in the year.

The Group has included in its assessment more conservative sales assumptions for 2023 and the first half of 2024, along with the consequential impact on profit and cash flow. The Group has also considered if it would have access to sufficient sources of finance in the case of an additional working capital outflow.

In all areas of the going concern assessment, even with significant sensitivity reductions, the Group will not require any additional sources of finance.

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 Group 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 Carve-out 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 Carve-out 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.

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 Carve-out Historical Financial Information only to the extent of interests in equity accounted investments that are not related to the Group.

Revenue

Revenues are recognised at the point of transfer of control of goods, as no revenue qualifies to be recognised over time. 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 a combination of:

- Sale of products; and
- Design and build.

Contracts are reviewed to identify each performance obligation relating to distinct goods 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 goods on their 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

This revenue stream accounts for the majority of Group sales.

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 or acceptance by the customer. 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 Automotive and Powder Metallurgy 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.

Participation fees are payments made to original equipment manufacturers relating to long-term agreements. They are recognised as contract assets to the extent that they can be recovered from future sales over the programme life, generally up to seven years.

Design and build

This revenue stream affects a discrete number of businesses in the Automotive segment. 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. As there is generally only one performance obligation, any cash received in advance is deferred on the Carve-out Balance Sheet and allocated across the deliveries required under the contract.

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 Carve-out Income Statement in the period in which they are incurred.

Issue costs of loans

The finance cost recognised in the Carve-out Income Statement in respect of the issue costs of borrowings is allocated to periods over the terms of the instrument using the effective interest rate method.

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 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.

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 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 Carve-out 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 Carve-out 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	9 years or less
Computer software	5 years or less
Development costs	6 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 must be able to be measured reliably. Capitalised costs are expensed on a straight-line basis over their useful lives of six 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 Carve-out Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Loans with Related Parties

All loans and borrowings are initially recognised at fair value of the consideration received net of the associated issue costs.

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 Carve-out Income Statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Leases

Where a lease arrangement is identified, a liability to the lessor is included in the Carve-out 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 Carve-out Income Statement within finance costs.

Leases with a term of 12 months or less and leases for low value are not recorded on the Carve-out Balance Sheet and lease payments are recognised as an expense in the Carve-out 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 Carve-out 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 Carve-out 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.

Investments

The Group has an investment in unlisted shares that are not traded in an active market, but are classified as financial assets, measured at fair value. Fair value 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 Carve-out 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 Carve-out 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 Carve-out 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 Carve-out 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

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 21 of the Carve-out Historical Financial Information.

Derivative financial instruments are recognised and stated at fair value in the Carve-out 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 Carve-out 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 Carve-out Balance Sheet. Derivatives embedded in non-derivative host contracts are recognised at their fair value in the Carve-out 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 Carve-out Income Statement.

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 Carve-out 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 Carve-out 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 Carve-out 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 Carve-out Historical Financial Information, the results and financial position of each Group company are expressed in pounds Sterling, which is also the presentation currency for the Carve-out Historical Financial Information.

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 Carve-out Income Statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Carve-out 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 total invested capital. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in total invested capital.

For the purpose of presenting Carve-out Historical Financial Information, 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 Carve-out 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 Carve-out 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 Carve-out 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 Carve-out Statement of Comprehensive Income and not in the Carve-out 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 Carve-out Balance Sheet.

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 Carve-out 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 Carve-out 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 Carve-out Balance Sheet and transferred to the Carve-out 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 Carve-out Income Statement in the period in which they become receivable.

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 Executive 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 Carve-out Historical Financial Information, a critical judgement within the scope of paragraph 122 of IAS 1: Presentation of Financial Statements is made during the process of applying the Group's accounting policies.

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 is included in Note 2.

There are no other critical judgements other than those involving estimates, that have had a significant effect on the amounts recognised in the Carve-out Historical Financial Information. 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.

a) Assumptions used to determine the recoverable amount of goodwill and other assets

Determining whether the goodwill of groups of cash generating units (“CGUs”) is impaired requires an estimation of its recoverable amount which is compared against the carrying value. The recoverable amount is deemed to be the higher of the value in use and fair value less costs to sell. For the year ended 31 December 2022, impairment testing has been performed for each group of CGUs using the fair value less costs to sell method. The fair values of the groups of CGUs are calculated using a combination of estimated discounted cash flows and EBITDA multiple valuations, as in the current environment it has been difficult to assess a sales value using observable market inputs (level 1) or inputs based on market evidence (level 2) and so unobservable inputs (level 3) have been used.

The Automotive and Powder Metallurgy groups of CGUs are sensitive to a change in estimates, depending on how their markets continue to recover from the implications of the COVID-19 pandemic and supply chain disruption as well as how they continue to recovery inflation impacts on input costs. As at 31 December 2022, the carrying amount of goodwill and other intangible assets (not including computer software and development costs) in the Automotive group of CGUs is £1,938 million (31 December 2021: £1,980 million, 31 December 2020: £2,172 million) and in the Powder Metallurgy group of CGUs is £1,081 million (31 December 2021: £1,066 million, 31 December 2020: £1,152 million). The sensitivity disclosures in Note 9 show reasonably possible changes to key assumptions and their effect on the impairment models, which could reduce headroom to nil. In order for a material impairment charge or loss on disposal to be recorded in the next year the following reasonably possible changes in key assumptions would need to occur:

- In the Automotive groups of CGUs, terminal operating profit would need to reduce by 16% which would reduce the terminal operating margin by 1.7 percentage points.
- In the Powder Metallurgy groups of CGUs, terminal operating profit would need to reduce by 10% which would reduce the terminal operating margin by 1.3 percentage points.

b) 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 2022, the retirement benefit obligation was a net deficit of £461 million (31 December 2021: £528 million, 31 December 2020: £748 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 20. Whilst actual movements might be different to sensitivities shown, these are a reasonably possible change that could occur.

c) Loss-making contracts

Loss-making contract provisions represent the forecast unavoidable costs required to meet the obligations of long-term agreements, in excess of the contractual inflow expected to be generated in respect of these agreements. In assessing the unavoidable costs, management has considered the possibility that future actions could impact the profitability of the contracts. Calculation of the liability includes estimations of volumes, price and costs to be incurred over the life of the contract, which are discounted to a current value. Future changes within these estimates, or commercial progress could have a material impact on the provision in future periods. At 31 December 2022, the carrying value of the loss-making contracts provision in the Group was £46 million

(31 December 2021: £70 million, 31 December 2020: £119 million). In the last three years significant progress has been made resolving commercial and operational issues within a large number of loss-making contracts. The release has on average been 22% of the balance immediately before reassessment. If the Group were to achieve a similar level of success on the amount outstanding at 31 December 2022, there could be a further £10 million released to adjusting items (shown within ‘net release and changes in discount rates of fair value items’) in the next year.

4. Revenue

An analysis of the Group’s revenue is as follows:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Revenue recognised at a point in time	<u>4,595</u>	<u>4,123</u>	<u>4,126</u>
Revenue	<u>4,595</u>	<u>4,123</u>	<u>4,126</u>

The Group derives its revenue from the transfer of goods at a point in time. As set out in the accounting policies in Note 2, the Group has two primary revenue streams. There is little judgement or estimation in the revenue recognition of these areas.

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 Executive Directors, in order to allocate resources to the segments and assess their performance.

The operating segments are as follows:

Automotive—a global technology and systems engineer which designs, develops, manufactures and integrates an extensive range of driveline technologies, including electric vehicle components.

Powder Metallurgy—a global leader in precision powder metal parts for the automotive and industrial sectors, as well as the production of powder metal.

Hydrogen—offering reliable and secure hydrogen storage solutions, launched in 2021.

In addition, there is a central cost centre which is also reported to the Group’s CODM. The central cost centre contains the 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 central cost centre.

a) Segment revenues

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.

<u>Year ended 31 December 2022</u>	<u>Automotive</u>	<u>Powder Metallurgy</u>	<u>Hydrogen</u>	<u>Total</u>
	£m	£m	£m	£m
Adjusted revenue	4,223	1,022	1	5,246
Equity accounted investments	<u>(625)</u>	<u>(26)</u>	—	<u>(651)</u>
Revenue	<u>3,598</u>	<u>996</u>	<u>1</u>	<u>4,595</u>

<u>Year ended 31 December 2021</u>	<u>Automotive</u>	<u>Powder Metallurgy</u>	<u>Hydrogen</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Adjusted revenue	3,756	975	—	4,731
Equity accounted investments	(581)	(27)	—	(608)
Revenue	<u>3,175</u>	<u>948</u>	<u>—</u>	<u>4,123</u>
<u>Year ended 31 December 2020</u>	<u>Automotive</u>	<u>Powder Metallurgy</u>	<u>Hydrogen</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Adjusted revenue	3,806	905	—	4,711
Equity accounted investments	(566)	(19)	—	(585)
Revenue	<u>3,240</u>	<u>886</u>	<u>—</u>	<u>4,126</u>

b) Segment operating profit

<u>Year ended 31 December 2022</u>	<u>Automotive</u>	<u>Powder Metallurgy</u>	<u>Hydrogen</u>	<u>Corporate⁽¹⁾</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Adjusted operating profit/(loss)	250	96	(14)	1	333
Items not included in adjusted operating profit/ (loss) ⁽²⁾ :					
Amortisation of intangible assets acquired in business combinations	(147)	(51)	—	—	(198)
Restructuring costs	(37)	(17)	—	—	(54)
Equity accounted investments adjustments	(29)	—	—	—	(29)
Impairment of assets	(20)	—	—	—	(20)
Acquisition and disposal related gains and losses Movement in derivatives and associated financial assets and liabilities	(4)	—	—	1	(3)
	(7)	(1)	—	23	15
Net release and changes in discount rates of fair value items	5	9	—	—	14
Operating profit/(loss)	<u>11</u>	<u>36</u>	<u>(14)</u>	<u>25</u>	<u>58</u>
Finance costs					(272)
Finance income					151
Loss before tax					(63)
Tax					(14)
Loss for the year					(77)

<u>Year ended 31 December 2021</u>	<u>Automotive</u>	<u>Powder Metallurgy</u>	<u>Hydrogen</u>	<u>Corporate⁽¹⁾</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Adjusted operating profit/(loss)	172	91	(7)	(14)	242
Items not included in adjusted operating profit/ (loss) ⁽²⁾ :					
Amortisation of intangible assets acquired in business combinations	(142)	(49)	—	—	(191)
Restructuring costs	(147)	(18)	—	—	(165)
Equity accounted investments adjustments	(28)	—	—	—	(28)
Movement in derivatives and associated financial assets and liabilities	(1)	(3)	—	(10)	(14)
Net release and changes in discount rates of fair value items	14	11	—	1	26
Acquisition and disposal related gains and losses . .	<u>1</u>	<u>8</u>	<u>—</u>	<u>—</u>	<u>9</u>
Operating (loss)/profit	<u>(131)</u>	<u>40</u>	<u>(7)</u>	<u>(23)</u>	<u>(121)</u>
Finance costs					(208)
Finance income					<u>75</u>
Loss before tax					(254)
Tax					<u>(44)</u>
Loss for the year					<u>(298)</u>

<u>Year ended 31 December 2020</u>	<u>Automotive</u>	<u>Powder Metallurgy</u>	<u>Hydrogen</u>	<u>Corporate⁽¹⁾</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Adjusted operating profit/(loss)	82	39	—	(17)	104
Items not included in adjusted operating profit/ (loss) ⁽²⁾ :					
Amortisation of intangible assets acquired in business combinations	(147)	(52)	—	—	(199)
Restructuring costs	(60)	(48)	—	—	(108)
Impairment of assets	(21)	(30)	—	—	(51)
Equity accounted investments adjustments	(30)	—	—	—	(30)
Movement in derivatives and associated financial assets and liabilities	(2)	—	—	—	(2)
Impact of GMP equalisation on UK pension schemes	(1)	—	—	—	(1)
Net release and changes in discount rates of fair value items	(4)	34	—	—	30
Acquisition and disposal related gains and losses . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>
Operating loss	<u>(183)</u>	<u>(57)</u>	<u>—</u>	<u>(16)</u>	<u>(256)</u>
Finance costs					(107)
Finance income					<u>139</u>
Loss before tax					(224)
Tax					<u>28</u>
Loss for the year					<u>(196)</u>

(1) Corporate adjusted operating profit of £1 million (2021: loss of £14 million, 2020: loss of £17 million), includes a credit of £10 million (2021: costs of £6 million, 2020: costs of £17 million) in respect of divisional management long term incentive plans and £2 million (2021: £2 million, 2020: £2 million) relating to costs allocated to the Group for general corporate services which the Group would have incurred had it operated on a standalone basis.

(2) Further details on adjusting items are discussed in Note 6.

c) Segment total assets and liabilities

	Total assets			Total liabilities		
	31 December 2022	31 December 2021	31 December 2020	31 December 2022	31 December 2021	31 December 2020
	£m	£m	£m	£m	£m	£m
Automotive	4,832	4,654	5,149	2,177	2,093	2,444
Powder Metallurgy	1,791	1,709	1,822	409	446	488
Hydrogen	7	4	—	6	—	—
Corporate	3,129	3,677	3,460	2,202	2,670	2,695
Total	<u>9,759</u>	<u>10,044</u>	<u>10,431</u>	<u>4,794</u>	<u>5,209</u>	<u>5,627</u>

d) Segment capital expenditure and depreciation

	Capital expenditure ⁽¹⁾			Depreciation of owned assets ⁽²⁾			Depreciation of leased assets		
	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Automotive	187	113	130	184	198	199	14	15	18
Powder Metallurgy	44	40	33	53	51	61	10	9	9
Hydrogen	—	1	—	—	—	—	—	—	—
Corporate	—	—	—	—	—	—	—	—	—
Total	<u>231</u>	<u>154</u>	<u>163</u>	<u>237</u>	<u>249</u>	<u>260</u>	<u>24</u>	<u>24</u>	<u>27</u>

(1) Comprises additions of computer software, development costs and property, plant and equipment excluding additions of right-of-use assets (Note 11).

(2) Including computer software and development costs.

e) Geographical information

The Group operates in various geographical areas around the world. The Group's revenues and non-current assets in the UK, Rest of Europe and North America are considered to be material.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding loans receivable from Related Parties; deferred tax assets; derivative financial assets, retirement benefit surplus; and other receivables) by geographical location are detailed below:

	Revenue ⁽¹⁾ from external customers			Segment assets		
	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020	31 December 2022	31 December 2021	31 December 2020
	£m	£m	£m	£m	£m	£m
UK	172	159	171	723	788	850
Rest of Europe	1,495	1,471	1,442	1,952	1,942	2,305
North America	1,946	1,573	1,667	1,525	1,404	1,503
Other	982	920	846	1,112	1,128	1,118
Total	<u>4,595</u>	<u>4,123</u>	<u>4,126</u>	<u>5,312</u>	<u>5,262</u>	<u>5,776</u>

(1) Revenue is presented by destination.

6. Reconciliation of adjusted profit measures

As described in Note 2, adjusted profit measures are an alternative performance measure used by the Group's Chief Operating Decision Maker to monitor the operating performance of the Group.

a) Operating profit

	Notes	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Operating profit/(loss)		58	(121)	(256)
Amortisation of intangible assets acquired in business combinations	a	198	191	199
Restructuring costs	b	54	165	108
Equity accounted investments adjustments	c	29	28	30
Impairment of assets	d	20	—	51
Acquisition and disposal related gains and losses	e	3	(9)	(1)
Movement in derivatives and associated financial assets and liabilities	f	(15)	14	2
Net release and changes in discount rates of fair value items	g	(14)	(26)	(30)
Impact of GMP equalisation on UK pension schemes	h	—	—	1
Total adjustments to operating profit/(loss)		<u>275</u>	<u>363</u>	<u>360</u>
Adjusted operating profit		<u>333</u>	<u>242</u>	<u>104</u>

a. The amortisation charge on intangible assets acquired in business combinations of £198 million (2021: £191 million, 2020: £199 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 £54 million (2021: £165 million, 2020: £108 million), including a write down of non-current assets in affected sites of £nil (2021: £54 million, 2020: £17 million). These are shown as adjusting items due to their size and non-trading nature and included:

- A charge of £37 million (2021: £147 million, 2020: £60 million) within the Automotive division. These included multiple restructuring projects which concluded within the year, including two significant footprint consolidation actions in Europe, which commenced last year. In addition, restructuring costs were occurred in North America, continuing the movement of production from high to low cost countries. During the years ended 31 December 2021 and 31 December 2020, the business accelerated its efforts to address its high cost base, inherited on acquisition, and best position itself as it recovered post COVID-19.
- A charge of £17 million (2021: £18 million, 2020: £48 million) within the Powder Metallurgy division. Multiple restructuring projects in the business concluded within the year, including the closure of a factory in Canada. During the year ended 31 December 2021, the restructuring charge related to multiple restructuring projects under way that would set the business's cost base at a level such that target operating margins could be achieved when supply constraints eased. During the year ended 31 December 2020, the restructuring charge included costs associated with realigning the business for future demand, along with consolidation actions started in 2019 and the commencement during 2020 of the closure of a site in its underperforming North American Structural business.

c. The Group has a number of equity accounted investments ("EAIs") in which it does not hold full control, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"), within the Automotive business. The EAIs generated £651 million (2021: £608 million, 2020: £585 million) of revenue in the year, which is not included in the statutory results but is shown within adjusted revenue so as not to distort the operating margins reported in the businesses when the adjusted operating profit earned from these EAIs is included.

In addition, the profits and losses of EAIs, which are shown after amortisation of acquired intangible assets, interest and tax in the statutory results, are adjusted to show the adjusted operating profit consistent with the adjusted operating profits of the subsidiaries of the Group. The revenue and profit of EAIs are adjusted because they are considered to be significant in size and are important in assessing the performance of the business.

d. A write down of assets of £20 million (2021: £nil, 2020: £51 million), has been recognised as a result of exiting any direct trading links with Russian operations as a result of the conflict in Ukraine. The write down of assets in 2020 of £51 million, was mostly recognised in the second quarter of that year as a result of the impact of COVID-19. The write down of these assets was shown as an adjusting item due to the unprecedented nature of the COVID-19 pandemic, its non-trading nature and size.

e. An acquisition and disposal related net charge of £3 million (2021: credit of £9 million, 2020: credit of £1 million) arose in the year. These items are excluded from adjusted results due to their non-trading nature. During 2022, a charge of £4 million was recorded within the Automotive division, which related to preparatory costs ahead of the proposed demerger. During 2021, £8 million of contingent consideration relating to the acquisition of Forecast 3D was released within the Powder Metallurgy division.

f. 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 its volatility and size. This totalled a credit of £15 million in the year (2021: charge of £14 million, 2020: charge of £2 million).

- g. The net release of fair value items in the year of £14 million (2021: £26 million, 2020: £30 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. During the year this included a net release of £7 million in respect of loss-making contract provisions, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period.
- h. During 2020, the Company incurred a further charge of £1 million in respect of gender equalisation of guaranteed minimum pensions for occupational pension schemes in the UK. This was excluded from adjusted results because of its non-trading nature.

b) Profit before tax

	Notes	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
		£m	£m	£m
Loss before tax		(63)	(254)	(224)
Adjustments to operating profit/(loss) as above		275	363	360
Equity accounted investments—interest	i	2	2	—
Fair value changes on cross-currency swaps	j	59	(13)	6
Net foreign exchange movements on loans with Related Parties	k	24	106	(91)
Total adjustments to loss before tax		<u>360</u>	<u>458</u>	<u>275</u>
Adjusted profit before tax		<u><u>297</u></u>	<u><u>204</u></u>	<u><u>51</u></u>

- i. As explained in paragraph c above, the profits and losses of EAIs are shown after adjusting items, interest and tax in the statutory results. They are adjusted to show the profit before tax and the profit after tax, consistent with the subsidiaries of the Group.
- j. The fair value changes on cross-currency swaps relating to cost of hedging which are not deferred in equity, is shown as an adjusting item because of its volatility and non-trading nature.
- k. The movement in loans with Related Parties as a result of changes in foreign currency exchange rates is shown as an adjusting item because of its volatility, size and non-trading nature.

c) Profit after tax

	Notes	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
		£m	£m	£m
Loss after tax		(77)	(298)	(196)
Adjustments to loss before tax as above		360	458	275
Tax effect of adjustments to loss before tax	8	(62)	(76)	(40)
Tax effect of significant restructuring	8	6	80	—
Equity accounted investments—tax	i	(9)	(9)	(8)
Total adjustments to loss after tax		<u>295</u>	<u>453</u>	<u>227</u>
Adjusted profit after tax		<u><u>218</u></u>	<u><u>155</u></u>	<u><u>31</u></u>

7. Expenses

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Net operating expenses comprise:			
Selling and distribution costs	(31)	(27)	(29)
Administration expenses ⁽¹⁾	(618)	(713)	(729)
Total net operating expenses	<u><u>(649)</u></u>	<u><u>(740)</u></u>	<u><u>(758)</u></u>

(1) Includes £246 million (2021: £335 million, 2020: £330 million) of adjusting items (Note 6).

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Operating profit/(loss) is stated after charging/(crediting):			
Cost of inventories	3,937	3,542	3,656
Amortisation of intangible assets acquired in business combinations	198	191	199
Depreciation and impairment of property, plant and equipment	258	316	328
Amortisation and impairment of computer software and development costs	19	11	21
Lease expense ⁽¹⁾	2	2	1
Staff costs	1,099	1,089	1,135
Research and development costs ⁽²⁾	147	147	141
(Profit)/loss on disposal of property, plant and equipment	(11)	1	—
Expense of writing down inventory to net realisable value	16	27	29
Reversals of previous write-downs of inventory	(17)	(9)	(4)
Impairment recognised on trade receivables	3	—	—
Impairment reversed on trade receivables	(5)	(1)	—

(1) Includes costs relating to short-term leases.

(2) Includes staff costs totalling £121 million (2021: £116 million, 2020: £116 million).

An analysis of staff costs and employee numbers is as follows:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Staff costs during the year (including Executive Directors)			
Wages and salaries ⁽¹⁾	892	880	909
Social security costs	185	186	202
Pension costs (Note 20)			
—defined benefit plans ⁽²⁾	9	9	10
—defined contribution plans	13	14	14
Total staff costs	1,099	1,089	1,135

(1) Includes net amounts received of £nil (2021: £5 million, 2020: £28 million) from global government assistance schemes during the COVID-19 pandemic. All amounts received from the UK government in 2020 were repaid.

(2) Includes a past service cost of £nil (2021: £nil, 2020: £1 million) in respect of GMP equalisation, shown as an adjusting item (Note 6).

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	Number	Number	Number
Average monthly number of persons employed (including Executive Directors)			
Automotive	18,520	19,141	20,040
Powder Metallurgy	5,672	6,080	6,433
Hydrogen	65	23	—
Corporate ⁽¹⁾	—	—	—
Total average number of persons employed	24,257	25,244	26,473

(1) Corporate staff costs have been allocated directly to divisions.

An analysis of finance costs and income is as follows:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Finance costs and income			
Interest on bank loans and overdrafts	(11)	(4)	(7)
Interest on loans due to Related Parties	(22)	(26)	(36)
Foreign exchange movements on loans with Related Parties ⁽¹⁾	(167)	(163)	(38)
Net interest cost on pensions	(6)	(7)	(12)
Lease interest	(6)	(7)	(7)
Unwind of discount on provisions	(1)	(1)	(1)
Fair value changes on cross-currency swaps ⁽¹⁾	(59)	—	(6)
Total finance costs	(272)	(208)	(107)
Interest on loans due from Related Parties	—	—	7
Fair value changes on cross-currency swaps ⁽¹⁾	—	13	—
Foreign exchange movements on loans with Related Parties ⁽¹⁾	143	57	129
Other finance income	8	5	3
Total finance income	151	75	139
Total net finance (costs)/income	(121)	(133)	32

(1) These are shown as adjusting items (Note 6).

8. Tax

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Analysis of tax charge/(credit) in the year:			
Current tax			
Current year tax charge	50	47	43
Adjustments in respect of prior years	(5)	(4)	(15)
Total current tax charge	45	43	28
Deferred tax			
Origination and reversal of temporary differences	(57)	—	(106)
Adjustments in respect of prior years	12	1	3
Tax on the change in value of derivative financial instruments	6	(3)	(1)
Adjustments to deferred tax attributable to changes in tax rates	3	18	15
Non-recognition of deferred tax	5	1	33
Recognition of previously unrecognised deferred tax assets	—	(16)	—
Total deferred tax (credit)/charge	(31)	1	(56)
Total tax charge/(credit) for the year	14	44	(28)
Analysis of tax charge/(credit) in the year:			
Tax charge in respect of adjusted profit before tax	79	49	20
Tax credit recognised as an adjusting item	(65)	(5)	(48)
Total tax charge/(credit) for the year	14	44	(28)

The tax charge of £79 million (2021: £49 million, 2020: £20 million) arising on adjusted profit before tax of £297 million (2021: £204 million, 2020: £51 million), results in an effective tax rate of 27% (2021: 24%, 2020: 39%).

The £65 million (2021: £5 million, 2020: £48 million) tax credit recognised as an adjusting item includes £62 million (2021: £76 million, 2020: £40 million) in respect of tax credits on adjustments to loss before tax of £360 million (2021: £458 million, 2020: £275 million), £9 million (2021: £9 million, 2020: £8 million) in respect of the tax on equity accounted investments and a charge of £6 million (2021: £80 million, 2020: £nil) in respect of internal Group restructuring.

The tax charge/(credit) for the year can be reconciled to the loss before tax per the Carve-out Income Statement as follows:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Loss before tax	(63)	(254)	(224)
Tax credit on loss before tax at the weighted average rate of 23% (2021: 22%, 2020: 33%)	(14)	(56)	(74)
Tax effect of:			
Disallowable expenses and other permanent differences within adjusted profit	12	(2)	3
Disallowable items included within adjusting items	(13)	10	—
Temporary differences not recognised in deferred tax	5	—	33
Recognition of previously unrecognised deferred tax assets	—	(16)	—
Tax credits, withholding taxes and other rate differences	14	13	7
Adjustments in respect of prior years	7	(3)	(12)
Tax charge classified within adjusting items	6	80	—
Effect of changes in tax rates	(3)	18	15
Total tax charge/(credit) for the year	<u>14</u>	<u>44</u>	<u>(28)</u>

The reconciliation has been performed at a blended Group tax rate of 23% (2021: 22%, 2020: 33%) which represents the weighted average of the tax rates applying to profits and losses in the jurisdictions in which those results arose in the year.

Tax charges/(credits) included in Other Comprehensive Income are as follows:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Deferred tax on retirement benefit obligations	27	27	8
Deferred tax on foreign exchange gains and losses	—	1	(8)
Current tax on foreign exchange gains and losses	12	—	—
Total charge for the year	<u>39</u>	<u>28</u>	<u>—</u>

Franked investment income—litigation

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 their view, were levied by HMRC in breach of the Group's EU community law rights.

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. The Group entities included in the case will assign their rights and obligations in relation to the litigation to GKN Holdings Limited, a non-Group entity controlled by the Ultimate Parent, in advance of the demerger.

9. Goodwill and other intangible assets

	Goodwill	Customer relationships and contracts	Brands and intellectual property	Other ⁽¹⁾	Computer software	Development costs	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 January 2020	1,530	1,696	183	392	85	85	3,971
Additions	—	—	—	—	4	8	12
Acquisition of businesses ⁽²⁾	15	10	—	9	—	—	34
Exchange adjustments	5	6	—	1	—	—	12
At 31 December 2020	<u>1,550</u>	<u>1,712</u>	<u>183</u>	<u>402</u>	<u>89</u>	<u>93</u>	<u>4,029</u>
Additions	—	—	—	—	5	8	13
Disposals	—	—	—	—	(1)	(5)	(6)

	Goodwill	Customer relationships and contracts	Brands and intellectual property	Other ⁽¹⁾	Computer software	Development costs	Total
	£m	£m	£m	£m	£m	£m	£m
Exchange adjustments	(42)	(57)	—	—	(4)	(2)	(105)
At 31 December 2021	1,508	1,655	183	402	89	94	3,931
Additions	—	—	—	—	6	14	20
Disposals	—	—	—	—	(2)	(1)	(3)
Exchange adjustments	87	124	—	2	5	5	223
At 31 December 2022	1,595	1,779	183	404	98	112	4,171
Amortisation and impairment							
At 1 January 2020	—	(231)	(16)	(79)	(74)	(28)	(428)
Charge for the year:							
Adjusted operating profit	—	—	—	—	(5)	(6)	(11)
Adjusting items	—	(142)	(9)	(48)	—	—	(199)
Impairments ⁽³⁾	—	—	—	—	—	(10)	(10)
Exchange adjustments	—	2	—	—	(1)	—	1
At 31 December 2020	—	(371)	(25)	(127)	(80)	(44)	(647)
Charge for the year:							
Adjusted operating profit	—	—	—	—	(3)	(5)	(8)
Adjusting items	—	(134)	(9)	(48)	—	—	(191)
Impairments ⁽³⁾	—	—	—	—	—	(3)	(3)
Disposals	—	—	—	—	1	—	1
Exchange adjustments	—	12	—	—	3	—	15
At 31 December 2021	—	(493)	(34)	(175)	(79)	(52)	(833)
Charge for the year:							
Adjusted operating profit	—	—	—	—	(3)	(7)	(10)
Adjusting items	—	(140)	(9)	(49)	—	—	(198)
Impairments ⁽³⁾	—	—	—	—	—	(9)	(9)
Disposals	—	—	—	—	2	1	3
Exchange adjustments	—	(39)	(1)	(2)	(4)	(3)	(49)
At 31 December 2022	—	(672)	(44)	(226)	(84)	(70)	(1,096)
Net book value							
At 31 December 2022	1,595	1,107	139	178	14	42	3,075
At 31 December 2021	1,508	1,162	149	227	10	42	3,098
At 31 December 2020	1,550	1,341	158	275	9	49	3,382

(1) Other includes technology and order backlog intangible assets recognised on acquisitions.

(2) Acquisition of businesses in 2020 related to the purchase of Forecast 3D in the Powder Metallurgy division (Note 10).

(3) Includes £nil (2021: £3 million, 2020: £nil) within restructuring costs and £9 million (2021: £nil, 2020: £10 million) within impairment of assets, both shown as adjusting items (Note 6).

The goodwill from 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 Executive Directors believed could be added to the acquired businesses through the application of their specialist turnaround experience.

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 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 of the acquired businesses during the period of ownership and are also expected to result in enhanced disposal proceeds when the acquired businesses are ultimately disposed. The combined value achieved from these improvements is expected to be in excess of the value of goodwill acquired.

Goodwill acquired in business combinations, net of impairment, has been allocated to the businesses, each of which comprises several cash-generating units (“CGUs”). Goodwill is allocated to the Automotive and Powder Metallurgy groups of CGUs as this is the level where resources are allocated and where there is a consistent management team and oversight.

	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	£m	£m	£m
Goodwill			
Automotive	1,056	1,001	1,026
Powder Metallurgy	539	507	524
Total	<u>1,595</u>	<u>1,508</u>	<u>1,550</u>

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 current environment and ongoing restructuring, the fair value less costs to sell methodology has been used as the improvement phase is ongoing.

Fair value less costs to sell calculations have been used to determine the recoverable amount of goodwill and other relevant net assets allocated to the Automotive and Powder Metallurgy groups of CGUs. When applying the fair value less cost to sell methodology, it has been difficult to assess a sale value using observable market inputs (level 1) or inputs based on market evidence (level 2) in the current environment and so unobservable inputs (level 3) have been used. A combination of discounted cash flows and EBITDA multiple valuations have been used to establish fair values for each of the groups of CGUs.

Under IAS 36, the benefits from future uncommitted restructuring plans are 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. The COVID-19 pandemic had a significant effect on global end markets in which certain of the Group’s businesses operate and whilst these markets continue to recover, there have been consequential impacts of disrupted supply chains, interest rate rises and other inflationary pressure on input costs. Implications on the levels of headroom are shown in sensitivity analysis which has been provided in respect of reasonably possible changes to key assumptions.

Significant assumptions and estimates

The basis of impairment tests and the key assumptions are set out in the table below:

Groups of CGUs	31 December 2022			31 December 2021			31 December 2020		
	Post-tax discount rates	Long-term growth rates	Years in forecast	Post-tax discount rates	Long-term growth rates	Years in forecast	Post-tax discount rates	Long-term growth rates	Years in forecast
Automotive	11.3%	3.5%	5	8.8%	2.5%	5	9.0%	2.5%	5
Powder Metallurgy	12.0%	3.9%	5	8.8%	2.5%	5	9.0%	2.5%	5

Risk adjusted discount rates

Cash flows within the groups of CGUs are discounted using a post-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.

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 cash flow period deemed most appropriate by management, considering the nature of each group of CGUs. 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 market sector. Underlying factors in determining the values assigned to each key assumption are shown below:

Revenue growth and operating margins:

Revenue growth assumptions in the forecast period are based on financial budgets and medium-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, and also consider the recovery period to return to pre COVID-19 levels.

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. Projected margins reflect the impact of all initiated projects to improve operational efficiency and leverage scale and increases from returning sale volumes. The assumptions to derive operating margins take into account both normal cost saving activities and, where applicable, contribution from planned restructuring activity. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors, taking into account climate change implications for affected markets.

Overall, climate risk exposure is considered to be relatively low across the divisions in the short and medium-term but starts to increase in the longer-term (from 2040), for example through increasing likelihood of river flooding risk in the UK or increasing wildfire risk in California. Impairment testing includes short to medium-term planning (five years) for each 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. electrification in automotive which impact revenues.

Automotive—The key drivers for growth in revenue and operating margins are global demand for a large range of cars, from smaller low-cost cars to larger premium vehicles. This is impacted in the short to medium-term by expectations of recovery in supply chains, interrupted by the COVID-19 pandemic. Demand is influenced by technological advancements, particularly in electric and full hybrid vehicles, market expectations for global vehicle production requirements, fuel prices, raw material input costs and expectations of their recovery, consumer spending, credit availability, and other macro-economic factors.

Powder Metallurgy—The key drivers for growth in revenue and operating margins are trends in the automotive and industrial markets. This is impacted in the short to medium-term by expectations of recovery in supply chains, interrupted by the COVID-19 pandemic. Market expectations for global light vehicle production requirements, raw material input costs and technological advancements, particularly in additive manufacturing, influence demand for these products along with other macro-economic factors.

Long-term growth rates:

Long-term growth rates are based on long-term forecasts for growth in the sectors and geography in which the groups of CGUs operates. 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.

Sensitivity analysis

Due to consequential impacts from the COVID-19 pandemic of disrupted supply chains, interest rate rises and other inflationary pressure on input costs, certain businesses are mitigating the impact of volatile customer scheduling through cost reduction and efficiency actions, including restructuring. Both the Automotive and Powder Metallurgy groups of CGUs are affected at this point in the cycle, as they rely on the global automotive market.

Automotive group of CGUs—sensitivity analysis

The forecasts show headroom above the carrying amount for the Automotive group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the discount rate and long-term growth rate

from 11.25% to 12.50% or from 3.5% to 1.8% respectively would reduce headroom to £nil. Executing restructuring plans and continuing the recovery of inflationary impacts on input costs are key to margin assumptions and a reduction in the terminal operating profit of 15% would reduce the terminal operating margin by 1.6 percentage points and would reduce headroom to £nil.

Powder Metallurgy group of CGUs—sensitivity analysis

The forecasts show headroom of above the carrying amount for the Powder Metallurgy group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the discount rate and long-term growth rate from 12.0% to 12.5% or from 3.9% to 3.2% respectively would reduce headroom to £nil. Executing restructuring plans and optimising market penetration are key to margin assumptions and a reduction in the terminal operating profit of 8% would reduce the terminal operating margin by 1.0 percentage points and would reduce headroom to £nil.

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					
	Remaining amortisation period			Net book value		
	31 December 2022 years	31 December 2021 years	31 December 2020 years	31 December 2022	31 December 2021	31 December 2020
				£m	£m	£m
Automotive	8	9	10	621	670	790
Powder Metallurgy	13	14	15	486	492	551
Total				1,107	1,162	1,341

	Brands, intellectual property and technology					
	Remaining amortisation period			Net book value		
	31 December 2022 years	31 December 2021 years	31 December 2020 years	31 December 2022	31 December 2021	31 December 2020
				£m	£m	£m
Automotive	16	17	18	261	309	356
Powder Metallurgy	16	17	18	56	67	77
Total				317	376	433

10. Acquisitions

On 2 January 2020, Powder Metallurgy completed the acquisition of Forecast 3D, a leading US specialist in plastic additive manufacturing and 3D printing services, offering a full range of services from concept to series production, for a total consideration of up to £29 million. Cash of £19 million was paid on 2 January 2020, with the remaining £10 million contingent upon the performance of the business for up to two years post acquisition. This was subsequently released to ‘acquisition and disposal related gains and losses’ within adjusting items (Note 6) in 2021.

	Fair Value
	£m
Property, plant and equipment	11
Intangible assets	19
Inventories	1
Trade and other receivables	2
Trade and other payables	(4)
Provisions	(1)
Lease obligations	(9)
Deferred tax	(5)
Net assets acquired	14
Total consideration	29
Goodwill acquired	15

Forecast 3D contributed £15 million to revenue and a £3 million operating loss for the period between the date of acquisition and 31 December 2020. If the acquisition of Forecast 3D had been completed on the first day of the financial year, Group revenues and operating profit would have been unchanged.

The goodwill arising on acquisition of Forecast 3D is attributable to the anticipated profitability and cash flows arising from the business acquired, the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group, and which, the Group expects to realise through a combination of revised strategic direction, operational improvements and investment. None of the goodwill is expected to be deductible for income tax purposes.

Intangible assets inherent in Forecast 3D's customer relationships/contracts were valued using an excess earnings method. This methodology places a value on the asset as a function of (a) management's estimate of the expected cash flows arising from the customer contracts; (b) discount rates reflective of the risks inherent in the cash flows; and (c) a contributory charge attributable to assets needed to generate the operating cash flows.

The proprietary technology and know-how have been valued using a relief from royalty methodology, consistent with the Group accounting policy. The cash flow forecasts supporting this valuation reflect the future sales to be generated in conjunction with the technology. A total fair value of £19 million was recognised in intangible assets relating to customer relationships and technology.

11. Property, plant and equipment

	Land and buildings	Plant and equipment	Total
	£m	£m	£m
Cost			
At 1 January 2020	599	1,724	2,323
Additions	26	137	163
Right-of-use asset reassessments	(1)	—	(1)
Acquisition of businesses ⁽¹⁾	3	8	11
Disposals	(1)	(32)	(33)
Exchange adjustments	4	16	20
At 31 December 2020	<u>630</u>	<u>1,853</u>	<u>2,483</u>
Additions	41	123	164
Disposals	(3)	(33)	(36)
Disposal of businesses	(28)	(181)	(209)
Exchange adjustments	(29)	(63)	(92)
At 31 December 2021	<u>611</u>	<u>1,699</u>	<u>2,310</u>
Additions	23	202	225
Disposals	(14)	(85)	(99)
Exchange adjustments	35	185	220
At 31 December 2022	<u>655</u>	<u>2,001</u>	<u>2,656</u>
Accumulated depreciation and impairment			
At 1 January 2020	(31)	(174)	(205)
Charge for the year	(31)	(245)	(276)
Disposals	—	25	25
Impairments ⁽²⁾	(7)	(45)	(52)
Exchange adjustments	—	(3)	(3)
At 31 December 2020	<u>(69)</u>	<u>(442)</u>	<u>(511)</u>
Charge for the year	(29)	(236)	(265)
Disposals	2	28	30
Disposal of businesses	26	180	206
Impairments ⁽²⁾	(21)	(30)	(51)
Exchange adjustments	2	21	23
At 31 December 2021	<u>(89)</u>	<u>(479)</u>	<u>(568)</u>
Charge for the year	(30)	(221)	(251)
Disposals	2	81	83
Impairments ⁽²⁾	—	(7)	(7)
Exchange adjustments	(4)	(96)	(100)

	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 31 December 2022	(121)	(722)	(843)
Net book value			
At 31 December 2022	534	1,279	1,813
At 31 December 2021	522	1,220	1,742
At 31 December 2020	<u>561</u>	<u>1,411</u>	<u>1,972</u>

(1) Acquisition of businesses in 2020 related to the purchase of Forecast 3D in the Powder Metallurgy division (Note 10).

(2) Includes £nil (2021: £51 million, 2020: £17 million) in restructuring costs and £7 million (2021: £nil, 2020: £35 million) in impairment of assets, both shown as adjusting items (Note 6).

Assets under the course of construction at 31 December 2022 totalled £156 million (31 December 2021: £113 million, 31 December 2020: £153 million).

The basis of testing for impaired assets at 31 December 2022, which resulted in a charge totalling £7 million, primarily used fair value less costs to sell methodology which was classified as a level 3 fair value under the IFRS 13 fair value hierarchy. The assets were deemed to have no further recoverable value.

Property, plant and equipment includes the net book value of right-of-use assets as follows:

<u>Right-of-use asset</u>	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 1 January 2020	134	45	179
Additions	5	7	12
Acquisition of businesses	3	6	9
Right-of-use asset reassessments	(1)	—	(1)
Depreciation	(13)	(14)	(27)
Disposals	(1)	—	(1)
Impairments	—	(2)	(2)
Exchange adjustments	<u>(2)</u>	<u>(2)</u>	<u>(4)</u>
At 31 December 2020	<u>125</u>	<u>40</u>	<u>165</u>
Additions	17	6	23
Depreciation	(13)	(11)	(24)
Disposals	(1)	—	(1)
Exchange adjustments	<u>(8)</u>	<u>(4)</u>	<u>(12)</u>
At 31 December 2021	<u>120</u>	<u>31</u>	<u>151</u>
Additions	7	7	14
Depreciation	(14)	(10)	(24)
Disposals	(4)	—	(4)
Exchange adjustments	<u>5</u>	<u>2</u>	<u>7</u>
At 31 December 2022	<u>114</u>	<u>30</u>	<u>144</u>

12. Equity accounted investments

	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Aggregated amounts relating to equity accounted investments:			
Share of current assets	409	400	331
Share of non-current assets	311	339	358
Share of current liabilities	(289)	(310)	(262)
Share of non-current liabilities	<u>(7)</u>	<u>(7)</u>	<u>(5)</u>
Interests in equity accounted investments	<u>424</u>	<u>422</u>	<u>422</u>

<u>Group share of results</u>	<u>Year ended 31 December 2022</u>	<u>Year ended 31 December 2021</u>	<u>Year ended 31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Revenue	651	608	585
Operating costs	<u>(573)</u>	<u>(542)</u>	<u>(523)</u>
Adjusted operating profit	78	66	62
Adjusting items	<u>(22)</u>	<u>(21)</u>	<u>(22)</u>
Net finance income	<u>2</u>	<u>2</u>	<u>—</u>
Profit before tax	58	47	40
Tax	<u>(9)</u>	<u>(9)</u>	<u>(8)</u>
Share of results of equity accounted investments	<u>49</u>	<u>38</u>	<u>32</u>

<u>Group share of equity accounted investments</u>	<u>Year ended 31 December 2022</u>	<u>Year ended 31 December 2021</u>	<u>Year ended 31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 1 January	422	422	429
Share of results of equity accounted investments	49	38	32
Dividends paid to the Group	<u>(59)</u>	<u>(52)</u>	<u>(54)</u>
Exchange adjustments	<u>12</u>	<u>14</u>	<u>15</u>
At 31 December	<u>424</u>	<u>422</u>	<u>422</u>

Within the Group's share of equity accounted investments there is one significant joint venture, held within the Automotive segment, Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"). SDS had total sales in the year of £1,243 million (2021: £1,159 million, 2020: £1,101 million), adjusted operating profit of £142 million (2021: £116 million, 2020: £116 million), adjusting items of £44 million (2021: £41 million, 2020: £44 million), statutory operating profit of £98 million (2021: £75 million, 2020: £72 million), an interest credit of £4 million (2021: £4 million, 2020: £nil) and a tax charge of £18 million (2021: £16 million, 2020: £15 million), leaving retained profit of £84 million (2021: £63 million, 2020: £57 million).

Total net assets of SDS at 31 December 2022 were £786 million (31 December 2021: £790 million, 31 December 2020: £798 million). These comprised non-current assets of £580 million (31 December 2021: £636 million, 31 December 2020: £684 million), current assets of £715 million (31 December 2021: £668 million, 31 December 2020: £598 million), current liabilities of £504 million (31 December 2021: £508 million, 31 December 2020: £484 million) and non-current liabilities of £5 million (31 December 2021: £6 million, 31 December 2020: £nil). During 2022, SDS paid a dividend to the Group of £58 million (2021: £50 million, 2020: £53 million).

13. Inventories

	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Raw materials	273	235	224
Work in progress	134	108	111
Finished goods	<u>91</u>	<u>93</u>	<u>102</u>
	<u>498</u>	<u>436</u>	<u>437</u>

In 2022 the write down of inventories to net realisable value amounted to £16 million (2021: £27 million, 2020: £29 million), of which £2 million related to impairment of assets (2021: £nil, 2020: £2 million) and £nil related to restructuring activities (2021: £8 million, 2020: £nil). These are included within adjusting items (Note 6). The reversal of write downs amounted to £17 million (2021: £9 million, 2020: £4 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.

The Executive Directors consider that there is no material difference between the net book value of inventories and their replacement cost.

14. Trade and other receivables

<u>Current</u>	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Trade receivables	524	412	532
Allowance for expected credit loss	(13)	(14)	(16)
Amounts receivable from Related Parties	3	2	—
Other receivables	100	73	71
Prepayments	11	12	11
Contract assets	13	20	9
	<u>638</u>	<u>505</u>	<u>607</u>

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.

<u>Non-current</u>	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Other receivables	14	4	1
Contract assets	7	7	6
	<u>21</u>	<u>11</u>	<u>7</u>

As described in Note 21, 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 2022, eligible receivables under these programmes have been factored and derecognised in line with the derecognition criteria of IFRS 9.

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:

	<u>Automotive</u>	<u>Powder Metallurgy</u>	<u>Hydrogen</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 1 January 2020	12	5	—	17
Utilised	(1)	—	—	(1)
At 31 December 2020	11	5	—	16
Income Statement credit	(1)	—	—	(1)
Utilised	(1)	—	—	(1)
At 31 December 2021	<u>9</u>	<u>5</u>	<u>—</u>	<u>14</u>
Income Statement (credit)/charge	(3)	1	—	(2)
Exchange adjustments	—	1	—	1
At 31 December 2022	<u>6</u>	<u>7</u>	<u>—</u>	<u>13</u>

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.

The ageing of impaired trade receivables past due is as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
0–30 days	4	4	5
31–60 days	2	4	5
60+ days	7	6	6
	<u>13</u>	<u>14</u>	<u>16</u>

Included in the Group's trade receivables balance are overdue trade receivables with a gross carrying amount of £35 million (31 December 2021: £35 million, 31 December 2020: £34 million) against which a provision of £13 million (31 December 2021: £14 million, 31 December 2020: £16 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 £22 million (31 December 2021: £21 million, 31 December 2020: £18 million) is as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
0–30 days	19	18	17
31–60 days	3	3	1
60+ days	—	—	—
	<u>22</u>	<u>21</u>	<u>18</u>

The Executive Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The Group's contract assets comprise the following:

	<u>Participation fees</u>	<u>Other</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 1 January 2020	10	1	11
Additions	3	7	10
Utilised	(2)	(4)	(6)
At 31 December 2020	<u>11</u>	<u>4</u>	<u>15</u>
Additions	3	15	18
Utilised	(2)	(4)	(6)
At 31 December 2021	<u>12</u>	<u>15</u>	<u>27</u>
Additions	1	—	1
Utilised	(3)	(5)	(8)
At 31 December 2022	<u>10</u>	<u>10</u>	<u>20</u>

An assessment for impairment of contract assets has been performed in accordance with policies described in Note 2. No such impairment has been recorded.

Participation fees

Participation fees are described in the accounting policies in 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.

15. Cash and cash equivalents

	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Cash and cash equivalents	270	275	141

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.

16. Trade and other payables

<u>Current</u>	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Trade payables	714	579	621
Amounts payable to Related Parties	13	14	11
Other payables	300	268	338
Customer advances and contract liabilities	7	11	16
Other taxes and social security	25	18	20
Accruals	122	110	115
Deferred government grants	7	8	10
	<u>1,188</u>	<u>1,008</u>	<u>1,131</u>

As at 31 December 2022, and as described in Note 21, included within trade payables were drawings on supplier finance facilities of £125 million (31 December 2021: £52 million, 31 December 2020: £14 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 89 days (31 December 2021: 86 days, 31 December 2020: 71 days).

<u>Non-current</u>	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Other payables	20	14	10
Customer advances and contract liabilities	8	12	3
	<u>28</u>	<u>26</u>	<u>13</u>

The Executive Directors consider that the carrying amount of trade and other payables approximates to their fair value. Non-current other payables fall due for payment within one to two years.

17. Loans with Related Parties

Loans with Related Parties comprise loans with the Ultimate Parent, or other non-group entities controlled by the Ultimate Parent. Amounts owed by the Group totalled £2,176 million (31 December 2021: £2,547 million, 31 December 2020: £2,602 million), are unsecured, accumulate interest in the range 1% to 5% (2021: 0% to 6%, 2020: 0% to 6%), are repayable on demand and have no fixed date of repayment.

Amounts owed to the Group totalled £2,826 million (31 December 2021: £3,378 million, 31 December 2020: £3,295 million), are unsecured, accumulate interest in the range 0% to 7% (2021: 0% to 4%, 2020: 0% to 4%), are repayable on demand and have no fixed date of repayment.

Maturity of financial liabilities (excluding 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 21, and lease obligations which are shown in Note 24).

	Loans payable to Related Parties	Other financial liabilities	Total financial liabilities
	£m	£m	£m
Within one year	2,176	1,149	3,325
In one to two years	—	20	20
In two to five years	—	—	—
After five years	—	—	—
Effect of financing rates	—	—	—
31 December 2022	<u>2,176</u>	<u>1,169</u>	<u>3,345</u>
Within one year	2,547	955	3,502
In one to two years	—	26	26
In two to five years	—	—	—
After five years	—	—	—
Effect of financing rates	—	—	—
31 December 2021	<u>2,547</u>	<u>981</u>	<u>3,528</u>
Within one year	2,602	1,082	3,684
In one to two years	—	13	13
In two to five years	—	—	—
After five years	—	—	—
Effect of financing rates	—	—	—
31 December 2020	<u>2,602</u>	<u>1,095</u>	<u>3,697</u>

18. Provisions

	Loss-making contracts	Property related costs	Environmental and litigation	Warranty related costs	Restructuring	Other	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	70	5	66	174	45	43	403
Utilised	(17)	—	(3)	(12)	(82)	(1)	(115)
Charge to operating profit ⁽¹⁾	—	—	3	30	58	4	95
Release to operating profit ⁽²⁾	(7)	—	(4)	(45)	(2)	(14)	(72)
Unwind of discount ⁽³⁾	(1)	—	—	—	—	—	(1)
Exchange adjustments	1	—	5	9	1	—	16
31 December 2022	<u>46</u>	<u>5</u>	<u>67</u>	<u>156</u>	<u>20</u>	<u>32</u>	<u>326</u>
Current	14	2	24	76	19	5	140
Non-current	32	3	43	80	1	27	186
	<u>46</u>	<u>5</u>	<u>67</u>	<u>156</u>	<u>20</u>	<u>32</u>	<u>326</u>

	Loss- making contracts	Property related costs	Environmental and litigation	Warranty related costs	Restructuring	Other	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	119	14	104	174	44	36	491
Utilised	(25)	—	(5)	(15)	(84)	(1)	(130)
Charge to operating profit ⁽¹⁾	—	—	2	50	87	10	149
Release to operating profit ⁽²⁾	(18)	(8)	(34)	(30)	—	(1)	(91)
Disposal of businesses	(4)	—	—	(1)	—	—	(5)
Unwind of discount ⁽³⁾	(2)	—	—	—	—	—	(2)
Exchange adjustments	—	(1)	(1)	(4)	(2)	(1)	(9)
31 December 2021	<u>70</u>	<u>5</u>	<u>66</u>	<u>174</u>	<u>45</u>	<u>43</u>	<u>403</u>
Current	18	2	22	85	43	3	173
Non-current	52	3	44	89	2	40	230
	<u>70</u>	<u>5</u>	<u>66</u>	<u>174</u>	<u>45</u>	<u>43</u>	<u>403</u>

	Loss-making contracts	Property related costs	Environmental and litigation	Warranty related costs	Restructuring	Other	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020	167	16	64	158	64	19	488
Utilised	(26)	(1)	(7)	(24)	(106)	(2)	(166)
Charge to operating profit ⁽¹⁾	13	—	55	57	95	19	239
Release to operating profit ⁽²⁾	(42)	(2)	(6)	(18)	(10)	—	(78)
Acquisition of businesses ⁽⁴⁾	—	1	—	—	—	—	1
Unwind of discount ⁽³⁾	4	—	—	—	—	—	4
Exchange adjustments	3	—	(2)	1	1	—	3
31 December 2020	119	14	104	174	44	36	491
Current	23	2	56	81	42	3	207
Non-current	96	12	48	93	2	33	284
	<u>119</u>	<u>14</u>	<u>104</u>	<u>174</u>	<u>44</u>	<u>36</u>	<u>491</u>

(1) Includes £58 million (2021: £89 million, 2020: £113 million) of adjusting items and £37 million (2021: £60 million, 2020: £126 million) recognised in adjusted operating profit.

(2) Includes £11 million (2021: £21 million, 2020: £55 million) of adjusting items and £61 million (2021: £70 million, 2020: £23 million) recognised in adjusted operating profit.

(3) Includes £1 million within finance costs relating to the time value of money (2021: £1 million 2020: £1 million) and a £2 million credit relating to changes in discount rates on loss-making contract provisions recognised as fair value items (2021: credit of £3 million, 2020: charge of £3 million) which was included as an adjusting item within operating profit in 2021 and 2020 (Note 6).

(4) Acquisition of businesses in 2020 related to the purchase of Forecast 3D in the Powder Metallurgy division (Note 10).

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.

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 during the year of £17 million (2021: £25 million, 2020: £26 million) has benefitted adjusted operating profit with £15 million recognised in Automotive, £2 million recognised in Powder Metallurgy and £nil recognised in Hydrogen. In addition, £7 million (2021: £18 million, 2020: £29 million) has been released on a net basis and is shown as an adjusting item, as described in Note 6, as part of the release of fair value items split; £nil in Automotive, £7 million in Powder Metallurgy and £nil in Hydrogen.

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

Environmental provisions relate to the estimated remediation costs of pollution, soil and groundwater contamination at certain sites and amounted to £18 million (31 December 2021: £19 million, 31 December 2020: £20 million). Liabilities for environmental costs are recognised when environmental assessments are probable and the associated costs can be reasonably estimated.

Litigation provisions related to estimated future costs and settlements in relation to legal claims and associated insurance obligations and totalled £49 million (31 December 2021: £47 million, 31 December 2020: £84 million). 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 year. 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 senior management 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 14% (31 December 2021: 0% and 11%, 31 December 2020: 0% and 7%) depending on the territory in which the provision resides and the length of its expected utilisation.

19. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years.

	Deferred tax assets		Deferred tax liabilities		
	Tax losses and other assets	Accelerated capital allowances and other liabilities	Deferred tax on intangible assets	Total deferred tax liabilities	Total net deferred tax
	£m	£m	£m	£m	£m
At 1 January 2020	136	(27)	(285)	(312)	(176)
Acquisition of businesses ⁽¹⁾	—	—	(5)	(5)	(5)
Credit to income	19	2	35	37	56
Exchange adjustments	5	1	(2)	(1)	4
Transactions with Related Parties ⁽²⁾	2	—	—	—	2
Movement in set off of assets and liabilities ⁽³⁾	(21)	13	8	21	—
At 31 December 2020	141	(11)	(249)	(260)	(119)
(Charge)/credit to income	(58)	38	19	57	(1)
Charge to Total Invested Capital	—	(28)	—	(28)	(28)
Disposal of businesses	—	6	—	6	6
Exchange adjustments	(16)	3	11	14	(2)
Transactions with Related Parties ⁽²⁾	(11)	(26)	—	(26)	(37)
Movement in set off of assets and liabilities ⁽³⁾	31	(5)	(26)	(31)	—
At 31 December 2021	87	(23)	(245)	(268)	(181)
Credit/(charge) to income	16	(34)	49	15	31
(Credit)/charge to Total Invested Capital	(42)	15	—	15	(27)
Exchange adjustments	15	(1)	(22)	(23)	(8)
Transactions with related parties ⁽²⁾	(10)	1	—	(1)	(9)
Movement in set off of assets and liabilities ⁽³⁾	33	(2)	(31)	(33)	—
At 31 December 2022	99	(44)	(249)	(293)	(194)

(1) Acquisition of businesses in 2020 related to the purchase of Forecast 3D in the Powder Metallurgy division (Note 10).

(2) Transactions with Related Parties include the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent.

(3) 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 2022, the Group had gross unused corporate income tax losses of £379 million (31 December 2021: £329 million, 31 December 2020: £531 million) available for offset against future profits. A deferred tax asset of £90 million (31 December 2021: £73 million, 31 December 2020: £102 million) has been recognised in respect of £343 million (31 December 2021: £252 million, 31 December 2020: £417 million) of these gross losses. 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 is recognised to the extent that sufficient future profits are anticipated to utilise these losses. Despite incurring tax losses in certain territories due to the effects of COVID-19, the Group continues to recognise deferred tax assets in those territories 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 £17 million (31 December 2021: £25 million, 31 December 2020: £30 million) has been recognised on tax credits (primarily US) and US state tax losses.

Deferred tax assets have also been recognised on Group retirement benefit obligations at £62 million (31 December 2021: £117 million, 31 December 2020: £122 million) and on other temporary differences at £63 million (31 December 2021: £44 million, 31 December 2020: £83 million). The gross deferred tax assets therefore amount to £232 million (31 December 2021: £259 million, 31 December 2020: £337 million).

Deferred tax liabilities have been recognised on intangible assets at £363 million (31 December 2021: £388 million, 31 December 2020: £417 million) and accelerated capital allowances and other temporary differences at £63 million (31 December 2021: £52 million, 31 December 2020: £39 million). The gross deferred tax liabilities therefore amount to £426 million (31 December 2021: £440 million, 31 December 2020: £456 million).

There are no material unrecognised deferred tax assets at 31 December 2022 (31 December 2021: £nil, 31 December 2020: £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 £60 million (31 December 2021: £50 million, 31 December 2020: £56 million) would be payable.

20. 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 during the year of £13 million (2021: £14 million, 2020: £14 million) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

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, effective as at 1 January 2022, the Group transferred part of the GKN post-retirement medical plan to an entity controlled by the Ultimate Parent but outside of the Group. This resulted in a reduction of £5 million in the retirement benefit obligation. There were no assets associated with the scheme, with consideration being settled through loans with Related Parties.

During the prior year, effective as at 31 December 2021, a buy-out was performed on the GKN UK 2016 Pension Plan, a scheme sponsored by an entity controlled by the Ultimate Parent but outside of the Group. The remaining liabilities of £60 million for members who were not part of the buy-out, along with residual assets of £104 million were transferred into GKN Group Pension Scheme Number 2, a scheme within the Group. The net £44 million of assets was settled through loans with Related Parties.

The most significant defined benefit pension plans in the Group at 31 December 2022 were:

GKN Group Pension Schemes (Numbers 2 and 3)

The GKN Group Pension Schemes (Numbers 2 and 3) are shown within the Automotive segment. These plans are funded, 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 2022 by independent actuaries.

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 2022, updated to 31 December 2022 by independent actuaries.

GKN Germany Pension Plans

The GKN Germany Pension Plans provide benefits dependent on final salary and service with the Company. The plans are generally unfunded and closed to new members.

Other plans include a number of funded and unfunded defined benefit arrangements and retiree medical insurance plans, predominantly in the US and Europe.

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 and Germany.

Contributions

During the prior year, the funding target agreed on acquisition of GKN was achieved, being gilts plus 75 basis points for the GKN Group Pension Schemes (Numbers 2 and 3). As a result, the Group now contributes £15 million per year into the GKN Group Pension Schemes (Numbers 2 and 3).

The Group contributed £40 million (2021: £40 million, 2020: £52 million) to defined benefit pension plans and post-employment plans in the year ended 31 December 2022. The Group expects to contribute £33 million in 2023.

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 2022			
GKN Group Pension Schemes (Numbers 2 and 3)	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
31 December 2021			
GKN Group Pension Schemes (Numbers 2 and 3)	2.7	2.0	3.2/2.7
GKN US plans	n/a	2.7	n/a
GKN Europe plans	2.1	1.1	2.1/2.1
31 December 2020			
GKN Group Pension Schemes (Numbers 2 and 3)	2.4	1.4	2.7/2.2
GKN US plans	n/a	2.4	n/a
GKN Europe plans	1.4	0.6	1.4/1.4

Mortality

GKN Group Pension Schemes (Numbers 2 and 3)

The GKN Group Pension Schemes (Numbers 2 and 3) 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. Weighting factors vary by scheme.

Future improvements for all UK plans are in line with the 2021 Continuous Mortality Investigation ("CMI") core projection model (SK = 7.5, A = 0%) 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 that are adjusted for recent plan experience (equivalent to RP2006 projected to 2018 using scale MP2018 with a 6.1% load). Future improvements for all US plans are in line with MP2021.

GKN Germany Pension Plans

All German plans use the Richttafein 2018 G tables, with no adjustment.

The following table shows the future life expectancy of individuals aged 65 at the year end and the future life expectancy of individuals aged 65 in 20 years' time.

	GKN Group Pension Schemes (Numbers 2 and 3) Years	GKN US Consolidated Pension Plan Years	GKN Germany Pension Plans Years
Male today	21.2	19.2	20.6
Female today	23.2	21.1	24.0
Male in 20 years' time	22.3	20.7	23.4
Female in 20 years' time	24.6	22.6	26.3

Carve-out Balance Sheet disclosures

The amounts recognised in the Carve-out Balance Sheet in respect of defined benefit plans were as follows:

	31 December 2022	31 December 2021	31 December 2020
	£m	£m	£m
Present value of funded defined benefit obligations	(780)	(1,132)	(1,168)
Fair value of plan assets	779	1,205	1,067
Funded status	(1)	73	(101)
Present value of unfunded defined benefit obligations	(460)	(601)	(647)
Net liabilities	(461)	(528)	(748)
Analysed as:			
Retirement benefit surplus (non-current assets) ⁽¹⁾	42	75	—
Retirement benefit obligations (non-current liabilities)	(503)	(603)	(748)
Net liabilities	(461)	(528)	(748)

(1) Includes a surplus relating to the GKN Group Pension Plan (Number 2) of £40 million (31 December 2021, £71 million, 31 December 2020: £nil) and the Japan Employee plan of £2 million (31 December 2021: £4 million, 31 December 2020: £nil).

The net retirement benefit obligation is attributable to Automotive: liability of £427 million (31 December 2021: £484 million, 31 December 2020: £693 million), Powder Metallurgy: liability of £34 million (31 December 2021: £37 million, 31 December 2020: £47 million), Hydrogen: £nil (31 December 2021: £nil, 31 December 2020: £nil) and Corporate: liability of £nil (31 December 2021: £7 million, 31 December 2020: £8 million).

The plan assets and liabilities at the year end were as follows:

<u>31 December 2022</u>	UK Plans ⁽¹⁾	US Plans	European Plans	Other Plans	Total
	£m	£m	£m	£m	£m
Plan assets	666	73	19	21	779
Plan liabilities	(651)	(127)	(433)	(29)	(1,240)
Net assets/(liabilities)	15	(54)	(414)	(8)	(461)
<u>31 December 2021</u>	UK Plans ⁽¹⁾	US Plans	European Plans	Other Plans	Total
	£m	£m	£m	£m	£m
Plan assets	1,020	132	23	30	1,205
Plan liabilities	(955)	(190)	(554)	(34)	(1,733)
Net assets/(liabilities)	65	(58)	(531)	(4)	(528)

31 December 2020	UK Plans⁽¹⁾	US Plans	European Plans	Other Plans	Total
	£m	£m	£m	£m	£m
Plan assets	882	126	25	34	1,067
Plan liabilities	<u>(976)</u>	<u>(211)</u>	<u>(587)</u>	<u>(41)</u>	<u>(1,815)</u>
Net liabilities	<u>(94)</u>	<u>(85)</u>	<u>(562)</u>	<u>(7)</u>	<u>(748)</u>

(1) Includes a liability in respect of the GKN post-employment medical plans of £2 million (31 December 2021: £7 million, 31 December 2020: £8 million) and a net surplus in respect of the GKN Group Pension Schemes (Numbers 2 and 3) of £17 million (31 December 2021: £72 million, 31 December 2020: net deficit of £86 million).

The major categories and fair values of plan assets at the end of the year for each category were as follows:

	31 December 2022	31 December 2021	31 December 2020
	£m	£m	£m
Equities	54	100	248
Government bonds	310	537	349
Corporate bonds	72	197	186
Property	7	29	36
Insurance contracts	14	17	19
Multi-strategy/Diversified growth funds	121	143	13
Private equity	41	75	63
Other ⁽¹⁾	<u>160</u>	<u>107</u>	<u>153</u>
Total	<u>779</u>	<u>1,205</u>	<u>1,067</u>

(1) Primarily consists of cash collateral and liability driven investments.

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.

Movements in the present value of defined benefit obligations during the year:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
At 1 January	1,733	1,815	1,760
Current service cost	9	9	10
Past service cost ⁽¹⁾	—	—	—
Interest cost on obligations	31	23	32
Remeasurement (losses)/gains—demographic	1	(6)	(1)
Remeasurement (gains)/losses—financial	(508)	(41)	132
Remeasurement (losses)/gains—experience	44	(20)	(62)
Benefits paid out of plan assets	(61)	(51)	(55)
Benefits paid out of Group assets for unfunded plans	(18)	(17)	(20)
Transfers ⁽²⁾	(5)	60	—
Settlements	(35)	(2)	(6)
Disposal of businesses	—	(3)	—
Exchange adjustments	<u>49</u>	<u>(34)</u>	<u>25</u>
At 31 December	<u>1,240</u>	<u>1,733</u>	<u>1,815</u>

(1) An expense of £1 million was recorded in the year ended 31 December 2020 as a past service cost in respect of the gender equalisation of guaranteed minimum pension (“GMP”) benefits in the UK and was treated as an adjusting item (Note 6). This is offset by a £1 million past service credit recorded in adjusting operating profit.

- (2) Effective as at 1 January 2022, the Group transferred part of the GKN post-retirement medical plan to an entity controlled by the Ultimate Parent but outside of the Group. This resulted in a reduction of £5 million in the retirement benefit obligation. There were no assets associated with the scheme, with consideration being settled through loans with Related Parties. At 31 December 2021, following the buy-out of the GKN UK 2016 Pension Plan held by an entity controlled by the Ultimate Parent but outside of the Group, the remaining liabilities for members who were not part of the buy-out, along with the residual assets, were transferred into the GKN Group Pension Scheme Number 2, which is held within the Group.

The defined benefit plan liabilities were 18% (31 December 2021: 26%, 31 December 2020: 22%) in respect of active plan participants, 23% (31 December 2021: 24%, 31 December 2020: 19%) in respect of deferred plan participants and 59% (31 December 2021: 50%, 31 December 2020: 59%) in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2022 was 13 years (31 December 2021: 17 years, 31 December 2020: 15 years).

Movements in the fair value of plan assets during the year:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
At 1 January	1,205	1,067	949
Interest income on plan assets	25	16	20
(Loss)/return on plan assets, excluding interest income	(391)	53	131
Contributions	22	23	32
Benefits paid out of plan assets	(61)	(51)	(55)
Plan administrative costs	(4)	(3)	(4)
Transfers ⁽¹⁾	—	104	—
Settlements	(33)	(2)	(4)
Exchange adjustments	16	(2)	(2)
At 31 December	<u>779</u>	<u>1,205</u>	<u>1,067</u>

- (1) At 31 December 2021, following the buy-out of the GKN UK 2016 Pension Plan held by an entity controlled by the Ultimate Parent but outside of the Group, the remaining liabilities for members who were not part of the buy-out, along with the residual assets, were transferred into the GKN Group Pension Scheme Number 2, which is held within the Group.

The actual return on plan assets was a loss of £366 million (2021: gain of £69 million, 2020: gain of £151 million).

Carve-out Income Statement disclosures

Amounts recognised in the Carve-out Income Statement in respect of these defined benefit plans were as follows:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Included within operating profit/(loss):			
—current service cost	(9)	(9)	(10)
—past service cost ⁽¹⁾	—	—	—
—settlements	2	—	2
—plan administrative costs	(4)	(3)	(4)
Included within net finance costs:			
—interest cost on defined benefit obligations	31	(23)	(32)
—interest income on plan assets	(25)	16	20

- (1) An expense of £1 million was recorded in the year ended 31 December 2020 as a past service cost in respect of the gender equalisation of guaranteed minimum pension (“GMP”) benefits in the UK and was treated as an adjusting item (Note 6). This is offset by a £1 million past service credit recorded in adjusted operating profit.

Carve-out Statement of Comprehensive Income disclosures

Amounts recognised in the Carve-out Statement of Comprehensive Income in respect of these defined benefit plans were as follows:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
(Loss)/return on plan assets, excluding interest income	(391)	53	131
Remeasurement (losses)/gains arising from changes in demographic assumptions	(1)	6	1
Remeasurement gains/(losses) arising from changes in financial assumptions	508	41	(132)
Remeasurement (losses)/gains arising from experience adjustments .	(44)	20	62
Net remeasurement gain on retirement benefit obligations	72	120	62

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 31 December 2022 was as follows:

	<u>Change in assumption</u>	<u>Decrease/(increase) to plan liabilities</u>	<u>Increase/(decrease) to profit before tax</u>
		£m	£m
Discount rate	Increase by 0.5 ppts	72	(2)
	Decrease by 0.5 ppts	(79)	1
Inflation assumption ⁽¹⁾	Increase by 0.5 ppts	(49)	n/a
	Decrease by 0.5 ppts	47	n/a
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(47)	n/a
	Decrease by 1 year	46	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 2022 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.

21. 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 2022, 31 December 2021 and 31 December 2020:

	<u>Automotive</u>	<u>Powder Metallurgy</u>	<u>Hydrogen</u>	<u>Corporate</u>	<u>Total</u>
	£m	£m	£m	£m	£m
31 December 2022					
Financial assets					
Classified as amortised cost:					
Cash and cash equivalents	—	—	—	270	270
Net trade receivables	365	145	1	—	511
Loans receivable from Related Parties	—	—	—	2,826	2,826

	<u>Automotive</u> £m	<u>Powder Metallurgy</u> £m	<u>Hydrogen</u> £m	<u>Corporate</u> £m	<u>Total</u> £m
Classified as fair value:					
Derivative financial assets					
—Foreign currency forward contracts	1	—	—	32	33
Financial liabilities					
Classified as amortised cost:					
Loans payable to Related Parties	—	—	—	(2,176)	(2,176)
Lease obligations	(100)	(59)	—	—	(159)
Other financial liabilities	(981)	(181)	(5)	(2)	(1,169)
Classified as fair value:					
Derivative financial liabilities					
—Foreign currency forward contracts	(1)	—	—	(11)	(12)
31 December 2021					
Financial assets					
Classified as amortised cost:					
Cash and cash equivalents	—	—	—	275	275
Net trade receivables	274	123	1	—	398
Loans receivable from Related Parties	—	—	—	3,378	3,378
Classified as fair value:					
Derivative financial assets					
—Foreign currency forward contracts	—	—	—	8	8
Financial liabilities					
Classified as amortised cost:					
Loans payable to Related Parties	—	—	—	(2,547)	(2,547)
Lease obligations	(105)	(58)	—	—	(163)
Other financial liabilities	(798)	(179)	—	(4)	(981)
Classified as fair value:					
Derivative financial liabilities					
—Foreign currency forward contracts	(2)	(1)	—	(9)	(12)
—Cross-currency swaps	—	—	—	(68)	(68)
31 December 2020					
Financial assets					
Classified as amortised cost:					
Cash and cash equivalents	—	—	—	141	141
Net trade receivables	372	143	—	1	516
Loans receivable from Related Parties	—	—	—	3,295	3,295
Classified as fair value:					
Derivative financial assets					
—Foreign currency forward contracts	1	—	—	12	13
Financial liabilities					
Classified as amortised cost:					
Loans payable to Related Parties	—	—	—	(2,602)	(2,602)
Lease obligations	(113)	(59)	—	—	(172)
Other financial liabilities	(899)	(190)	—	(6)	(1,095)
Classified as fair value:					
Derivative financial liabilities					
—Foreign currency forward contracts	(4)	—	—	(6)	(10)
—Cross-currency swaps	—	—	—	(80)	(80)

Reconciliation of liabilities arising from financing activities

Liabilities arising from financing activities, as defined by IAS 7 totalled £2,778 million at 31 December 2021 comprising; loans payable to Related Parties of £2,547 million, cross currency swaps of £68 million and lease obligations of £163 million. During the year a net cash outflow in those liabilities totalled £446 million as follows: Net repayments on loans payable to Related Parties of £78 million and the repayment of principal on lease obligations of £22 million (Note 24). There is also a decrease to liabilities arising from financing activities relating to non-cash items totalling £343 million comprising; a reduction in loans payable to Related Parties and cross-currency swaps of £361 million due to changes in foreign exchange rates and other non-cash movements offset by an increase in respect of lease obligations of £18 million. As at 31 December 2022,

liabilities arising from financing activities, as defined by IAS 7, totalled £2,335 million comprising; loans payable to Related Parties of £2,176 million, cross currency swaps of £nil and lease obligations of £159 million.

Liabilities arising from financing activities, as defined by IAS 7, totalled £2,854 million at 31 December 2020 comprising; loans payable to Related Parties of £2,602 million, cross currency swaps of £80 million and lease obligations of £172 million. During the year a net cash inflow in those liabilities totalled £26 million as follows: Net drawings on loans payable to Related Parties of £48 million offset by the repayment of principal on lease obligations of £22 million (Note 24). There is also a decrease to liabilities arising from financing activities relating to non-cash items totalling £102 million comprising a reduction in loans payable to Related Parties and cross-currency swaps of £115 million due to changes in foreign exchange rates and other non-cash movements and an increase in respect of lease obligations of £13 million. As at 31 December 2021, liabilities arising from financing activities, as defined by IAS 7, totalled £2,778 million comprising; loans payable to Related Parties of £2,547 million, cross currency swaps of £68 million and lease obligations of £163 million.

Liabilities arising from financing activities, as defined by IAS 7, totalled £1,965 million at 31 December 2019 comprising; loans payable to Related Parties of £1,715 million, cross currency swaps of £74 million and lease obligations of £176 million. During the year a net cash outflow in those liabilities totalled £364 million as follows: Net repayment of loans payable to Related Parties of £339 million and the repayment of principal on lease obligations of £25 million (Note 24). There is also an increase in liabilities arising from financing activities relating to non-cash items totalling £1,253 million comprising; an increase in loans payable to Related Parties and cross-currency swaps of £1,232 million due to changes in foreign exchange rates and other non-cash movements and an increase in respect of lease obligations of £21 million. As at 31 December 2020, liabilities arising from financing activities, as defined by IAS 7, totalled £2,854 million comprising; loans payable to Related Parties of £2,602 million, cross currency swaps of £80 million and lease obligations of £172 million.

Fair values

Management consider that the financial assets and liabilities have fair values not materially different to the carrying values.

Credit risk

The Group's principal financial assets were cash and cash equivalents, trade receivables, loans receivable from Related Parties 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 ultimate counterparties were banks with strong credit ratings assigned by international credit rating agencies. 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 Carve-out 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 14 provides further details regarding the recovery of trade receivables.

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 2022 consists of net funds, as disclosed in Note 23, and equity attributable to the owners of the Ultimate Parent, comprising Net Investment by the Ultimate Parent and reserves as disclosed in the Carve-out Statement of Changes in Total Invested Capital.

Liquidity risk management

Overview of banking facilities

The Group is financed through borrowing from counterparties controlled by the Ultimate Parent but not part of the Group. Funding is typically in the form of intercompany revolving credit facilities to provide sufficient liquidity to allow the businesses to operate on a day to day basis.

Management takes careful consideration of counterparty risk with banks when deciding where to place cash on deposit.

Working capital

The Group has a small number of uncommitted working capital programmes, which 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 2022, the drawings on these facilities were £187 million (31 December 2021: £196 million, 31 December 2020: £208 million), as a result there was a net cash reduction in the year of £9 million (2021: £12 million, 2020: benefit of £105 million).

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 £57 million (31 December 2021: £33 million, 31 December 2020: £7 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 Carve-out Balance Sheet and the cash flows are presented in cash flows from operating activities. As at 31 December 2022, there were drawings on these facilities of £125 million (31 December 2021: £52 million, 31 December 2020: £14 million). The arrangements do not change the timing of the Group's cash outflows.

Interest rate sensitivity analysis

Assuming all loans and cash 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 increase/(decrease) profit before tax by the following amounts:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Sterling	3	1	(2)
US Dollar	(13)	(7)	(7)
Euro	16	15	15

Exchange rate risk management

The Group trades in various countries around the world and is exposed to movements in a number of foreign currencies. The Group therefore carries exchange rate risk that can be categorised into three types, transaction, translation and disposal related 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 average time horizons for GKN Automotive and GKN Powder Metallurgy reflect the long-term nature of the contracts within these divisions. Typically, in total the Group hedges around 90% of foreign exchange exposures expected over the next year, and approximately 60% of exposures between one and two years. 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 converted to Sterling.

Lastly, exchange rate risk arises when a business that is predominantly based in a foreign currency is sold. The proceeds for those businesses may be received in a foreign currency and therefore an exchange rate risk may arise on conversion of foreign currency proceeds into Sterling, for instance to pay a Sterling dividend. Protection against this risk is considered on a case-by-case basis and, if appropriate, hedged at the time.

As at 31 December 2022, 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 asset at 31 December 2022 of £21 million (31 December 2021: liability of £4 million, 31 December 2020: asset of £3 million).

The following table shows the maturity profile of undiscounted contracted gross cash outflows of derivative financial liabilities used to manage currency risk:

	<u>0–1 year</u>	<u>1–2 years</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Year ended 31 December 2022			
Foreign exchange forward contracts	208	46	254
Year ended 31 December 2021			
Foreign exchange forward contracts	353	126	479
Year ended 31 December 2020			
Foreign exchange forward contracts	140	43	183

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 increase/(decrease) 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:

	<u>Year ended</u>	<u>Year ended</u>	<u>Year ended</u>
	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2022</u>	<u>2021</u>	<u>2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
US Dollar	1	—	—
Euro	—	2	4

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 the Group's Total Invested Capital 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.

	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2022</u>	<u>2021</u>	<u>2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
US Dollar	(3)	(9)	(4)
Euro	(5)	(7)	(2)

Fair value measurements recognised in the Carve-out 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.

Cross-currency swap contracts are measured using yield curves derived from quoted interest and foreign exchange rates.

Derivative and financial assets and liabilities are presented within the Carve-out Balance Sheet as:

	31 December 2022	31 December 2021	31 December 2020
	£m	£m	£m
Non-current assets	9	1	3
Current assets	24	7	10
Current liabilities	(10)	(77)	(8)
Non-current liabilities	(2)	(3)	(82)

22. Translation Reserve

The translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than pound sterling.

23. Cash flow statement

	Notes	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
		£m	£m	£m
Reconciliation of operating loss to net cash from operating activities				
Operating profit/(loss)		58	(121)	(256)
Adjusting items	6	275	363	360
Adjusted operating profit	6	333	242	104
Adjustments for:				
Depreciation of property, plant and equipment		251	265	276
Amortisation of computer software and development costs		10	8	11
Share of adjusted operating profit of equity accounted investments	12	(78)	(66)	(62)
Restructuring costs paid and movements in provisions		(147)	(141)	(55)
Defined benefit pension contributions paid		(40)	(40)	(52)
Change in inventories		(33)	(27)	41
Change in receivables		(102)	69	33
Change in payables		103	(36)	83
Tax (paid)/received		(72)	(37)	22
Interest paid on loans and borrowings		(6)	(7)	(4)
Interest paid on lease obligations		(6)	(7)	(7)
Acquisition and disposal costs		(3)	—	—
Net cash from operating activities		210	223	390
Reconciliation of cash and cash equivalents, net of bank overdrafts				
		31 December 2022	31 December 2021	31 December 2020
		£m	£m	£m
Cash and cash equivalents per Carve-out Balance Sheet		270	275	141
Bank overdrafts included within current loans payable to Related Parties		(7)	—	—
Cash and cash equivalents, net of bank overdrafts per Carve-out Statement of Cash Flows		263	275	141

Net funds reconciliation

Net funds consist of loans with Related Parties, cross-currency swaps and cash and cash equivalents.

Net funds 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 loans with Related Parties (current and non-current) and

cash and cash equivalents. A reconciliation from the most directly comparable IFRS measure to net funds, is given below:

	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Loans receivable from Related Parties—due after one year	2,826	3,378	3,295
Loans payable to Related Parties—due within one year	<u>(2,176)</u>	<u>(2,547)</u>	<u>(2,602)</u>
External net funds	650	831	693
Add:			
Cash and cash equivalents	<u>270</u>	<u>275</u>	<u>141</u>
	920	1,106	834
Adjustments:			
Impact of cross-currency swaps	<u>—</u>	<u>(68)</u>	<u>(80)</u>
Net funds	<u><u>920</u></u>	<u><u>1,038</u></u>	<u><u>754</u></u>

24. Commitments

Amounts payable under lease obligations:

<u>Minimum lease payments</u>	<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Amounts payable:			
Within one year	32	30	30
After one year but within five years	65	63	61
Over five years	113	105	120
Less: future finance charges	<u>(51)</u>	<u>(35)</u>	<u>(39)</u>
Present value of lease obligations	<u><u>159</u></u>	<u><u>163</u></u>	<u><u>172</u></u>
Analysed as:			
Amounts due for settlement within one year	25	23	23
Amount due for settlement after one year	<u>134</u>	<u>140</u>	<u>149</u>
Present value of lease obligations	<u><u>159</u></u>	<u><u>163</u></u>	<u><u>172</u></u>

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.

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 £5 million.

The table below shows the key components in the movement in lease obligations.

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
At 1 January	163	172	176
Additions	14	23	12
Acquisition of businesses ⁽¹⁾	—	—	9
Interest charge	6	7	7
Reassessment of lease obligation	—	—	(1)
Payment of principal	(22)	(22)	(25)
Payment of interest	(6)	(7)	(7)
Disposals	(4)	(1)	(1)
Exchange adjustments	8	(9)	2
At 31 December	<u>159</u>	<u>163</u>	<u>172</u>

(1) Acquisition of businesses in 2020 related to the purchase of Forecast 3D in the Powder Metallurgy division (Note 10).

Capital commitments

At 31 December 2022, there were commitments of £50 million (31 December 2021: £41 million, 31 December 2020: £22 million) relating to the acquisition of new plant and machinery.

25. Related parties

Remuneration of key management personnel

The remuneration of the Executive Directors of the Group, who are considered the key management personnel, is set out below in aggregate for each of the categories specified in IAS 24: “Related party disclosures”:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Short-term employee benefits	3	3	2
	<u>3</u>	<u>3</u>	<u>2</u>

Mr. S Peckham and Mr. G Martin are Executive Directors of Dowlais Group plc, as well as Melrose Industries PLC, but did not work for GKN Automotive, GKN Powder Metallurgy or GKN Hydrogen during the Historical Financial Information period. Their remuneration was borne by a non-Group entity controlled by the Ultimate Parent and there was no allocation made to the Group as there is no practicable basis for allocation.

Transactions between companies within the Group, which are Related Parties, have been eliminated on aggregation 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.

Transactions and balances between the Group and the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent, are classified as related party transactions. Transactions primarily relate to royalties paid, dividends paid and received and interest payable and receivable on loans with Related Parties.

Amounts recognised in the Carve-out Balance Sheet in respect of these related party transactions were as follows:

	31 December 2022	31 December 2021	31 December 2020
	£m	£m	£m
Amounts owed by the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent	2,829	3,380	3,295
Amounts owed to the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent	(2,189)	(2,561)	(2,613)

Amounts recognised in the Carve-out Income Statement in respect of these related party transactions were as follows:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Interest receivable from the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent	—	—	7
Interest payable to the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent	(22)	(26)	(36)
Dividends receivable from the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent	—	5	15
Charges payable to the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent	(9)	(12)	(11)

Amounts recognised in the Carve-out Statement of Changes in Total Invested Capital in respect of these related party transactions were as follows:

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020
	£m	£m	£m
Charges (received from)/ paid to non-Group entities ⁽¹⁾	(1)	(2)	5
Disposal of non-Group entities	—	(4)	(28)
Reorganisation in respect of non-Group entities	(105)	410	(130)
Tax effect of transactions with the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent	(4)	(37)	12
Total transactions with, or on behalf of, the Ultimate Parent or other non-Group entities controlled by the Ultimate Parent	<u>(110)</u>	<u>367</u>	<u>(141)</u>

(1) Includes an expense of £2 million in the year ended 31 December 2022 (2021: £2 million, 2020: £2 million) as an allocation of corporate costs considered to be attributable to Dowlais Group plc.

	31 December 2022	31 December 2021	31 December 2020
	£m	£m	£m
Dividends payable to the Ultimate Parent, or other non-Group entities controlled by the Ultimate Parent	—	(34)	—

Charges are incurred by Group companies in relation to other entities controlled by the Ultimate Parent but outside of the Group. All foreign exchange contracts, shown in Note 21, are with another non-Group entity controlled by the Ultimate Parent.

26. Contingent liabilities

As a result of acquisitions, 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 Executive Directors' best estimate has been included in the Carve-out 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 18.

Given the nature of the Group's business many of the Group's products have a large installed base, and any recalls or reworks related to such products could be particularly costly. The costs of product recalls or reworks are not always covered by insurance. Recalls or 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.

27. Post balance sheet events

Dowlais Group plc (“the Company”) was incorporated as a company in England and Wales on 13 January 2023. On incorporation, the Company’s share capital consisted of one ordinary share with a nominal value of £1 which was issued, fully paid, to Shield Trust Limited (the “Incorporation Share”). On 18 January 2023, the Incorporation Share was transferred to the Ultimate Parent, Melrose Industries PLC (“Melrose”). On 19 January 2023, the Ultimate Parent subscribed for an additional 49,999 ordinary shares of £1 each in the Company which were subsequently issued and fully paid.

Prior to the proposed demerger, the Ultimate Parent has completed a reorganisation of its corporate structure to bring all of the companies that comprise the Group under the ownership of the Company (the “Reorganisation”). Following completion of the Reorganisation, the Company owns 100% of the entire issued share capital of G.K.N. Industries Limited (“GKN Industries”) and GKN Powder Metallurgy Holdings Limited (“GKN PM”). A summary of the key Reorganisation steps that relate to the establishment of the Dowlais Group and the share capital of the Company is set out below:

- On 28 February 2023, the Company subdivided the 50,000 ordinary shares of £1 each then in issue into 5,000,000 ordinary shares of one pence each pursuant to a resolution of the member of the Company (the “Sub-divided Shares”);
- On 28 February 2023, GKN Enterprise Limited (“GKN Enterprise”) transferred its beneficial interest in 100% of the issued share capital in GKN PM (the “PM Shares”) to Melrose pursuant to a declaration of trust for consideration equal to the book value of GKN PM as at 31 December 2022, which was left outstanding on intercompany balance. The transfer of the bare legal title to the PM Shares from GKN Enterprise to Melrose occurred on 28 February 2023;
- On 28 February 2023, GKN Enterprise transferred its beneficial interest in 100% of the issued share capital in GKN Industries (the “Auto Shares”) to Melrose pursuant to a declaration of trust for consideration equal to the book value of GKN Industries as at 31 December 2022, which was left outstanding on intercompany balance. The transfer of the bare legal title to the Auto Shares from GKN Enterprise to Melrose occurred on 28 February 2023; and
- On 28 February 2023, Melrose contributed 100% of the issued share capital in GKN Industries and GKN PM to the Company by way of a share-for-share exchange. The Company issued 1,388,273,527 ordinary shares of one pence each, which, together with the Sub-divided Shares, comprises the total number of Dowlais Shares expected to be in issue at the Demerger Record Time.

PART XIII
UNAUDITED PRO FORMA FINANCIAL INFORMATION

PART A: ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.

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3 March 2023

Dear Sirs/Mesdames,

Dowlais Group plc (the "Company")

We report on the pro forma financial information (the "Pro forma financial information") set out in Part B of Part XIII of the prospectus dated 3 March 2023 (the "Prospectus"). This report is required by Annex 20, section 3 of the Prospectus Delegated Regulation and is given for the purpose of complying with that regulation and for no other purpose.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Pro forma financial information in accordance with Annex 20 sections 1 and 2 of the Prospectus Delegated Regulation.

It is our responsibility to form an opinion, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex 20 section 3 of the Prospectus Delegated Regulation.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex 1 item 1.3 of the Prospectus Delegated Regulation, consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept

responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed at the date of their issue.

Basis of preparation

The pro forma financial information has been prepared on the basis described in the notes therein, for illustrative purposes only, to provide information about how the pre-Demerger distribution, other separation items and refinancing might have affected the financial information presented on the basis of the accounting policies to be adopted by the Company in preparing the financial statements for the period ending 31 December 2023.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. We are independent of the Company in accordance with the Financial Reporting Council's Ethical Standard as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R(2)(f) we are responsible for this report as part of the Prospectus and declare that to the best of our knowledge, the information contained in this report is, in accordance with the facts and that the report makes no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex 1 item 1.2 of the Prospectus Delegated Regulation.

Yours faithfully

Deloitte LLP

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PART B: UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma statement of net assets of the Dowlais Group set out below has been prepared to illustrate the impact of the pre-Demerger distribution, other separation items and refinancing on the net assets of the Dowlais Group as if the pre-Demerger distribution other separation items and refinancing had taken place on 31 December 2022.

The pro forma financial information presented below has been prepared on the basis of the net assets of the Dowlais Group as at 31 December 2022, the date to which the latest financial information in relation to the Dowlais Group was prepared. This pro forma financial information has been prepared in accordance with Annex 20 of the Prospectus Delegated Regulation and pursuant to Listing Rule 13.3.3R in a manner consistent with the accounting policies of the Company. Because of its nature, this pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Dowlais Group's actual financial position or results. It may not, therefore, give a true picture of the Dowlais Group's financial position or results nor is it indicative of the results that may, or may not, be expected to be achieved in the future. This pro forma financial information has been prepared for illustrative purposes only and in accordance with Annex 20 of the Prospectus Delegated Regulation.

Deloitte LLP's report on the Unaudited Pro Forma Financial Information is set out in Part A of this Part XIII (*Unaudited Pro Forma Financial Information*).

£'m	Dowlais Group as at 31 December 2022 ⁽¹⁾	Pre-Demerger distribution ⁽²⁾	Other separation items ⁽³⁾	Refinancing ⁽⁴⁾	Dowlais Group unaudited pro forma at 31 December 2022 ⁽⁵⁾
Non-current assets					
Goodwill and other intangible assets . . .	3,075	—	—	—	3,075
Property, plant and equipment	1,813	—	—	—	1,813
Interests in equity accounted investments	424	—	—	—	424
Loans receivable from related parties . .	2,826	(2,826)	—	—	—
Deferred tax assets	99	—	—	—	99
Derivative financial assets	9	—	—	—	9
Retirement benefit surplus	42	—	—	—	42
Other receivables	21	—	—	—	21
	<u>8,309</u>	<u>(2,826)</u>	<u>—</u>	<u>—</u>	<u>5,483</u>
Current assets					
Inventories	498	—	—	—	498
Trade and other receivables	638	—	—	—	638
Derivative financial assets	24	—	—	—	24
Current tax assets	20	—	—	—	20
Cash and cash equivalents	270	—	—	—	270
	<u>1,450</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,450</u>
Total assets	9,759	(2,826)	—	—	6,933
Current liabilities					
Trade and other payables	1,188	—	—	—	1,188
Loans payable to Related Parties	2,176	(1,151)	79	(1,104)	—
Lease obligations	25	—	—	—	25
Derivative financial liabilities	10	—	—	—	10
Current tax liabilities	109	—	—	—	109
Provisions	140	—	—	—	140
	<u>3,648</u>	<u>(1,151)</u>	<u>79</u>	<u>(1,104)</u>	<u>1,472</u>
Non-current liabilities					
Trade and other payables	28	—	—	—	28
Interest bearing loans and borrowings . .	—	—	—	1,104	1,104
Lease obligations	134	—	—	—	134
Derivative financial liabilities	2	—	—	—	2
Deferred tax liabilities	293	—	—	—	293
Retirement benefit obligations	503	—	—	—	503
Provisions	186	—	—	—	186
	<u>1,146</u>	<u>—</u>	<u>—</u>	<u>1,104</u>	<u>2,250</u>
Total liabilities	4,794	(1,151)	79	—	3,722
Net assets	4,965	(1,675)	(79)	—	3,211

-
- (1) The net assets relating to the Dowlais Group have been extracted without material adjustment from the historical financial information as at 31 December 2022 as set out in Part XII (*Historical Financial Information*) of this Prospectus.
 - (2) Pre-Demerger distribution: On 23 February 2023, a dividend in an amount of £1,675 million was declared by GKN Industries (a Dowlais Group entity) in favour of GKN Enterprise (a non-Dowlais Group entity and subsidiary of the Melrose Group), for the purpose of leaving the Dowlais Group with the agreed level of indebtedness. On 24 February 2023, an agreement was entered into between GKN Enterprise and GKN Industries to offset loans receivable from related parties and loans payable to related parties. The aggregate effect of these transactions was to reduce loans receivable from related parties by £2,826 million and reduce related party payables by £1,151 million, leaving a notional amount of £1,025 million showing as a payable from GKN Industries to GKN Enterprise. The actual amount of the net payable varies from the notional amount set out above, as a result of events taking place in the period following 31 December 2022 and prior to the Demerger.
 - (3) Other separation items: Subsequent to 31 December 2022, as part of the Reorganisation steps (as described in Section 4.2 (History of the share capital and Reorganisation) and Section 17.7 (Trade Mark Agreements) of Part XV (Additional Information), the Dowlais Group entered into two transactions, which resulted in a net increase of £79 million in loans payable to related parties by the Dowlais Group. The increase in loans due to related parties is due to:
 - The ownership of certain trademarks for use by GKN Powder Metallurgy, GKN Hydrogen and Hoeganaes were novated on 27 January 2023 from GKN Investments II GP (a non-Dowlais Group entity and subsidiary of the Melrose Group) to Dowlais Group Headquarters Limited (a Dowlais Group entity) for £126 million.
 - This has been offset by the transfer of £47 million of 2022 profit from GKN Aerospace Sweden AB (a non-Dowlais Group entity and subsidiary of the Melrose Group) to GKN Driveline Koping AB (a Dowlais Group entity) in order to offset group losses against group profits on 3 February 2023.
 - (4) Refinancing: Immediately following Admission, the Dowlais Group will draw down on its banking facilities (as described in Section 17.4 (*Senior Facilities Agreement*) of Part XV (*Additional Information*) of this Prospectus) and will use the proceeds to settle the remaining loans payable to related parties balance between GKN Industries and GKN Enterprise. Accordingly, an adjustment of £1,104 million has been made, representing the settlement of the loans payable to related parties with the drawdown of external borrowings. The actual drawdown and repayment amounts vary from the notional amounts set out above, as a result of further events taking place in the period up to the Demerger.
 - (5) No account has been taken of any trading or results of the Group since 31 December 2022. The Melrose Group is assuming the costs and expenses that are directly attributable to the Demerger.

PART XIV TAXATION

Any discussion of taxation and related matters contained within this Prospectus does not purport to be a comprehensive description of all the tax considerations that may be relevant to an investment in Dowlais Shares and, in particular, does not address the tax considerations in any jurisdiction not specifically covered below. Shareholders in jurisdictions outside of the UK or the United States should consult with their own legal and tax advisers with respect to the tax consequences in their particular circumstances under the relevant legislation and regulations.

CERTAIN UK TAX CONSIDERATIONS

The following comments are intended only as a general guide to current UK tax law and what is understood to be the current published practice of HM Revenue and Customs (“HMRC”) as at the date of this Prospectus (both of which are subject to change at any time, possibly with retrospective effect). They relate only to certain limited aspects of the UK tax consequences of holding or disposing of Dowlais Shares. The rates and allowances for the tax year 2022/2023 stated below reflect the current law.

Except where otherwise specifically stated, the comments below are intended to apply only to Dowlais Shareholders: (i) who are resident (and, in the case of individuals, domiciled) in (and only in) the UK for UK tax purposes; (ii) to whom split-year treatment does not apply; (iii) who are and will be the absolute beneficial owners of their Dowlais Shares and any dividends paid in respect of them; (iv) who hold, and will hold, their Dowlais Shares as investments (otherwise than through an individual savings account or a pension arrangement) and not as securities to be realised in the course of a trade; and (v) to whom the UK tax rules concerning carried interest do not apply in relation to their holding or disposal of Dowlais Shares.

The comments below may not apply to certain Dowlais Shareholders, such as (but not limited to) persons who are connected with the Company, dealers in securities, intermediaries, broker dealers, insurance companies, charities, collective investment schemes, pension schemes, Dowlais Shareholders who are exempt from UK taxation and Dowlais Shareholders who acquire or acquired (or are deemed to have acquired) their Dowlais Shares by virtue of an office or employment. Such Dowlais Shareholders may be subject to special rules.

The material set out in the paragraphs below does not constitute tax advice. Dowlais Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser. In particular, non-UK resident or domiciled persons are advised to consider the potential impact of any relevant double tax agreements.

1. General

1.1 UK withholding tax

The Company will not be required to withhold tax at source when paying a dividend.

1.2 Direct taxation of dividends

Liability to UK income tax or UK corporation tax on income in respect of dividends payable on the Dowlais Shares will depend upon the individual circumstances of the Dowlais Shareholder. An overview of the UK tax rules applicable to dividends is set out below.

1.3 Individual Dowlais Shareholders within the charge to UK income tax

When the Company pays a dividend to a Dowlais Shareholder who is an individual resident for tax purposes in the UK, the amount of income tax payable on the receipt, if any, will depend on the individual’s own personal tax position. “Dividend income” for these purposes includes certain other distributions in respect of shares.

No UK income tax should be payable by a UK resident individual Dowlais Shareholder if the amount of dividend income received, when aggregated with such Dowlais Shareholder’s other dividend income in the year of assessment, does not exceed the dividend allowance. The dividend allowance is £2,000 for the tax year 2022/2023, but is due to decrease to £1,000 for the tax year 2023/2024 and to £500 for the tax year 2024/2025. Dividend income in excess of the dividend allowance is taxed at the following rates for the tax year 2022/2023:

- 8.75% to the extent that it falls below the threshold for higher rate income tax;
- 33.75% to the extent it falls within the higher rate band; and

- 39.35% to the extent it falls within the additional rate band.

For the purposes of determining which of the taxable bands dividend income falls into, dividend income is treated as the highest part of a Dowlais Shareholder's income. In addition, dividend income which is within the dividend allowance counts towards an individual's basic or higher rate limits and so will be taken into account in determining whether the threshold for higher rate or additional rate income tax is exceeded.

1.4 Other individual shareholders

Individual Dowlais Shareholders who are not resident in the UK and who hold their Dowlais Shares as an investment and not in connection with any trade, profession or vocation carried on by them in the UK should not generally be subject to UK tax on dividends received from the Company.

1.5 Corporate shareholders within the charge to UK corporation tax

Shareholders within the charge to UK corporation tax that are "small companies" (for the purposes of UK taxation of dividends) generally will not be subject to UK tax on dividends from the Company provided certain conditions are met (including an anti-avoidance condition).

Other shareholders within the charge to UK corporation tax (which are not "small companies" for the purposes of UK taxation of dividends) should not be subject to UK tax on dividends from the Company so long as the dividends fall within an "exempt class" and certain conditions are met. In general, (i) dividends paid on non-redeemable "ordinary shares" (that is, non-redeemable shares that do not carry any present or future preferential rights to dividends or to the Company's assets on its winding up); and (ii) dividends paid to a person holding less than 10% of the issued share capital of the class in respect of which the dividend is paid, should fall within an exempt class and accordingly should not be subject to UK corporation tax. However, it should be noted that the exemptions are not comprehensive and are subject to anti-avoidance rules. Shareholders will need to ensure that they satisfy the requirements of any exempt class and that no anti-avoidance rules apply before treating any dividend as exempt, and seek appropriate professional advice where necessary.

1.6 Other corporate shareholders

Corporate Dowlais Shareholders who are not resident in and have no permanent establishment in the UK and who hold their ordinary shares as an investment and not in connection with any trade carried on by them should not generally be subject to UK tax on dividends received from the Company.

2. Chargeable Gains

2.1 Individuals resident in the UK

A disposal (or deemed disposal) of Dowlais Shares by a UK resident individual Dowlais Shareholder may give rise to a chargeable gain (or allowable loss) for the purposes of UK capital gains tax, depending on the circumstances and subject to any available exemption or relief. However, the capital gains tax annual exempt amount may be available to exempt any chargeable gain, to the extent that the exemption has not already been utilised. The annual exempt amount is £12,300 for individuals for the tax year 2022/23 but is due to decrease to £6,000 for individuals for the tax year 2023/2024 and to £3,000 for individuals for the tax year 2024/25.

Capital gains tax on share disposals by a UK resident individual Dowlais Shareholder will generally be charged at 10% to the extent that the total chargeable gains and, generally, total taxable income arising in a tax year, after all allowable deductions (including losses, the income tax personal allowance and the capital gains tax annual exempt amount), are less than the upper limit of the income tax basic rate band. To the extent that any chargeable gains (or part of any chargeable gains) arising in a tax year exceed the upper limit of the income tax basic rate band when aggregated with any such income (in the manner referred to above), capital gains tax will generally be charged at 20%.

2.2 Individual shareholders not resident in the UK

An individual Dowlais Shareholder who is not resident in the UK should not be liable to UK capital gains tax on capital gains realised on the disposal of their ordinary shares unless such Dowlais Shareholder carries on a trade, profession or vocation in the UK through a branch or agency in the UK to which the ordinary shares are attributable.

An individual Dowlais Shareholder who is temporarily non-resident for UK tax purposes may, in certain circumstances, become liable to UK capital gains tax in respect of gains realised while he or she was not resident in the UK.

2.3 Corporate Shareholders resident in the UK

A disposal (or deemed disposal) of Dowlais Shares by a UK resident corporate Dowlais Shareholder may give rise to a chargeable gain (or allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. The main rate of UK corporation tax is currently 19%, but will increase to 25% with effect from 1 April 2023.

2.4 Other Corporate Shareholders

A corporate Dowlais Shareholder that is not resident in the UK and does not carry on a trade through a permanent establishment in the UK to which the ordinary shares are attributable should not be liable for UK corporation tax on chargeable gains realised on the disposal of ordinary shares.

3. Stamp Duty and Stamp Duty Reserve Tax

The following statements apply regardless of whether or not a shareholder is resident or domiciled in the UK. It should be noted that certain categories of persons, including market makers, brokers, dealers, and other specified market intermediaries, are entitled to exemption from stamp duty and stamp duty reserve tax (“SDRT”) in respect of purchases of securities in specified circumstances.

3.1 Issue

No stamp duty or SDRT will arise on the issue of Dowlais Shares in registered form by the Company. In the case of Dowlais Shares issued to a clearance service or depositary receipt system, this is as a result of case law which has been accepted by HM Revenue & Customs.

3.2 Transfers outside of depositary receipt systems and clearance services

An agreement to transfer Dowlais Shares will normally give rise to a charge to SDRT at the rate of 0.5% of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser.

Transfers of Dowlais Shares will generally be subject to stamp duty at the rate of 0.5% of the consideration given for the transfer (rounded up to the next £5). The purchaser normally pays the stamp duty.

If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional), any SDRT already paid is generally repayable, normally with interest, and any SDRT charge yet to be paid is cancelled.

3.3 Transfers within CREST

Paperless transfers of Dowlais Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of Dowlais Shares into CREST will not generally be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration.

3.4 Transfers to and within depositary receipt systems and clearance services

Where Dowlais Shares are transferred: (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services; or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT may be payable at the higher rate of 1.5% of the amount or value of the consideration given or, in certain circumstances, the value of the Dowlais Shares.

Except in relation to clearance services that have made an election under Section 97A(1) of the Finance Act 1986 (to which the special rules outlined below apply), no stamp duty or SDRT is payable in respect of paperless transfers within clearance services or depositary receipt systems.

There is an exception from the 1.5% charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under Section 97A(1) of the Finance Act 1986, which has been approved by HMRC. In these circumstances, SDRT at the rate of 0.5% of the

amount or value of the consideration payable for the transfer will arise on any transfer of Dowlais Shares into such an account and on subsequent agreements to transfer such Dowlais Shares within such account.

Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise will strictly be accountable by the clearance service or depositary receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt system.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain US federal income tax considerations generally applicable to US Holders regarding the holding and disposition of the Dowlais Shares. For the purposes of this summary, a “US Holder” is a beneficial owner of Dowlais Shares that is, for US federal income tax purposes, (i) a citizen or individual resident of the United States, (ii) a corporation (or other entity that is treated as a corporation for US federal income tax purposes) created or organised in or under the laws of the United States, any state therein or the District of Columbia, or (iii) an estate or trust the income of which is subject to US federal income taxation regardless of its source.

This summary is based on provisions of the Code, and regulations, rulings and judicial interpretations thereof, as well as the Convention between the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital Gains (as amended by any subsequent protocols) (the “Treaty”), all as of the date hereof. Those authorities may be changed at any time, possibly with retroactive effect, so as to result in US federal income tax consequences different from those summarised below.

This summary is limited to US federal income tax considerations relevant to US Holders that hold Dowlais Shares as “capital assets” within the meaning of section 1221 of the Code (generally, property held for investment). This summary does not address particular tax consequences that may be applicable to US Holders subject to special tax rules such as banks, brokers or dealers in securities or currencies, traders in securities electing to mark to market, financial institutions, life insurance companies, tax-exempt entities, regulated investment companies, persons who actually or constructively own five percent or more of Dowlais Shares, by vote or value, persons holding Dowlais Shares as part of a hedging or conversion transaction or a straddle, or persons whose functional currency is not US dollars. In addition, this summary is applicable only to US Holders (i) that are residents of the United States for the purposes of the Treaty, (ii) whose shares are not, for the purposes of the Treaty, effectively connected with a permanent establishment in the United Kingdom and (iii) who otherwise qualify for the full benefits of the Treaty. Moreover, this summary does not address state, local or non-US taxes, US federal estate and gift taxes, Medicare contribution tax applicable to net investment income of certain non-corporate US Holders, or alternative minimum tax consequences of the ownership and disposition of Dowlais Shares.

If a partnership (or other entity or arrangement treated as a partnership for US federal income tax purposes) holds Dowlais Shares, the tax treatment of such partnership and its partners will generally depend on the status of the partners and the activities of the partnership. Partnerships holding any Dowlais Shares and their partners should consult their tax advisers as to the particular US federal income tax consequences of the ownership and disposition of Dowlais Shares.

There can be no assurance that the US Internal Revenue Service (the “IRS”) will not take positions that are inconsistent with those discussed below or that any such positions, if challenged, would not be sustained by a court.

The summary of US federal income tax consequences set out below is for general information only and does not purport to be a comprehensive analysis or description of all potential US federal income tax consequences of the ownership or disposition of Dowlais Shares. You should consult your own tax advisers about the consequences to you of holding and disposing of Dowlais Shares including the relevance to your particular situation of the considerations discussed below and any consequences arising under federal, state, local, or non-US tax laws.

1. Taxation of dividends

Subject to the discussion below under Section 3 (*Passive foreign investment company*), the gross amount of distributions on the Dowlais Shares (including any amounts withheld to reflect the UK withholding taxes) will be taxable as dividends to the extent paid out of Dowlais’s current or accumulated earnings and profits, as determined under United States federal income tax principles. To the extent that the amount of any distribution

exceeds Dowlais's current and accumulated earnings and profits for a taxable year, the excess will first be treated as a tax-free return of capital, reducing a US Holder's adjusted tax basis in the Dowlais Shares (not below zero), and, to the extent in excess of such tax basis, will be taxed as a gain recognised on a sale or exchange of Dowlais Shares. Dowlais does not expect to determine its earnings and profits in accordance with United States federal income tax principles. Therefore, US Holders should expect that any distribution will generally be reported as a dividend for US federal income tax purposes. A US Holder will be required to include in its gross income any dividend (including any withheld taxes) on the day it actually or constructively receives such dividend. The amount of any dividend paid in Sterling will equal the US dollar value of the pounds Sterling received calculated by reference to the exchange rate in effect on the date the dividend is received by any US Holder, regardless of whether the pounds Sterling are converted into United States dollars. If the pounds Sterling received as a dividend are converted into US dollars on the date of such receipt, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income. If the pounds Sterling received as a dividend are not converted into US dollars on the date of receipt, the US Holder will have a basis in the pounds Sterling equal to their US dollar value on the date of receipt. Any gain or loss realised on a subsequent conversion or other disposition of the Sterling will be treated as US source ordinary income or loss.

Subject to applicable limitations (including a minimum holding period requirement), dividends received by a non-corporate US Holder from a qualified foreign corporation may be treated as "qualified dividend income" that is subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the United States Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The United States Treasury Department has determined that the Treaty meets these requirements, and the Company believes it is eligible for the benefits of the Treaty. Thus, Dowlais believes that any dividends paid in respect of the Dowlais Shares in the Demerger will potentially be eligible for these reduced tax rates. The dividends would generally be treated as income from sources outside the United States for foreign tax credit purposes. US Holders should consult their own tax advisers regarding the application of these rules to their particular circumstances.

2. Taxation of capital gains

For US federal income tax purposes, upon a sale, exchange or other taxable disposition of the Dowlais Shares, a US Holder generally will recognise gain or loss in an amount equal to the difference between amount realised and the US Holder's adjusted tax basis in such Dowlais Shares, both determined in US dollars. Subject to the discussion below under Section 3 (*Passive foreign investment company*), such gain or loss will generally be capital gain or loss will generally be long-term capital gain or loss if the US Holder has held such shares for more than one year. Long-term capital gain realised by a non-corporate US Holder is generally taxable at reduced rates and the deductibility of capital losses is subject to certain limitations. Any gain or loss recognised a US Holder will generally be treated as US source gain or loss for US foreign tax credit purposes.

3. Passive foreign investment company

Based on the projected composition of Dowlais's income and assets and the estimated value of Dowlais's assets (including goodwill), Dowlais currently does not expect to become a passive foreign investment company ("PFIC") for its current taxable year or any future taxable year, although there can be no assurance in this regard.

In general, Dowlais will be a PFIC for any taxable year in which:

- (a) at least 75% of its gross income is passive income, or
- (b) at least 50% of the value (generally determined based on a quarterly average) of its assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, rents and royalties (other than rents or royalties derived from the active conduct of a trade or business and not derived from a related person) and gains from the disposition of passive assets. In addition, cash and other assets readily convertible into cash are generally considered passive assets. The value of goodwill will generally be treated as an active or passive asset based on the nature of the income produced in the activity to which the goodwill is attributable. For purposes of the PFIC rules, a non-US corporation that owns, directly or indirectly, at least 25% by value of the stock of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation.

The determination of whether Dowlais is a PFIC is made annually. Accordingly, it is possible that Dowlais may become a PFIC in the current or any future taxable year due to changes in its asset or income composition. Because Dowlais has valued its goodwill based on the expected market value of its common shares, a decrease in the price of Dowlais Shares may also result in its becoming a PFIC. If, contrary to Dowlais's expectation, Dowlais is classified as a PFIC in any year during which a US Holder holds Dowlais Shares and does not make a timely mark-to-market election (as described below), the US Holder generally would be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition (including a pledge) of Dowlais Shares, regardless of whether Dowlais continues to be a PFIC in any subsequent year. Distributions received in a taxable year will be treated as excess distributions to the extent that they are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or a US Holder's holding period for the Dowlais Shares. In addition, if Dowlais is a PFIC for any taxable year during which a US Holder holds Dowlais Shares and any of Dowlais's subsidiaries is also a PFIC, the US Holder will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of the PFIC rules. US Holders are urged to consult their tax advisers about the application of the PFIC rules to Dowlais and its subsidiaries and to their particular circumstances.

A US Holder may mitigate the impact of the special tax rules discussed above by making a mark-to-market election with respect to its shares provided the Dowlais Shares are treated as "marketable stock." Dowlais Shares generally will be treated as marketable stock if they are regularly traded on a "qualified exchange or other market" (within the meaning of the applicable Treasury regulations). It is intended that Dowlais Shares will be listed on the London Stock Exchange, which is expected to be treated as a qualified exchange for these purposes, but no assurance can be given that Dowlais Shares will be "regularly traded" for purposes of the mark-to-market election. If the US Holder makes an effective mark-to-market election, for each taxable year that Dowlais is a PFIC, such US Holder will include as ordinary income the excess of the fair market value of its Dowlais Shares at the end of the year over its adjusted tax basis in such Dowlais Shares, and will be entitled to deduct as an ordinary loss in each such year the excess of its adjusted tax basis in the Dowlais Shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The US Holder's adjusted tax basis in the Dowlais Shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. In addition, upon the sale or other disposition of Dowlais Shares in a year that Dowlais is a PFIC, (i) any gain will be treated as ordinary income and (ii) any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election. However, because a mark-to-market election cannot be made for any lower-tier PFICs that Dowlais may own, a US Holder will generally continue to be subject to the special tax rules discussed above with respect to its indirect interest in any such lower-tier PFIC. Alternatively, a US Holder can sometimes avoid the special tax rules described above by electing to treat a PFIC as a "qualified electing fund." However, US Holders should not expect to be eligible to make this election with respect to Dowlais Shares because Dowlais may not comply with the requirements necessary to permit US Holders to make this election. US Holders are urged to consult their tax adviser about the availability of the mark-to-market election and "qualified electing fund" election and whether making any election would be advisable in their particular circumstances.

4. Information reporting and backup withholding

In general, information reporting will apply to dividends in respect of Dowlais Shares and the proceeds from the sale, exchange or other disposition of Dowlais Shares that are paid to a US Holder within the United States (and in certain cases, outside the United States), unless the US Holder establishes that it is an exempt recipient. A backup withholding tax may apply to such payments if the US Holder fails to provide a taxpayer identification number and a certification that it is not subject to backup withholding or if the US Holder fails to report in full dividend and interest income.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against the US Holder's US federal income tax liability provided the required information is timely furnished to the IRS.

PART XV ADDITIONAL INFORMATION

1. Responsibility statement

The Directors, whose names appear in Part VIII (*Directors, Senior Managers, Employees and Corporate Governance*) of this Prospectus, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

2. Incorporation and activity of the company

On 13 January 2023, the Company was incorporated and registered in England and Wales under the Companies Act as a public limited company under the name Dowlais Group Headquarters plc with registered number 14591224. On 3 February 2023, the Company's name was changed to Dowlais Group plc following approval by the Board pursuant to an authorisation provided for in the articles of association of the Company. The commercial name of the Company (and the Dowlais Group as a whole) is "Dowlais".

The principal activity of the Company is to act as the holding company of the Dowlais Group. The principal legislation under which the Company operates is the Companies Act and regulations made thereunder. The Company operates in conformity with its articles of association. On 24 January 2023, the Company was issued with a trading certificate under Section 761 of the Companies Act, entitling it to commence business.

The Company is domiciled in England and Wales with its registered office at 2nd Floor Nova North, 11 Bressenden Place, London, England, SW1E 5BY. The Company's principal place of business is 2nd Floor Nova North, 11 Bressenden Place, London, England, SW1E 5BY and the telephone number is +44 (0) 204 551 3383. The Company's LEI number is 213800XM8WOFly6VPC92.

3. Demerger

On 8 September 2022, Melrose announced its intention to separate GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen from the Melrose Group.

It is proposed that the separation of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses from the Melrose Group will be effected by Melrose making an interim *in-specie* distribution of 97% of the Dowlais Shares to Qualifying Melrose Shareholders immediately prior to Admission (the "**Demerger Distribution**"). The remaining 3% of the Dowlais Shares will be retained by Melrose for use in connection with an employee share plan (subject to a Trigger Event) and to cover costs, including those relating to the performance and provision of services by the Melrose Group to the Dowlais Group under the Transitional Services Agreement, as well as other costs (together, the "**Melrose Retained Stake**").

In connection with the Demerger, a reorganisation has been undertaken to separate the Dowlais Group from the rest of the Melrose Group and bring all of the companies that comprise the Dowlais Group under the ownership of Dowlais. More detailed information on the reorganisation is contained in Section 4.2 (*History of the share capital and Reorganisation*) of this Part XV (*Additional Information*).

As at the Latest Practicable Date, the entire issued share capital of Dowlais was held by Melrose. Immediately following the Demerger, the Dowlais Shareholders will be substantially the same as the Melrose Shareholders at the Demerger Record Time, save for (i) any changes as a result of fractional entitlements arising from the Melrose Share Consolidation, and (ii) dilution as a result of the Melrose Retained Stake. The Demerger is conditional on, among other things, the approval of the Resolution by Melrose Shareholders at the General Meeting.

Assuming the Demerger proceeds, Qualifying Melrose Shareholders will receive:

For every one Melrose Share held at the Demerger Record Time
one Dowlais Share

4. Share capital of the Company

4.1 Issued share capital of the Company

The issued and fully paid share capital of the Company as at the date of this Prospectus is, and immediately following Admission will be, 1,393,273,527 ordinary shares of one pence each.

On Admission, the Company will not hold any Dowlais Shares in treasury.

4.2 History of the share capital and Reorganisation

On incorporation, the Company's share capital consisted of one ordinary share with a nominal value of £1.00 which was issued, fully paid, to Shield Trust Limited (the "**Incorporation Share**"). On 18 January 2023, the Incorporation Share was transferred to Melrose. On 19 January 2023, Melrose subscribed for an additional 49,999 ordinary shares of £1.00 each in the Company which were issued, fully paid, to Melrose.

Prior to the Demerger, the Melrose Group has completed a reorganisation of its corporate structure to bring all of the companies that comprise the Dowlais Group under the ownership of the Company (the "**Reorganisation**"). Following completion of the Reorganisation, the Company owns 100% of the entire issued share capital of GKN Industries and GKN Powder Metallurgy Holdings Limited ("**GKN PM**"). A summary of the key Reorganisation steps that relate to the establishment of the Dowlais Group and the share capital of the Company is set out below:

- (a) During February 2023, certain steps were carried out to consolidate and, where applicable, offset certain intercompany balances between entities within the Melrose Group (which are not part of the Dowlais Group) and entities within the Dowlais Group. In addition, on 3 February 2023, GKN Aerospace Sweden AB (being an entity within the Melrose Group (but which is not part of the Dowlais Group)) contributed £47 million of taxable profits to GKN Driveline Koping AB (being an entity within the Dowlais Group), in order to allow these profits to be offset against tax losses in the Dowlais Group;
- (b) On 23 February 2023, GKN Industries declared a dividend in an amount of £1,674,621,829.33 in favour of its then sole shareholder, GKN Enterprise. On 24 February 2023, the debt outstanding as a result of the dividend was partially offset against certain intercompany receivables, leaving an amount of £1,205,276,546.95 outstanding as a payable from GKN Industries to GKN Enterprise. On 24 February 2023, this outstanding payable was documented in the form of loan notes issued by GKN Industries to GKN Enterprise Limited in the amounts of £309,675,487, €316,038,101 and \$739,053,294 (with a portion of the Sterling amount being converted to Euros and US Dollars at GBP:USD of 1.2020 and GBP:EUR of 1.1257 on 24 February 2023) (the "**Pre-Demerger Distribution Payables**"). The Pre-Demerger Distribution Payables will be repaid immediately following Admission using proceeds of Facility A and Facility B under the Senior Facilities Agreement;
- (c) On 28 February 2023, the Company sub-divided the 50,000 ordinary shares of £1.00 each then in issue into 5,000,000 ordinary shares of one pence each pursuant to a resolution of the member of the Company (the "**Sub-divided Shares**");
- (d) On 28 February 2023, GKN Enterprise transferred its beneficial interest in 100% of the issued share capital in GKN PM (the "**PM Shares**") to Melrose pursuant to a declaration of trust for consideration equal to the book value of GKN PM as at 31 December 2022, which was left outstanding on intercompany balance. The transfer of the bare legal title to the PM Shares from GKN Enterprise to Melrose occurred on 28 February 2023;
- (e) On 28 February 2023, GKN Enterprise transferred its beneficial interest in 100% of the issued share capital in GKN Industries (the "**Auto Shares**") to Melrose pursuant to a declaration of trust for consideration equal to the book value of GKN Industries as at 31 December 2022, which was left outstanding on intercompany balance. The transfer of the bare legal title to the Auto Shares from GKN Enterprise to Melrose occurred on 28 February 2023; and
- (f) On 28 February 2023, Melrose contributed 100% of the issued share capital in GKN Industries and GKN PM to Dowlais by way of a share-for-share exchange. The Company issued 1,388,273,527 ordinary shares of one pence each, which, together with the Sub-divided Shares, comprises the total number of Dowlais Shares expected to be in issue at the Demerger Record Time.

The Company has not traded since incorporation and lacks distributable reserves. This could restrict the Company's ability to pay future dividends. Therefore, the Company intends to undertake a court approved capital reduction following Admission in accordance with the Companies Act and the Companies (Reduction of Share Capital) Order 2008 in order to provide it with the distributable reserves required to support the dividend policy described in Section 6 (*Dividend policy*) of this Part XV (*Additional Information*) of this Prospectus. The proposed capital reduction will cancel all amounts standing to the credit of the Company's share premium account following Admission. The capital reduction has been approved (conditional on Admission) by a special resolution passed at the general meeting of the Company on 28 February 2023 and will require court confirmation after Admission.

4.3 Authorisations relating to the share capital of the Company

By resolutions passed at a general meeting of the sole member of the Company on 28 February 2023, it was resolved that:

- (a) pursuant to Section 618 of the Companies Act, the 50,000 ordinary shares of £1.00 each in the issued share capital of the Company be sub-divided into 5,000,000 ordinary shares of one pence each, such shares having the same rights and being subject to the same restrictions (save as to nominal value) as the existing ordinary shares of £1.00 each in the capital of the Company as set out in the Company's articles of association for the time being;
- (b) the directors be generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Companies Act to allot Dowlais Shares or grant rights to subscribe for or to convert any security into Dowlais Shares:
 - (i) up to an aggregate nominal amount of £13,932,735.27;
 - (ii) following Admission, up to an aggregate nominal amount of £4,644,245, equal to one third of the Company's share capital on Admission; and
 - (iii) following Admission, up to an aggregate nominal amount of £9,288,490, equal to two thirds of the Company's share capital on Admission (such amount to be reduced by the extent the authority granted as described in paragraph 4.3(b)(ii) is utilised) in connection with a fully pre-emptive offer to ordinary shareholders in proportion to their existing shareholdings (and holders of any equity securities entitled to participate or as the directors otherwise consider necessary),

such authorities to expire (i) in the case of the authority described in paragraph 4.3(b)(i), on Admission, and (ii) in the case of the authorities described in paragraphs 4.3(b)(ii) and (iii), on the earlier of the conclusion of the first annual general meeting of the Company and the close of business on 30 June 2024 (save that the Company may, before the expiry of such periods, make offers or agreements which would or might require shares to be allotted or rights to be granted after expiry of these authorities, and the directors may allot shares or grant rights in pursuance of any such offer or agreement notwithstanding the authorities conferred have expired);

- (c) the directors be generally empowered to allot equity securities (within the meaning of Section 560 of the Companies Act) as if Section 561 of the Companies Act did not apply to any such allotment:
 - (i) pursuant to the authority granted as described in paragraph 4.3(b)(i);
 - (ii) pursuant to the authorities granted as described in paragraphs 4.3(b)(ii) and (iii), in connection with a pre-emptive offer;
 - (iii) up to an aggregate nominal amount of £1,393,273, equal to 10% of the Company's share capital on Admission;
 - (iv) in addition to any authority granted pursuant to the resolution described in paragraph 4.3(c)(iii), up to an aggregate nominal amount of £1,393,273, equal to 10% of the Company's share capital on Admission, provided that such authority is used only for the purposes of financing (or refinancing, if the authority is to be used within twelve months after the original transaction) a transaction which the Board determines 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 the notice in respect of such resolution; and
 - (v) in addition to any authority granted pursuant to the resolutions described in paragraphs 4.3(c)(iii) and (iv), up to an aggregate nominal amount equal to 20% of any allotment of equity securities from time to time pursuant to the resolutions described in either of paragraphs 4.3(c)(iii) or (iv) above, provided that such authority is used only for the purposes of making a follow-on offer which the Board determines 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 the notice in respect of such resolution,

such powers to expire (i) in the case of the powers in paragraph 4.3(c)(i), on Admission, and (ii) in the case of the powers in paragraphs 4.3(c)(ii), (iii) (iv) and (v), on the earlier of the conclusion of the first annual general meeting of the Company and the close of business on 30 June 2024 (save that the Company may, before the expiry of such periods, make offers or agreements which would or might require equity securities to be allotted or rights to be granted after expiry of these powers and the directors

may allot equity securities or grant rights in pursuance of any such offer or agreement to subscribe for or convert any security into a share notwithstanding the powers conferred have expired).

For the purposes of this paragraph 4.3(c), a “pre-emptive offer” means an offer of equity securities to ordinary shareholders in proportion to their existing holdings, but subject to such exclusions or other arrangements as the directors may deem necessary or appropriate in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory;

- (d) conditional upon Admission, the Company be authorised to make market purchases of Dowlais Shares pursuant to Section 701 of the Companies Act, subject to the following conditions:
- (i) the maximum number of Dowlais Shares authorised to be purchased is 139,327,352, equal to 10% of the Dowlais Shares in issue on Admission;
 - (ii) the minimum price which may be paid for a share is the nominal value of a share at the time of such purchase;
 - (iii) the maximum price which may be paid for a share shall be the higher of: (i) an amount equal to 105% of the average of the middle market quotations of a share as derived from the London Stock Exchange Daily Official List for the five Business Days immediately preceding the day on which a share is contracted to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade and the highest current independent bid for a share on the trading venues where the trade is carried out, in each case exclusive of expenses;
 - (iv) the authority shall expire (unless previously revoked, varied or removed) on the earlier of the conclusion of the first annual general meeting of the Company and the close of business on 30 June 2024;
 - (v) a contract to purchase Dowlais Shares under this authority may be made prior to the expiry of this authority, and concluded in whole or in part after expiry of this authority; and
 - (vi) any Dowlais 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;
- (e) a general meeting other than an annual general meeting may be called on not less than 14 clear days’ notice;
- (f) conditional upon Admission, the Articles be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association; and
- (g) conditional upon Admission and subject to confirmation by the High Court of Justice of England and Wales (the “**Court**”), the entire amount standing to the credit of the share premium account of the Company as at 5:00 p.m. (London time) on the day immediately preceding the day on which the Court makes an order confirming the reduction of capital described in Section 4.2 (*History of the share capital and Reorganisation*) of this Part XV (*Additional Information*) be cancelled.

4.4 Confirmations

Save as disclosed above, or as set out in Part XII (*Historical Financial Information*) of this Prospectus, or in Section 13 of this Part XV (*Additional Information*):

- (a) no share or loan capital of the Company has, since its incorporation, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;
- (b) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of the Company, since its incorporation; and
- (c) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

The Company will be subject to the continuing obligations of the FCA with regard to the issue of Dowlais Shares for cash. The provisions of Section 561(1) of the Companies Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees’ share scheme as defined in Section 1166 of the Companies Act) apply to the unissued share capital of the Company (in respect of which the directors have

authority to make allotments pursuant to Section 551 of the Companies Act as referred to in paragraph 4.3(b) above), except to the extent such provisions have been disapplied as referred to in paragraph 4.3(c) above.

The Board considers the authorities and powers set out above to be appropriate in order to allow the Dowlais Group flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions. The Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles (as updated in November 2022) not, without prior consultation with shareholders, to allot shares for cash on a non-pre-emptive basis (other than pursuant to a rights issue or other pre-emptive offer) in excess of an amount equal to 10% of the total issued ordinary share capital of the Company for the duration of the authority set out above other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding 12-month period and is disclosed in the announcement of the allotment, in which case, not to allot shares for cash on a non-pre-emptive basis in excess of an additional amount equal to 10% of the total issued ordinary share capital of the Company. In each case, the Board may allot equity securities after the power has expired in connection with an offer or agreement made or entered into before the power expired and the Board will have further authority to allot shares for cash to certain existing shareholders in a follow-on offer up to an additional maximum amount equal to 2% of the total issued ordinary share capital of the Company as envisaged by the Pre-emption Group's Statement of Principles (as updated in November 2022) and subject to applicable law and regulation.

The Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities as they arise. There are no present plans to undertake a rights issue or other form of pre-emptive offer or to allot new Dowlais Shares other than in connection with employee share and incentive plans.

4.5 Information about the Dowlais Shares

Description and type of securities

The currency of the Dowlais Shares is Sterling. The Company will have, on Admission, one class of ordinary shares, comprising the entire issued share capital of the Company. The International Security Identification Number (ISIN) of the Dowlais Shares is GB00BMWRZ071.

Rights attaching to the Dowlais Shares

The rights attaching to the Dowlais Shares, upon Admission, will be uniform in all respects (including with respect to pre-emption rights) and they will form a single class for all purposes, including with respect to voting and for all dividends and distributions thereafter declared, made or paid on the ordinary share capital of the Company.

Listing

Application will be made to the FCA for all the Dowlais Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for such Dowlais Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. The London Stock Exchange's main market for listed securities is a regulated market.

If the Demerger proceeds as currently envisaged, it is expected that Admission will become effective, and that dealings in the Dowlais Shares will commence on the London Stock Exchange, at 8.00 a.m. (London time) on 20 April 2023.

The Dowlais Shares have not been marketed to, and are not available in whole or in part for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the Dowlais Shares to the premium listing segment of the Official List. No application has been or is currently intended to be made for the Dowlais Shares to be admitted to listing elsewhere or dealt in on any other exchange. There is no prior trading record for the Dowlais Shares.

The Dowlais Shares are in registered form and capable of being held in certificated or uncertificated form. Application has been made to Euroclear for the Dowlais Shares to be enabled for dealings through CREST as a participating security. For Melrose Shareholders who held their Melrose Shares in uncertificated form at the Demerger Record Time, Dowlais Shares to which the Melrose Shareholder is entitled will be issued in uncertificated form through CREST. For Melrose Shareholders who held their Melrose Shares in certificated form at the Demerger Record Time, Dowlais Shares to which the Melrose Shareholder is entitled will be issued

in certificated form. Definitive share certificates for the Dowlais Shares are expected to be despatched by 5 May 2023. Please note that share certificates in respect of any Dowlais Shares to be held by any Dowlais Shareholder who has previously been identified by the registrar of Melrose as having moved from their current address (a "**Gone Away Shareholder**") will not be issued until the Gone Away Shareholder has contacted the Registrar.

Pending the despatch of share certificates for Dowlais Shares, transfers of Dowlais Shares will be certified against the register of members of the Company. Temporary documents of title will not be issued in respect of the Dowlais Shares.

None of Melrose or Dowlais or their respective agents shall be responsible for any loss or delay in the transmission or delivery of any certificates sent in accordance with this Section 4.5 of this Part XV (*Additional Information*), which shall be sent at the risk of the persons entitled thereto.

Restrictions on free transferability

The Dowlais Shares are freely transferable and there are no restrictions on transfer.

5. Articles of association

The Company's objects are not restricted by its Articles. Accordingly, pursuant to Section 31 of the Companies Act, the Company's objects are unrestricted. The liability of the members is limited to the amount, if any, unpaid on the shares in the Company respectively held by them. The Articles (which have been adopted by the Company conditional upon and with effect from Admission) include provisions to the following effect:

5.1 Shares

Respective rights of different classes of shares

Without prejudice to any rights attached to any existing shares, the Company may issue shares with such rights or restrictions as determined by either the Company by ordinary resolution or, if the Company passes a resolution to so authorise them, the directors. The Company may also issue shares which are, or are liable to be, redeemed at the option of the Company or the holder.

Variation of rights

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may be varied or abrogated either with the written consent of the holders of three-quarters in nominal value of the issued shares of the class (excluding shares held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class and may be so varied or abrogated either while the Company is a going concern or during or in contemplation of a winding-up.

The rights attached to a class of shares are not, unless otherwise expressly provided for in the rights attaching to those shares, deemed to be varied by the creation, allotment or issue of further shares ranking in priority to, *pari passu* with or subsequent to them or by the purchase or redemption by the Company of its own shares.

Transfer of shares

Transfers of certificated shares may be effected in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer shall be signed by or on behalf of the transferor and, if any of the shares are not fully paid shares, by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect of those shares. Transfers of uncertificated shares shall be effected by means of a relevant system (i.e. CREST) unless The Uncertificated Securities Regulations 2001 provide otherwise.

The directors may decline to register any transfer of a certificated share unless (i) the instrument of transfer is in respect of only one class of share; (ii) the instrument of transfer is lodged at the place where the register of members is situated, and accompanied by the relevant share certificate(s) or other evidence reasonably required by the directors to show the transferor's right to make the transfer or, if the instrument of transfer is executed by some other person on the transferor's behalf, the authority of that person to do so; (iii) the certificated share is fully paid; (iv) it is for a share upon which the Company has no lien; and (v) it is duly stamped or duly certificated or otherwise shown to the satisfaction of the directors to be exempt from stamp duty (if so required).

The directors may also refuse to register an allotment or transfer of shares in favour of more than four persons jointly.

When a transfer of shares has been lodged with the Company, the Company must either register the transfer, or give the transferee notice of refusal to register the transfer, together with its reasons for the refusal (as soon as practicable and in any event within two months after the date on which the transfer is lodged with it).

Restrictions where notice not complied with

If any member, or any person appearing to be interested in shares (within the meaning of Part 22 of the Companies Act) held by such member, has been duly served with a notice under Section 793 of the Companies Act (which confers upon public companies the power to require information as to interests in its voting shares) and is in default for a period of 14 days in supplying to the Company the information required by that notice then (unless the directors otherwise determine):

- (a) the holder of those shares shall not (for so long as the default continues) be entitled to attend or vote (in person or by proxy) at any general meeting; and
- (b) the directors may in their absolute discretion, where those shares represent 0.25% or more of the issued shares of the class in question, by notice to the holder, direct that:
 - (i) any dividend or part of a dividend (including shares issued in lieu of a dividend) or other money which would otherwise be payable on the shares will be retained by the Company without any liability for interest; and/or
 - (ii) (subject to various exceptions set out in the Articles) transfers of the shares will not be registered.

Forfeiture and lien

If a member fails to pay in full any sum which is due in respect of a share on or before the due date for payment, then, following notice by the directors requiring payment of the unpaid amount with any accrued interest and any expenses incurred, such share may be forfeited by a resolution of the directors to that effect (including all dividends declared in respect of the forfeited share and not actually paid before the forfeiture).

A share forfeited or surrendered shall become the property of the Company and may be sold, re-allotted or otherwise disposed of to any person (including the person who was, before such forfeiture or surrender, the holder of that share or entitled to it) on such terms and in such manner as the directors think fit.

A member whose shares have been forfeited will cease to be a member in respect of those shares, but will remain liable to pay the Company all monies which at the date of forfeiture or surrender were payable, together with interest at a rate of 15% per annum (or such lower rate as the directors may decide). The directors may in their absolute discretion enforce payment without any allowance for the value of the shares at the time of forfeiture or surrender or for any consideration received on their disposal, or waive payment in whole or part.

The Company shall have a lien on every share that is not fully paid for all moneys in respect of the share's nominal value, or any premium at which it was issued, that have not been paid to the Company and are payable immediately or at a fixed time in the future, whether or not a call has been made. The Company's lien over a share takes priority over the rights of any third party and extends to any dividends or other sums payable by the Company in respect of that share. The directors may waive any lien which has arisen and may resolve that any share shall be exempt from such a lien, either wholly or partially, for such period as the directors decide.

The Company may deliver an enforcement notice in respect of any share if a sum in respect of which a lien exists is due and has not been paid. The Company may sell any share in respect of which an enforcement notice, delivered in accordance with the Articles, has been given if such notice has not been complied with. The net proceeds of sale (after payment of the costs of the sale and of enforcing the lien) shall first be applied towards payment of the amount in respect of which the lien exists to the extent that amount was due on the date of the enforcement notice and then, on surrender of the share certificate for cancellation or compliance with such conditions as to evidence and indemnity as the Directors think fit, to the person entitled to the shares immediately prior to the sale.

5.2 General meetings

Annual general meeting and convening of general meetings

Annual general meetings will be held in accordance with the Companies Act. The directors may, whenever they think fit, convene a general meeting once the Company has received requests from its members to do so in

accordance with the Companies Act. The Articles permit the directors to take advantage of Section 360A of the Companies Act to hold general meetings by electronic means.

Notice of general meetings, etc.

An annual general meeting shall be called by not less than 21 clear days' notice. All other general meetings shall be called by not less than 14 clear days' notice in writing. As the Company is a traded company (as defined in the Companies Act), the provisions of Section 307A of the Companies Act must be complied with if the meeting is to be called by less than 21 clear days' notice, unless the meeting is of holders of a class of shares.

Notices of general meetings shall include all information required to be included by the Companies Act and shall be given to all members and every director, subject to the Companies Act, the provisions of the Articles and any restrictions imposed on any shares. The Company may determine that only those persons entered on the register of members at the close of business on a day decided by the Company, such day being no more than 21 days before the day that notice of the meeting is sent, shall be entitled to receive such a notice.

For the purposes of determining which persons are entitled to attend or vote at a meeting, and how many votes such persons may cast, the Company must specify in the notice of the meeting a time, not more than 48 hours (excluding any part of a day that is not a working day) before the time fixed for the meeting, by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting.

Quorum and voting

No business other than the appointment of a Chair shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Two members present in person (including by means of electronic facility) or by proxy shall be a quorum.

At any general meeting any resolution put to the vote shall be decided on a show of hands unless the meeting is held by electronic means, in which case it shall be decided on a poll, or otherwise the directors have decided in advance that it will be decided as a poll or a poll is (before the resolution is put to the vote on a show of hands, or on the declaration of the result of the show of hands) demanded by:

- (a) the Chair of the meeting;
- (b) not less than five members present in person or by proxy and entitled to vote;
- (c) a member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting (excluding the rights attaching to any shares held as treasury shares); or
- (d) a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right (excluding any such shares held as treasury shares).

At a general meeting, subject to any special rights or restrictions attached to any shares or class of shares:

- (a) on a show of hands, every member present in person and every duly appointed proxy present shall have one vote;
- (b) on a show of hands, a proxy has one vote for and one vote against the resolution if the proxy has been duly appointed by more than one member entitled to vote on the resolution and the proxy has been instructed:
 - (i) by one or more of those members to vote for the resolution and by one or more other of those members to vote against it; or
 - (ii) by one or more of those members to vote either for or against the resolution and by one or more other of those members to use his/her discretion as to how to vote; and
- (c) on a poll, every member present in person or by proxy has one vote for every share of which such member is the holder.

A proxy shall not be entitled to vote on a show of hands or on a poll where the member appointing the proxy would not have been entitled to vote on the resolution had such member been present in person.

Unless the directors resolve otherwise, no member shall be entitled in respect of any share held by such member to vote either personally or by proxy or to exercise any other right in relation to general meetings if any call or other sum due from such member to the Company in respect of that share remains unpaid.

Conditions of admission

The directors may put in place such arrangements or restrictions as they think fit to ensure the safety and security of attendees at a general meeting and the orderly conduct of the meeting, including requiring attendees to submit to searches. Any member, proxy or other person who fails to comply with such arrangements or restrictions may be refused entry into, or removed from, the general meeting.

The directors may decide that a general meeting shall be held at two or more locations to facilitate the organisation and administration of such meeting. A member present in person or by proxy at the designated “satellite” meeting place may be counted in the quorum and may exercise all rights that they would have been able to exercise if they had been present at the principal meeting place. The directors may make and change from time to time such arrangements as they shall in their absolute discretion consider appropriate to:

- (a) ensure that all members and proxies for members wishing to attend the meeting can do so;
- (b) ensure that all persons attending the meeting are able to participate in the business of the meeting and to see and hear anyone else addressing the meeting;
- (c) ensure the safety of persons attending the meeting and the orderly conduct of the meeting; and
- (d) restrict the numbers of members and proxies at any one location to such number as can safely and conveniently be accommodated there.

5.3 Directors

General powers

The directors shall manage the business and affairs of the Company and may exercise all powers of the Company other than those that are required by the Companies Act or by the Articles to be exercised by the Company in a general meeting.

Number of directors

The directors shall not be less than two and not more than 20 in number, save that the Company may, by ordinary resolution, from time to time vary the minimum number and/or maximum number of directors.

Share qualification

A director shall not be required to hold any shares of the Company by way of qualification. A director who is not a member of the Company shall nevertheless be entitled to attend and speak at general meetings.

Executive directors

The directors may from time to time appoint one or more of their number to be the holder of any executive office and may confer upon any director holding an executive office any of the powers exercisable by them as directors upon such terms and conditions, and with such restrictions, as they think fit. The directors may from time to time revoke, withdraw, alter or vary the terms of any such appointment or all or any of such delegated powers.

Directors' retirement

At each annual general meeting, each director then in office shall retire from office with effect from the conclusion of the meeting.

When a director retires at an annual general meeting in accordance with the Articles or otherwise, the Company may, by ordinary resolution at the meeting, fill the office being vacated by re-electing the retiring director. In the absence of such a resolution, the retiring director shall nevertheless be deemed to have been re-elected, except in certain cases identified by the Articles.

Removal of a director by resolution of Company

The Company may, by ordinary resolution of which special notice has been given, remove any director from office in accordance with the Companies Act, and elect another person in place of a director so removed from office. Such removal may take place notwithstanding any provision of the Articles or of any agreement between the Company and such director, but is without prejudice to any claim the director may have for damages for breach of any such agreement.

Proceedings of the Board

Subject to the provisions of the Articles, the directors may meet for the dispatch of business and adjourn and otherwise regulate their proceedings as they think fit.

The quorum necessary for the transaction of business of the directors may be fixed from time to time by the directors and unless so fixed at any other number shall be two directors present in person. A Board meeting may be adjourned for a lack of quorum to a specified time and place not less than one day after the original date. The quorum necessary for such adjourned Board meeting may be fixed from time to time by the directors and unless so fixed at any other number shall be two.

The directors may elect from their number a Chair, a Vice-Chair (or two or more Vice-Chairmen) and a senior independent director and decide the period for which each is to hold office.

Questions arising at any meeting of the directors shall be determined by a majority of votes. The chair of the meeting shall not have a casting vote.

Directors' interests

For the purposes of Section 175 of the Companies Act, the directors shall have the power to authorise any matter which would or might otherwise constitute or give rise to a breach of the duty of a director to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company.

Any such authorisation will be effective only if:

- (a) the matter in question was proposed for consideration at a meeting of the directors, in accordance with the directors' normal procedures or in such other manner as the directors may resolve;
- (b) any requirement as to the quorum at the meeting at which the matter is considered is met without counting the director in question or any other interested director; and
- (c) the matter was agreed to without such interested directors voting or would have been agreed to if their votes had not been counted.

The directors may extend any such authorisation to any actual or potential conflict of interest which may arise out of the matter so authorised and may (whether at the time of the giving of the authorisation or subsequently) make any such authorisation subject to such conditions or limitations as they may resolve. The directors may also terminate any such authorisation at any time.

Restrictions on voting

Except as provided below, a director may not vote in respect of any contract, transaction, arrangement or any other proposal in which the director, or a person connected with the director, is interested. Any vote of a director in respect of a matter where the director is not entitled to vote shall be disregarded.

Subject to the provisions of the Companies Act, a director is entitled to vote and be counted in the quorum in respect of any resolution concerning any contract, transaction or arrangement, or any other proposal (among other things):

- (a) in which the director has an interest, of which the director is not aware or which cannot reasonably be regarded as likely to give rise to a conflict of interest;
- (b) in which the director has an interest only by virtue of interests in the Company's shares, debentures or other securities or otherwise in or through the Company;
- (c) which involves the giving of any security, guarantee or indemnity to the director or any other person in respect of obligations incurred by the director or by any other person at the request of (or for the benefit of) the Company or any of its subsidiary undertakings;

- (d) concerning an offer of securities by the Company or any of its subsidiary undertakings in which the director is or may be entitled to participate as a holder of securities or as an underwriter or sub-underwriter;
- (e) concerning any other body corporate, provided that the director together with the director's connected persons do not own or have a beneficial interest in 1% or more of any class of equity share capital of such body corporate, or of the voting rights available to the members of such body corporate;
- (f) relating to an arrangement for the benefit of employees or former employees of the Company or any of its subsidiary undertakings which does not award the director any privilege or benefit not generally awarded to the employees or former employees to whom such arrangement relates;
- (g) concerning the purchase or maintenance of insurance for any liability for the benefit of directors;
- (h) concerning the giving of indemnities in favour of the directors;
- (i) concerning the funding of expenditure by any director or directors:
 - (i) on defending criminal, civil or regulatory proceedings or actions against the director or directors;
 - (ii) in connection with an application to the court for relief; or
 - (iii) on defending the director or directors in any regulatory investigations; or concerning doing anything to enable any director or directors to avoid incurring such expenditure; or
- (j) in respect of which the director's interest has been authorised by ordinary resolution.

Confidential information

If a director, otherwise than by virtue of the director's position as director, receives information in respect of which he owes a duty of confidentiality to a person other than the Company, the director shall not be required to disclose such information to the Company or its directors, officers or employees or otherwise use or apply such confidential information for the purpose of or in connection with the performance of the director's duties as a director, provided that such duty of confidentiality arises out of an actual or potential conflict of interest which is or has been permitted or authorised under the Articles. This is without prejudice to any equitable principle or rule of law which may excuse or release the director from disclosing the information, in circumstances where disclosure may otherwise be required under the Articles.

Delegation of powers of the directors

The directors may delegate any of their powers or discretions (including those involving the payment of remuneration or the conferring of any other benefit to the directors) to such person or committee and in such manner as they think fit. Any such person or committee shall, unless the directors otherwise resolve, have the power to sub-delegate any of the powers or discretions delegated to them. The directors may make regulations in relation to the proceedings of committees or sub-committees.

The directors may establish any local boards or appoint managers or agents to manage any of the affairs of the Company, either in the UK or elsewhere, and may:

- (a) appoint persons to be members or agents or managers of such local board and fix their remuneration;
- (b) delegate to any local board, manager or agent any of the powers, authorities and discretions vested in the directors, with the power to sub-delegate;
- (c) remove any person so appointed, and may annul or vary any such delegation; and
- (d) authorise the members of any local boards, or any of them, to fill any vacancies on such boards, and to act notwithstanding such vacancies.

The directors may appoint any person or fluctuating body of persons to be the attorney of the Company with such purposes and with such powers, authorities and discretions and for such periods and subject to such conditions as they may think fit.

Directors' liabilities

So far as may be permitted by the Companies Act and subject to various exceptions set out in the Articles, every director and secretary (a "**Relevant Officer**") of the Company or of an associated company of the Company may be indemnified by the Company out of its own funds against any liability incurred by the

Relevant Officer in connection with any negligence, default, breach of duty or breach of trust or otherwise by the Relevant Officer or any other liability incurred by the Relevant Officer in connection with the Relevant Officer's duties, powers or office. The Company may also purchase and maintain insurance for or for the benefit of:

- (a) any person who is or was a director or secretary of a Relevant Company (as defined in the Articles); or
- (b) any person who is or was at any time a trustee of any pension fund or employees' share scheme in which employees of any Relevant Company are interested, including insurance against any liability (including all related costs, charges, losses and expenses) incurred by or attaching to such persons in relation to such person's duties, powers or offices in relation to any Relevant Company, or any such pension fund or employees' share scheme.

So far as may be permitted by the Companies Act, the Company may provide a Relevant Officer with defence costs in relation to any criminal or civil proceedings in connection with any negligence, default, breach of duty or breach of trust by the Relevant Officer in relation to the Company or an Associated Company of the Company, or in relation to an application for relief under Section 205(5) of the Companies Act. The Company may do anything to enable such Relevant Officer to avoid incurring such expenditure.

5.4 Dividends

The Company may, by ordinary resolution, declare final dividends to be paid to its shareholders. However, no dividend shall be declared unless it has been recommended by the directors and does not exceed the amount recommended by the directors.

If the directors believe that the profits of the Company justify such payment, they may pay the fixed dividends on any class of share where the dividend is payable on fixed dates. They may also pay interim dividends on shares of any class in amounts and on such dates and in respect of such periods as they think fit. Provided the directors act in good faith, they shall not incur any liability to the holders of any shares for any loss they may suffer by the payment of dividends on any other class of shares having rights ranking after or equal with those shares.

Unless the share rights otherwise provide, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, and apportioned and paid proportionately to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid.

Any unclaimed dividends may be invested or otherwise applied for the benefit of the Company until they are claimed. Any dividend unclaimed for 12 years from the date on which it was declared or became due for payment shall be forfeited and may be kept by the Company.

The directors may, if authorised by ordinary resolution, offer to ordinary shareholders the right to elect to receive, in lieu of the whole or part of a dividend, an allotment of new ordinary shares credited as fully paid.

5.5 Failure to supply an address

A shareholder who has no registered address within the UK and has not supplied to the Company an address within the UK or an electronic address for the service of notices will not be entitled to receive notices from the Company.

5.6 Electronic communications

Subject to complying with the requirements of the Company Communications Provisions, as defined in Section 1143 of the Companies Act, the Company may send documents, notices and information to shareholders by electronic means.

6. Dividend policy

It is the intention of the Board of Dowlais to adopt a progressive dividend policy taking into account the size and performance of the Dowlais Group.

7. Mandatory bids and compulsory acquisition rules relating to the Dowlais Shares

7.1 Mandatory bids

Rule 9 of the City Code provides that, except with the consent of the Takeover Panel, when: (a) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken

together with shares in which persons acting in concert with him are interested) carry 30% or more of the voting rights of a company which is subject to the City Code; or (b) any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30% of the voting rights of a company which is subject to the City Code but does not hold shares carrying more than 50% of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares of that company which increases the percentage of shares carrying voting rights in which he is (or they are) interested, then, in either case, that person (and possibly each of the principal members of a group of persons acting in concert with him) is normally required to extend offers in cash, or accompanied by a cash alternative, at the highest price paid by him (or any persons acting in concert with him) for any interest in shares of that company within the preceding 12 months prior to the announcement of the offer, to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights.

If any person, together with persons acting in concert with him, holds shares which in the aggregate carry more than 50% of the voting rights of a company, such person, or any person acting in concert with him, may acquire further interests in shares of that company without incurring any obligation under Rule 9 of the City Code to extend any offers although individual members of a concert party will not be able to increase their percentage interest in shares through or between a Rule 9 threshold without Takeover Panel consent.

7.2 Squeeze-out

Under the Companies Act, if a “takeover offer” (as defined in Section 974 of the Companies Act) is made for the Dowlais Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90% in value of the shares to which the takeover offer relates (the “**Takeover Offer Shares**”) and not less than 90% of the voting rights attached to the Takeover Offer Shares within three months of the last day on which its offer can be accepted, it could acquire compulsorily the remaining 10%. It would do so by sending a notice to outstanding shareholders telling them that it will acquire compulsorily their Takeover Offer Shares and then, six weeks later, it would execute a transfer of the outstanding Takeover Offer Shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose Takeover Offer Shares are acquired compulsorily under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

7.3 Sell-out

The Companies Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Dowlais Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90% of the Dowlais Shares to which the offer relates, any holder of Dowlais Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Dowlais Shares. The offeror is required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on shareholders notifying them of their sell-out rights. If a shareholder exercises his or her rights, the offeror is bound to acquire those Dowlais Shares on the terms of the offer or on such other terms as may be agreed.

8. Organisational structure

Following completion of the Demerger, the Company will be the holding company of the Dowlais Group. The following table shows the list of entities which will be the principal subsidiaries, subsidiary undertakings, joint ventures and associates of the Company immediately following the Demerger becoming effective.

<u>Company name</u>	<u>Place of incorporation</u>	<u>Percentage of (direct/indirect) ownership interest</u>	<u>Principal activity</u>
GKN do Brasil Ltda	Brazil	100%	Manufacturing
GKN Sinter Metals Ltda	Brazil	100%	Manufacturing
GKN Sinter Metals—St. Thomas, Ltd	Canada	100%	Manufacturing
GKN (Bazhou) Metal Powder Company Limited	China	40%	Manufacturing
GKN China Holding Co Ltd	China	100%	Administrative services
GKN Danyang Industries Company Limited	China	100%	Manufacturing
GKN HUAYU Driveline Systems (Chongqing) Co. Ltd	China	34.5%	Manufacturing

<u>Company name</u>	<u>Place of incorporation</u>	<u>Percentage of (direct/indirect) ownership interest</u>	<u>Principal activity</u>
GKN HUAYU Driveline Systems (Pinghu) Co. Ltd	China	50%	Manufacturing
GKN Sinter Metals Yizheng Co Ltd	China	100%	Manufacturing
GKN Zhongyuan Cylinder Liner Company Limited	China	59%	Manufacturing
Nanjing FAYN Piston Ring Company Limited	China	19.79%	Manufacturing
Shanghai GKN Driveline Sales Co Ltd	China	49%	Sales
Shanghai GKN HUAYU Driveline Systems Company Limited	China	50%	Manufacturing
Transejes Transmisiones Homocineticas de Colombia SA	Colombia	49%	Manufacturing
GKN Driveline Ribemont SARL	France	100%	Manufacturing
GKN Automotive Management SAS	France	100%	Administrative services
GKN Automotive SAS	France	100%	Administrative services
GKN Freight Services EURL	France	100%	Warehousing
GKN Driveline SA	France	100%	Manufacturing
GKN Automotive Management GmbH	Germany	100%	Administrative services
GKN Driveline Deutschland GmbH	Germany	100%	Manufacturing
GKN Driveline International GmbH	Germany	100%	Research and development
GKN Driveline Trier GmbH	Germany	100%	Manufacturing
GKN Driveline Service GmbH	Germany	100%	Administrative services
GKN Powder Metallurgy Engineering GmbH	Germany	100%	Administrative services
GKN Powder Metallurgy Holding GmbH	Germany	100%	Administrative services
GKN Sinter Metals Components GmbH	Germany	100%	Manufacturing
GKN Hydrogen GmbH	Germany	100%	Sales
GKN Sinter Metals Filters GmbH Radevormwald	Germany	100%	Manufacturing
GKN Sinter Metals & Forge Operations GmbH	Germany	100%	Manufacturing
GKN Sinter Metals GmbH, Bad Langensalza	Germany	100%	Manufacturing
GKN Automotive Hungary Korlátolt Felelősségű Társaság	Hungary	100%	Manufacturing
GKN Driveline (India) Limited	India	97.03%	Manufacturing
GKN Sinter Metals Private Limited	India	99.99%	Manufacturing
GKN Automotive Bengaluru Private Limited	India	100%	Research and development
GKN Driveline Brunico SpA	Italy	100%	Manufacturing
GKN Sinter Metals SpA	Italy	100%	Manufacturing
GKN Hydrogen Italy Srl	Italy	100%	Manufacturing
GKN Hydrogen Srl	Italy	100%	Holding
GKN Driveline Japan Ltd	Japan	100%	Manufacturing
GKN Driveline Tochigi Holdings KK	Japan	100%	Administrative services
GKN Powder Metallurgy Japan K.K.	Japan	100%	Sales
GKN Driveline Malaysia Sdn Bhd	Malaysia	68.42%	Manufacturing
GKN Driveline Celaya SA de CV	Mexico	100%	Manufacturing
GKN Driveline Mexico Trading SA de CV	Mexico	100%	Sales
GKN Sinter Metals Mexico S. De. R.L. De. C.V	Mexico	100%	Manufacturing
GKN Sinter Metals Mexico (Services) S. De. R.L. De. C.V.	Mexico	100%	Administrative services
GKN UK Holdings BV	Netherlands	100%	Dormant
GKN Driveline Polska Sp. z o. o.	Poland	100%	Manufacturing
Eljas sp. z o. o.	Poland	100%	In liquidation
GKN Automotive Portugal, Limitada	Portugal	100%	Administrative services
GKN Specialty Products Europe S.R.L	Romania	100%	Manufacturing
Hoeganaes Corporation Europe SA	Romania	100%	Manufacturing
GKN Driveline Slovenija d o	Slovenia	100%	Manufacturing
GKN Ayra Servicio, SA	Spain	100%	Manufacturing
GKN Driveline Vigo, SA	Spain	100%	Manufacturing
GKN Driveline Zumaia, SA	Spain	100%	Manufacturing
GKN Driveline Köping AB	Sweden	100%	Manufacturing
Taiway Limited	Taiwan	36.25%	Manufacturing
GKN Driveline (Thailand) Limited	Thailand	100%	Manufacturing
GKN Eskisehir Automotive Products Manufacture and Sales A.S.	Turkey	100%	Manufacturing

<u>Company name</u>	<u>Place of incorporation</u>	<u>Percentage of (direct/indirect) ownership interest</u>	<u>Principal activity</u>
GKN Sinter Istanbul Metal Sanayi Ve Ticaret Anonim Şirketi	Turkey	100%	Manufacturing
Ball Components Limited	UK	100%	Dormant
Dowlais Automotive Limited	UK	100%	Dormant
Dowlais Group Headquarters Limited	UK	100%	Administrative services
Dowlais Industries Limited	UK	100%	Dormant
GKN Automotive Holdings Limited	UK	100%	Holding
GKN Birfield Extrusions Limited	UK	100%	Dormant
GKN Countertrade Limited	UK	100%	Dormant
GKN Euro Investments Limited	UK	100%	Management of group exposure to currency movements
GKN Firth Cleveland Limited	UK	100%	Dormant
GKN Group Pension Trustee Limited	UK	100%	Dormant
GKN Group Pension Trustee (No.2) Limited	UK	100%	Dormant
G.K.N. Group Services Limited	UK	100%	Administrative services
GKN Hydrogen Limited	UK	100%	Holding
G.K.N. Industries Limited	UK	100%	Holding
G.K.N. International Trading (Holdings) Limited	UK	100%	Dormant
GKN Marks Limited	UK	100%	Dormant
GKN Overseas Holdings Limited	UK	100%	Holding
G.K.N. Powder Met. Limited	UK	100%	Dormant
GKN Service UK Limited	UK	100%	Dormant
GKN Sheepbridge Limited	UK	100%	Dormant
GKN Sheepbridge Stokes Limited	UK	100%	Dormant
GKN Sinter Metals Limited	UK	100%	Dormant
GKN UK Investments Limited	UK	100%	Dormant
GKN U.S. Investments Limited	UK	100%	Dormant
GKN USD Investments Limited	UK	100%	Management of group exposure to currency movements
GKN Ventures Limited	UK	100%	Dormant
GKN 2 Trustee 2018 Limited	UK	100%	Pension company
GKN 3 Trustee 2018 Limited	UK	100%	Pension company
GKN Investments III GP Limited	UK	100%	Pension company
GKN Investments III LP	UK	100%	Pension entity
GKN Driveline Birmingham Limited	UK	100%	Ceased operations
GKN Driveline Service Limited	UK	100%	Manufacturing
GKN Automotive Limited	UK	100%	Administrative services
GKN Driveline UK Limited	UK	100%	Administrative services
GKN EVO eDrive Systems Limited	UK	100%	Administrative services
GKN Freight Services Limited	UK	100%	Freight services
GKN Hybrid Power Limited	UK	100%	Research and development
GKN Powder Metallurgy Holdings Limited	UK	100%	Holding
GKN Cylinder Liners UK Limited	UK	100%	Administrative services
Product Slingshot, Inc.	US	100%	Manufacturing
GKN Driveline Newton LLC	US	100%	Manufacturing
GKN Sinter Metals, LLC	US	100%	Administrative services
GKN America Corp.	US	100%	Administrative services
GKN Cylinder Liners, LLC	US	100%	Manufacturing
GKN Driveline North America, Inc.	US	100%	Manufacturing
GKN Freight Services, Inc.	US	100%	Freight services
GKN Hydrogen Corp.	US	100%	Sales
GKN North America Investments, Inc.	US	100%	Administrative services
GKN North America Services, Inc.	US	100%	Administrative services
GKN Powder Metallurgy Holdings, Inc.	US	100%	Holding
GKN Specialty Products Americas Corp.	US	100%	Manufacturing
Hoeganaes Corporation	US	100%	Manufacturing
Hoeganaes Specialty Metal Powders LLC	US	70%	Manufacturing
XIK, LLC	US	100%	Dormant
GKN Driveline Bowling Green, Inc.	US	100%	Manufacturing

9. Interests of major shareholders

The Company was incorporated in anticipation of the Demerger and, as at the Latest Practicable Date, is wholly owned by Melrose. Immediately following the Demerger, the Dowlais Shareholders, and the levels of their shareholdings, will be substantially the same as the Melrose Shareholders as at the Demerger Record Time, save as described below.

As at the Latest Practicable Date, and insofar as it is known to the Company by reference to notifications to Melrose made pursuant to Chapter 5 of the Disclosure Guidance and Transparency Rules of the FCA, the following persons will, immediately following Admission as a result of the Demerger, directly or indirectly, be interested in 3% or more of the voting rights of the Company (being the threshold for notification of voting rights that will apply to the Company's shareholders as at Admission pursuant to Chapter 5 of the Disclosure Guidance and Transparency Rules) based on their notified shareholdings in Melrose as at the Latest Practicable Date (assuming such persons do not acquire or dispose of any Melrose Shares and no changes are made to Melrose's issued share capital, in each case, prior to the Demerger Record Time). The percentage of voting rights shown below (for all holders except Melrose) includes adjustments to reflect dilution resulting from the retention by Melrose of the Melrose Retained Stake, and any adjustments to deal with fractional entitlements undertaken in connection with the Melrose Share Consolidation, which will take place prior to the Demerger Record Time:

	<u>Number of Dowlais Shares</u>	<u>Percentage of voting rights</u>
The Capital Group Companies, Inc.	202,723,167	14.55%
BlackRock Inc.	89,855,153	6.45%
Select Equity Group Inc.	68,152,231	4.89%
Norges Bank	54,533,782	3.91%
Aviva plc	44,976,129	3.23%
Melrose Industries PLC	41,798,206	3.00%

Save as disclosed above, in so far as is known to the Directors, there is no other person who (i) is, or will be immediately following Admission, directly or indirectly, interested in 3% or more of the issued share capital of the Company, or (ii) can, will or could, directly or indirectly, jointly or severally, exercise control over the Company. The Directors have no knowledge of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

None of the shareholders referred to above has or will have different voting rights from any other holder of Dowlais Shares in respect of any Dowlais Shares held by them, and all Dowlais Shares have the same voting rights.

10. Directors

10.1 Directorships and partnerships outside the Dowlais Group

Set out below are the details of those companies and partnerships outside the Dowlais Group of which the Directors are currently directors, partners or members of any administrative, management or supervisory body, or have been directors, partners or members of any administrative, management or supervisory body at any time during the five years prior to the publication of this Prospectus:

<u>Name</u>	<u>Current directorships and partnerships</u>	<u>Previous directorships and partnerships</u>
Simon Mackenzie Smith	Interpath Limited Finegand Estate Limited Place2Be Trading Limited	None
Liam Butterworth	United Utilities Group PLC United Utilities Water Limited	None
Roberto Fioroni	HMO Chester Ltd Mikandoli Ltd	None
Simon Peckham	Melrose Industries PLC	Alcester Number 1 Limited Brush Electrical Engineering Company Limited Brush Electrical Machines Limited Brush HMA BV Brush HMA BV

<u>Name</u>	<u>Current directorships and partnerships</u>	<u>Previous directorships and partnerships</u>
		Brush Holdings Limited Brush Properties Limited Brush Transformers Limited Colmore Overseas Holdings Limited Eland Homes Limited GKN Holdings Limited GKN Limited Greensphere Advisors Limited Greensphere Investments Limited Harrington Generators International Limited Hawker Siddeley Switchgear Limited Melrose Holdings Limited Melrose PLC Melrose UK 4 Limited Melrose UK Holdings Limited Metal Closures (Port Talbot) Limited Metal Closures Extrusions Limited Precision House Management Services Limited Whipp & Bourne Limited
Geoffrey Martin	Melrose Industries PLC	00366966 Limited Alcester Capricorn Alcester EP1 Limited Alcester Number 1 Limited Brush Electrical Engineering Company Limited Brush Electrical Machines Limited Brush HMA BV Brush Holdings Limited Brush Properties Limited Brush Transformers Limited Colmore Lifting Limited Colmore Overseas Holdings Limited Danks Holdings Limited Eachairn Willenhall PLC GKN Limited Harrington Generators International Limited Hawker Siddeley Switchgear Limited McKechnie Plastics Limited Melrose Holdings Limited Melrose PLC Melrose UK 4 Limited Melrose UK Holdings Limited Melrose USD1 Limited Plastic Engineers Limited Precision House Management Services Limited Prelok Specialist Products Limited Sageford UK Limited Whipp & Bourne Limited
Celia Baxter	DS Smith plc Senior plc	Bekaert NV Chiswick Staithe Limited RHI Magnesita NV
Philip Harrison	Balfour Beatty PLC Balfour Beatty Group Employment Limited Balfour Beatty Group Limited	None
Alexandra Innes	2023 Cycling World Championships Limited Bank of England (SONIA Oversight Committee and SONIA Stakeholder Advisory Group) Facilities by ADF PLC Knight Frank LLP	The All England Lawn Tennis Club (Championships) Limited The All England Lawn Tennis Ground PLC The All England Lawn Tennis & Croquet Club Limited

<u>Name</u>	<u>Current directorships and partnerships</u>	<u>Previous directorships and partnerships</u>
	Schroder Real Estate Investment Trust Limited Securities Trust of Scotland PLC Waverton Investment Management Ltd Waverton Investment Management Group Ltd	
Fiona MacAulay . . .	Allydo Limited Chemring Group PLC Costain Group PLC EPI Americas Limited EPI Global Limited EPI Group Holdings LTD EPI Limited Ferrexpo PLC IOG PLC Ligue Limited	Coro Energy PLC Echo Energy PLC Echo Energy Argentina Holdings Limited Echo Energy Bolivia (Hold Co 1) UK LTD Echo Energy Bolivia (Hold Co 2) UK LTD Echo Energy Bolivia (OP CO1) UK LTD Echo Energy Bolivia (OP Co 2) UK LTD Echo Energy C D and LLC LTD Echo Energy Holdings (UK) LTD Echo Energy TA OP LTD Echo Energy Tapi Aike LTD ECO Energy CDL OP LTD Independent Resources (Ksar Hadada) Limited Independent Resources (Sahara) Limited Independent Resources (Tunisia) Limited
Shali Vasudeva	None	None

Save as set out above, none of the Directors has any business interests, or performs any activities, outside the Company which are significant with respect to the Company.

10.2 Conflicts of interest

Save as set out below, there are no actual or potential conflicts of interest between the duties owed by the Directors or members of any administrative, management or supervisory body of the Company to the Dowlais Group, and the private interests and/or other duties that they may also have.

Each of Simon Peckham, current Chief Executive of the Melrose Group, and Geoffrey Martin, current Group Finance Director of the Melrose Group, has been appointed in the additional part-time role of Executive Director of Dowlais (together, the “**Dual Roles**”). The Board of Dowlais believes that Mr Peckham’s and Mr Martin’s continued involvement in the Dowlais Group through their directorships on the Board will better enable Dowlais to pursue selected transformational acquisition opportunities in the near term, setting Dowlais on the path to sustainable success and creating significant value for shareholders.

Immediately following the Demerger, Melrose and Dowlais will operate independently in discrete sectors and each will seek value enhancing opportunities in the sector in which it operates. Consequently, the Board considers it unlikely that the Dual Roles would give rise to a conflict of interest. However, in the unlikely event that a conflict of interest does arise (such as, if the Melrose Group and the Dowlais Group are both considering an acquisition of the same target company), Mr Peckham and Mr Martin will recuse themselves from the decision-making process in relation to the matter giving rise to the conflict of interest.

In addition, Mr Peckham and Mr Martin have been appointed to the Board in order to oversee value enhancing consolidation deals in the sector. Their appointments are intended to last up to the close of the annual general meeting of the Company in 2025, unless extended by the Board, and subject to annual re-election by the Dowlais Shareholders. Neither Mr Peckham nor Mr Martin will have any special voting or veto rights. Neither Mr Peckham nor Mr Martin will receive remuneration from Dowlais.

10.3 Directors’ confirmations

- (a) As at the date of this Prospectus, no Director has during the last five years:
- (i) been convicted in relation to fraudulent offences;
 - (ii) been associated with any bankruptcy, receivership or liquidation, or any company being put into administration, while acting in the capacity of a member of the administrative, management or supervisory body or of senior manager of any company;

- (iii) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies); or
 - (iv) been disqualified by a court from acting as a member of the administrative, management or supervisory body of a company or from acting in the management or conduct of the affairs of any company.
- (b) There are no family relationships between any of the Directors.
- (c) There are no outstanding loans or guarantees granted or provided by any member of the Dowlais Group for the benefit of any of the Directors or members of any administrative, management or supervisory body of the Company.

10.4 Interests of Directors in the share capital of the Company

The Company was incorporated in anticipation of the Demerger and, as at the Latest Practicable Date, is wholly owned by Melrose and the Directors have no interest in the share capital of the Company.

Immediately following the Demerger and Admission, the interests of the Directors will be based on the number of Melrose Shares held by such persons at the Demerger Record Time (save for dilution resulting from the retention by Melrose of the Melrose Retained Stake and any adjustment to deal with fractional entitlements undertaken in connection with the Melrose Share Consolidation).

The interests in the share capital of Dowlais of the Directors (all of which, unless otherwise stated, are beneficial and include interests of persons connected with a Director) as are expected to be held immediately following Admission by reference to the Directors' shareholdings in Melrose as at the Latest Practicable Date are set out in the table below. The percentage of voting rights shown below includes adjustments to reflect dilution resulting from the retention by Melrose of the Melrose Retained Stake and any adjustments to deal with fractional entitlements undertaken in connection with the Melrose Share Consolidation.

<u>Director</u>	<u>Number of Dowlais Shares</u>	<u>Percentage of voting rights</u>
Simon Mackenzie Smith	—	—
Liam Butterworth	134,700	0.0097%
Roberto Fioroni	12,243	0.0009%
Simon Peckham	4,023,965	0.2888%
Geoffrey Martin	2,218,576	0.1592%
Celia Baxter	6,150	0.0004%
Philip Harrison	875	0.0001%
Alexandra Innes	—	—
Fiona MacAulay	—	—
Shali Vasudeva	—	—

The Chief Executive Officer and Chief Financial Officer of Dowlais will, conditional on completion of the Demerger occurring, be awarded an amount of £12,000,000 and £4,200,000, respectively, in respect of their participation in the existing GKN Automotive long-term participation cash bonus scheme, and will be required to re-invest £954,000 and £333,900, respectively, in Dowlais Shares, to be purchased as soon as practicable following completion of the Demerger. As a result of this re-investment, the Chief Executive Officer and Chief Financial Officer of Dowlais will own a significant number of Dowlais Shares relative to their total remuneration, resulting in a strong alignment between them as Executive Directors and Dowlais Shareholders, and assisting them in meeting their minimum shareholding requirements. In addition, certain other senior Dowlais Group employees will, conditional on completion of the Demerger occurring, receive similar awards, and shall be required to re-invest a portion of the post-tax amount to be received by each of them (amounting to £676,532 in aggregate) in Dowlais Shares, to be purchased as soon as practicable following completion of the Demerger.

11. Directors' service agreements and letters of appointment

11.1 Executive directors' service agreements and letters of appointment

Mr Butterworth and Mr Fioroni are currently employed by GKN Automotive Limited and will, conditional on completion of the Demerger, be employed under new service agreements with Dowlais dated 1 March 2023, which are conditional, and become effective, on completion of the Demerger. Key terms of the new service

agreements (other than those that relate to remuneration and benefits, which are addressed separately below in Section 12.1 (*Executive Directors*) of Part XV (*Additional Information*) of this Prospectus), are as follows:

<u>Term</u>	<u>Description</u>
Duties	The Chief Executive Officer and Chief Financial Officer are required to devote the whole of their working time and attention to and to use all proper means to the best of their ability to maintain, promote and improve the business of the Company and/or the Group.
Holidays	The Chief Executive Officer and the Chief Financial Officer are entitled to 27 days' holiday per annum plus bank holidays.
Notice Period	The Chief Executive Officer and the Chief Financial Officer are subject to a notice period of 12 months from the Company and the Company is subject to a notice period of 12 months from the Executive Director.
Payment in Lieu of Notice	Each service agreement can be terminated immediately by serving notice and undertaking to pay the Chief Executive Officer or Chief Financial Officer (as applicable) in lieu of notice. The payment in lieu of notice clause provides that payments must be made within 28 days of termination.
Garden Leave	The Chief Executive Officer and the Chief Financial Officer can be required to remain away from the office during their notice period. During this time, the Company can require the Chief Executive Officer and the Chief Financial Officer not to engage in certain activities, including requiring them not to contact employees, suppliers and customers.
Summary Termination	Each service agreement can be terminated without notice or payment in lieu of notice in certain prescribed circumstances. The specific grounds for summary dismissal include for example gross misconduct, serious or persistent breaches of the service agreement, bankruptcy, a criminal conviction (other than minor motor offences) and disqualification as a director.
Incapacity	If the Chief Executive Officer or Chief Financial Officer (as applicable) is incapacitated by illness or injury from performing their duties then, subject to their entitlements under the group income protection scheme operated by the Company, any payment of salary or continued provision of benefits shall be at the absolute discretion of the Board.
Outside Interests	Each service agreement limits the Chief Executive Officer and the Chief Financial Officer from working or being employed by or interested in any other business, unless prior approval of the Company has been obtained. Each Executive Director is permitted to hold up to three % of the issued shares or securities in any other publicly listed entity.
Restrictive Covenants	The Chief Executive Officer and the Chief Financial Officer are subject to 12 month post-termination restrictive covenants covering non-competition and non-solicitation of clients (including prospective clients), employees and suppliers.
Confidentiality	The Chief Executive Officer and the Chief Financial Officer are under an obligation not to disclose information confidential to the Company or any member of the Group.

Mr Peckham and Mr Martin are appointed under appointment letters entered into with Dowlais and dated 1 March 2023, with their appointments being effective as of the date of incorporation of Dowlais. Key terms of the appointment letters are set out below.

Mr Peckham and Mr Martin's appointments are intended to last up to the close of the annual general meeting of the Company in 2025, unless extended by the Board and subject to annual re-election, notice provisions and termination provisions in the event that Admission does not occur.

Each of Mr Peckham and Mr Martin's appointments is terminable on one month's notice by either party. Their continued appointment is contingent on satisfactory performance and Mr Peckham and Mr Martin are required

to devote sufficient time to meet the expectation and requirements connected with their appointments. The appointment of Mr Peckham or Mr Martin shall terminate summarily should they, among other things, materially or repeatedly breach their obligations under the terms of their appointment or to the Company; be convicted of an arrestable criminal offence (other than a road traffic offence); have a bankruptcy order made against them or enter into any arrangements with their creditors; or be disqualified from acting as a director.

Mr Peckham and Mr Martin are each eligible to benefit from a director's indemnity provided for in accordance with the Company's Articles, and for cover under any directors' and officers' liability insurance policy that the Company maintains from time to time. Mr Peckham and Mr Martin may each obtain, at the Company's expense, external independent professional advice as is reasonably necessary to enable them to carry out their duties.

Neither Mr Peckham nor Mr Martin will receive remuneration from Dowlais in respect of their appointments as Executive Directors.

11.2 Executive Directors' remuneration for the Financial Year 2022

The aggregate remuneration paid (including any contingent or deferred compensation), and all benefits in kind granted to the Executive Directors for services in all capacities to the Melrose Group for the Financial Year 2022 was £5,042,270.

Set out in the table below is the remuneration and other benefits paid to the Executive Directors for the Financial Year 2022:

<u>Name</u>	<u>Annual Salary</u> (£000)	<u>Bonus</u> (£000)	<u>Taxable benefits</u> (£000)	<u>Pension related benefits⁽¹⁾</u> (£000)	<u>Total⁽²⁾</u> (£000)
Liam Butterworth	744	737	31	111	1,625
Roberto Fioroni	557	551	20	66	1,196
Simon Peckham	567	567	1	85	1,221
Geoffrey Martin	464	464	12	70	1,008

(1) Generally amounts attributable to pension contributions were paid as a supplement to base salary in lieu of pension contributions.

(2) The "Total" figures in the above table may not add up to the sum of the component parts due to rounding.

11.3 Non-Executive Directors' letters of appointment

At Admission, the Company's Chair will be Simon Mackenzie Smith, who was appointed on 9 February 2023. At Admission, the Company will have five other Non-Executive Directors, being Celia Baxter, Philip Harrison, Alexandra Innes, Fiona MacAulay and Shali Vasudeva, who, in the case of Philip Harrison, was appointed on 10 February 2023 and, in the case of Celia Baxter, Alexandra Innes, Fiona MacAulay and Shali Vasudeva, were each appointed on 20 February 2023. The details of the principal terms of appointment of the Non-Executive Directors (other than those that relate to remuneration and benefits, which are addressed separately below in Section 12.2 (*Non-Executive Directors*) of Part XV (*Additional Information*) of this Prospectus) are set out below.

The Non-Executive Directors have been appointed for a period of three years, subject to annual re-election, notice provisions and termination provisions in the event that Admission does not occur. Each of the Non-Executive Directors will stand for election at the first annual general meeting of the Company.

Each Director is eligible to benefit from a director's indemnity provided for in accordance with the Company's Articles, and for cover under any directors' and officers' liability insurance policy that the Company maintains from time to time. The Directors may obtain, at the Company's expense, external independent professional advice as is reasonably necessary to enable the Director to carry out their duties.

Each Non-Executive Director's appointment is terminable on six months' notice. Continuation of appointment is contingent on satisfactory performance and each Non-Executive Director is required to devote sufficient time to meet the expectation and requirements connected with their appointments. The appointment of a Non-Executive Director shall terminate summarily, including any entitlement to receive outstanding director's fees, without payment in lieu of notice, or other compensation, should they, among other things, materially or repeatedly breach their obligations under the terms of their appointment or to the Company; be convicted of an arrestable criminal offence (other than a road traffic offence); have a bankruptcy order made against them or enter into any arrangements with their creditors or be disqualified from acting as a director.

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

12. Directors' Remuneration Policy

The Directors and their functions are set out in Section 1 (*Directors*) of Part VIII (*Directors, Senior Managers, Employees and Corporate Governance*) of this Prospectus. Summaries of the material terms of the service agreements with the Executive Directors and letters of engagement with the Non-Executive Directors are set out in Section 11 (*Directors' service agreements and letters of appointment*) above. Summary details of the proposed post-Admission directors' remuneration policy are set out below (the "**Directors' Remuneration Policy**").

12.1 Executive Directors

Overview of remuneration strategy and policy

The Company will establish a Directors' Remuneration Policy that:

- (a) drives the success of the Company and the delivery of its business strategy, for the benefit of its key stakeholders;
- (b) creates shareholder value;
- (c) provides an appropriately competitive package to attract, retain and motivate executive talent for a group of its size and nature; and
- (d) is aligned with the Company's business priorities, culture, wider workforce pay policies, and best practice.

The information below, together with details of the share-based incentive plan set out in Section 13 (*Share-based incentive arrangements*) of Part XV (*Additional Information*) below, summarises the key components of the Executive Director and Non-Executive Director remuneration arrangements that will apply from Admission.

The Company will formally propose the Directors' Remuneration Policy for approval by shareholders at its first annual general meeting following Admission in 2024, in accordance with section 439A of the Companies Act and the requirements set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It is currently intended that, if approved, the Directors' Remuneration Policy will apply for three years from the date of that annual general meeting.

The Directors' Remuneration Policy will allow implementation of the remuneration strategy through a combination of base salary, benefits, retirement benefits, annual bonus, and long-term incentives.

As described above, it is noted that Simon Peckham and Geoffrey Martin, Executive Directors of Dowlais, will not receive any remuneration from the Company in connection with such appointments. Given this, references to the Executive Directors of the Company in this Section 12.1 (*Executive Directors*) of Part XV (*Additional Information*) and Section 13 (*Share-based incentive arrangements*) of Part XV (*Additional Information*) of this Prospectus do not include Simon Peckham and Geoffrey Martin.

A summary of the key terms of the Directors' Remuneration Policy that will operate from Admission until the shareholder-approved Directors' Remuneration Policy is put in place is provided below.

Service agreements

Key terms of the service agreements of the Chief Executive Officer and the Chief Financial Officer (other than those that relate to remuneration and benefits, which are addressed separately below) are set out in Section 11.1 (*Executive Directors*) of Part XV (*Additional Information*) of this Prospectus.

Base salary

Upon Admission, the current Executive Directors' base salaries will be £890,000 per annum for the Chief Executive Officer and £630,000 per annum for the Chief Financial Officer respectively. Base salaries will be reviewed annually with increases, if any, taking effect from 1 January. Ordinarily, any increase to Executive Director base salaries will take into account the average increase awarded to the Dowlais executive management team and the wider Dowlais Group workforce. However, a higher increase may be proposed in the event of role change or promotion, or in other exceptional circumstances. The Remuneration Committee next intends to review Executive Directors' base salaries in 2023 with any increase taking effect from 1 January 2024.

Benefits

Executive Directors are eligible to receive a Company contribution to an individual defined contribution pension arrangement, with a maximum contribution of 12%, which they may elect to receive as a cash payment in lieu of pension contributions. The contribution for Executive Directors is in line with that available to the wider workforce in the country where the Executive Directors are based for employment purposes, currently being the United Kingdom.

Executive Directors receive benefits consistent with other Group employees and market practice, which is typically private medical insurance, life insurance, group income protection and a car allowance. Other limited benefits may be provided to new Executive Directors based on individual circumstances as deemed necessary and appropriate by the Remuneration Committee.

Annual bonus

Executive Directors will be eligible to participate in an annual bonus plan. Targets for the year beginning 1 January 2023 have been set prior to Admission and will be 80% financial measures and 20% strategic / ESG measures. The Remuneration Committee considers the targets to be commercially sensitive and will provide retrospective disclosure in its first Directors' Remuneration Report, in line with best practice. Payout will be determined by the Remuneration Committee after the year-end based on performance against those targets. The Remuneration Committee will have the discretion to adjust any formulaic output of the bonus, if deemed appropriate.

Any annual bonus will be capped at 200% of base salary for the Chief Executive Officer and 150% of base salary for the Chief Financial Officer respectively, in respect of any financial year, and this will apply in 2023.

In respect of bonus earned in respect of 2023 and thereafter, deferral of annual bonus plan outcomes will apply to Executive Directors participating in the annual bonus plan. Executive Directors will be required to defer 30% of their annual bonus award into shares for two years, where he or she does not meet the minimum shareholding requirement.

From 2024, the Remuneration Committee will set targets annually. The performance measures, targets and weightings may vary from year-to-year to align with the Company's strategy and goals. Performance measures can include some or all of the following: financial, strategic and ESG. Stretching performance targets will be 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. The Remuneration Committee will provide appropriate levels of disclosure on a retrospective basis of the measures and targets used in the annual bonus plan in the subsequent Directors' Remuneration Report. As required by the Corporate Governance Code, the Remuneration Committee will retain a power to moderate the levels of annual bonus plan outcomes for any year if this is appropriate in all of the circumstances, including consideration of shareholder and broader stakeholder experience.

Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Remuneration Committee's opinion, make it appropriate to make adjustments to the performance conditions so that they maintain their commercial relevance.

The proportion of any bonus satisfied in cash will be subject to the malus and clawback provisions summarised below under the section entitled "Malus and clawback". The period during which any cash award may be reduced or recovered will be any time up to the annual general meeting of the Company held in the second year following payment of the bonus. The proportion of any bonus deferred in accordance with the Directors' Remuneration Policy will be subject to the leaver and malus and clawback provisions summarised below under the sections entitled "Malus and clawback" and "Leaver provisions".

Long-term incentives

The Board has adopted the Dowlais Performance Share Plan (the "PSP"), a new long-term incentive plan, conditional on Admission. It is expected that awards made to Executive Directors after Admission will be made under the PSP and will be in line with the directors' remuneration policy approved by Dowlais Shareholders from time to time.

Under the PSP, awards will be in the form of conditional share awards or nil or nominal cost options. The PSP provides that the individual limit for the market value of awards (as determined by the Remuneration Committee at the time of grant) that can be made to participants under the PSP in respect of any financial year

of the Company should not exceed 300% of base salary. For the Chief Executive Officer this limit will be 300% of base salary and for the Chief Financial Officer this limit will be 200% of base salary.

Vesting of awards to the Executive Directors under the PSP will be subject to the achievement of performance conditions set by the Remuneration Committee. The Remuneration Committee may adjust upwards or downwards (including to zero) the extent to which an award shall vest if it considers that the extent to which the award would otherwise vest is not a fair reflection of the performance of the Company, the Executive Director’s performance and/or wider circumstances. Further details of these performance conditions and weightings will be set out in the Company’s first Directors’ Remuneration Report.

It is envisaged that awards granted to Executive Directors under the PSP will have a three-year performance period and a further post-vesting holding period of two years (net of sales of shares for applicable taxation).

The first awards made under the PSP will be granted following Admission in accordance with the plan rules of the PSP. The first awards granted under the PSP will be in the form of conditional share awards or nil-cost options over Dowlais Shares and will be made to the Chief Executive Officer and the Chief Financial Officer in addition to other participants. The awards will be subject to performance conditions for the year ending 31 December 2023 as follows:

<u>Performance Condition</u>	<u>Weighting</u>	<u>Threshold (25% vesting)</u>	<u>Maximum (100% vesting)</u>
Total shareholder return (“TSR”) ranking ⁽¹⁾	50%	Median	Upper quartile or higher
Adjusted earnings per share annual growth	50%	5%	20%

(1) TSR will be measured against a peer group of 12 EU auto and UK industrials companies.

From 1 January 2024, awards under the PSP will normally be made each year within six weeks of the announcement of the annual results of the Company.

A summary of the principal terms of the PSP is set out in Section 13 (*Share-based incentive arrangements*) of Part XV (*Additional Information*) of this Prospectus.

Share ownership guidelines

The Remuneration Committee has adopted shareholding requirements that will require the Executive Directors to build up over a five-year period, and then subsequently hold, a shareholding in the Company equivalent to a percentage of salary. This is to ensure that the interests of Executive Directors and those of Dowlais Shareholders are closely aligned. Vested deferred bonus plan awards (which are not subject to performance conditions) and vested PSP awards which are subject to a holding period will count towards these shareholding requirements on a net tax basis.

The minimum shareholding requirement is 300% of base salary. Executive Directors will normally be required to continue to hold 100% of the in-employment shareholding requirement (or, if lower, their actual shareholding on cessation) for a two-year period after leaving the Group.

Recruitment policy

Consistent with best practice, when agreeing a remuneration package for the appointment of a new Executive Director, the Remuneration Committee will apply the following principles:

- (a) the package will be sufficient to attract the calibre of Executive Director required to deliver the Company’s strategy;
- (b) the Remuneration Committee will seek to ensure that no more is paid than is necessary; and
- (c) in the next Directors’ Remuneration Report after an appointment, the Remuneration Committee will explain to shareholders the rationale for the arrangements implemented.

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 levels of variable remuneration referred to under the sections entitled “Annual bonus” and “Long-term incentives” set out 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.

Malus and clawback

All variable pay granted from Admission will be subject to malus and clawback.

Annual bonus awards are discretionary and, accordingly, are subject to a 'malus' provision over the course of the relevant year. The annual bonus award is also subject to a clawback arrangement that may be applied by the Remuneration Committee at any time up until the annual general meeting of the Company held in the second year following the payment of the bonus. Awards made under the PSP are also subject to malus and clawback.

The Remuneration Committee may apply these malus or clawback provisions in the event of: (1) material misstatement of the financial results of a member of the Dowlais Group that, in the reasonable opinion of the Remuneration Committee, has a material negative effect; (2) (in the case of clawback only) a material miscalculation of any performance condition on which the bonus or award 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 Remuneration Committee and/or other relevant body 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 or award earned is materially reduced, provided that the Remuneration Committee and/or other relevant body 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.

Leaver provisions

In the event of termination, service contracts for the Chief Executive Officer and the Chief Financial Officer provide for payments of base salary, pension and benefits only over the notice period or for the employer to terminate immediately by making a payment in lieu of notice, which shall cover base salary only. Notice (or payment in lieu) will only be payable where the Executive Director has not been terminated summarily in accordance with the terms of their service contract). The treatment of variable remuneration will depend on whether the Executive Director is classified as a 'Good Leaver' on cessation of employment, which will occur if the Executive Director ceases employment in the circumstances outlined 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.

For the annual bonus, performance conditions will be measured at the bonus measurement date for Good Leavers only, with the bonus normally to be pro-rated 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. For bonuses from prior years that have been deferred into shares, Good Leavers will be entitled to retain those shares awarded in prior years for a deferral of an annual bonus. For an Executive Director other than a Good Leaver, any shares awarded for a deferral of a prior year's annual bonus and still subject to restrictions will be forfeited.

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:

- (a) the Remuneration Committee's normal policy is that it will pro-rate a cash bonus to time; and
- (b) to vest any annual bonus that has been deferred into shares at the end of the original deferral period or at the date of cessation. The Remuneration Committee will make this determination depending on the type of Good Leaver reason resulting in the cessation.

If an Executive Director holding PSP Awards (as defined below) ceases employment in circumstances where they are a 'Good Leaver' before the vesting date, the PSP Award shall continue and vest on the original vesting date and, unless the Remuneration Committee decides otherwise, the PSP Award shall normally 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. If an Executive Director holding awards ceases employment in circumstances where they are a 'Bad Leaver' before the vesting date, 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 the vesting date for whatever reason, they shall be entitled to retain any outstanding vested awards held by them pursuant to the plan rules of the PSP. Further details of the terms are set out in Section 13 (*Share-based incentive arrangements*) of Part XV (*Additional Information*) of this Prospectus.

Statement of consideration of shareholder views

The annual general meeting of the Company held in 2024 will be the first occasion on which the Company will seek the support of its shareholders for matters relating to the remuneration of Executive Directors. The Remuneration Committee will ensure that it considers all feedback it receives from its shareholders during this process.

12.2 Non-Executive Directors

The Chair will, conditional on Admission, receive an annual fee of £400,000. This fee is inclusive of all committee roles.

Each Non-Executive Director will, conditional on Admission, receive a basic annual fee of £70,000, with additional annual fees of £25,000 for chairing the Audit Committee, £25,000 for chairing the Remuneration Committee, £10,000 for chairing the Nomination Committee and £20,000 for holding the position of the Senior Independent Director. Each Non-Executive Director will receive the following additional annual fee for being a member of a committee of the Board: £15,000 as an Audit Committee member, £15,000 as a Remuneration Committee member and £5,000 as a Nomination Committee member.

The Chair's and the other Non-Executive Directors' fees have been set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and expertise, and are based on the level of fees paid to non-executive directors serving on boards of comparable UK-listed companies and the time commitment and contribution expected for the role. Fees will be reviewed periodically and amended to reflect market positioning and any change in responsibilities. The fees paid to the Chair will be determined by the Remuneration Committee (excluding the Chair) and the fees for Non-Executive Directors will be determined by the Board. No Board member may participate in the approval of their own fees.

The Chair and other Non-Executive Directors are not eligible to participate in any of the Company's variable incentive arrangements from Admission and will not receive pension contributions. They may be eligible to receive benefits such as use of secretarial support, reimbursement of travel costs and other benefits that may be appropriate. In addition, each Non-Executive Director is entitled to be reimbursed for all reasonable and properly documented expenses incurred in the performance of their duties.

Key terms of the letters of appointment of the Chair and the other Non-Executive Directors (other than those that relate to remuneration and benefits, which are addressed separately above) are set out in Section 11.3 (*Non-Executive Directors' letters of appointment*) of Part XV (*Additional Information*) of this Prospectus.

13. Share-based incentive arrangements

Following Admission, the Company intends to operate a discretionary share-based incentive plan, the PSP. The main features of the PSP are set out below.

13.1 PSP

The PSP was adopted by the transaction committee of the Board on 1 March 2023, conditional on Admission. The PSP is a discretionary share plan, under which the Remuneration Committee may grant awards over Dowlais Shares ("**PSP Awards**") to incentivise and retain eligible members of the executive management team. The PSP will be administered by the Remuneration Committee or by any sub-committee or person duly authorised by it.

Individual limit

Awards will not be granted to an Executive Director under the PSP over Dowlais Shares with a market value (as determined by the Remuneration Committee) in excess of the relevant limit as set out in the prevailing directors' remuneration policy, in respect of any financial year of the Company.

It is the Remuneration Committee's current intention that PSP Awards to be granted to the Executive Directors in respect of the year ending 31 December 2023 will be calculated by reference to 300% of salary for the Chief Executive Officer and 200% of salary for the Chief Financial Officer.

Performance conditions

The vesting of PSP Awards will be subject to the satisfaction of performance conditions. The performance conditions will normally be measured over a period of at least three financial years for PSP Awards granted to Executive Directors and any member of the executive management team.

The Remuneration Committee may waive or vary a performance condition provided it is a fairer measure of performance than the original performance condition, it is no more difficult to satisfy than the original performance condition and it is not materially easier to satisfy than the original performance condition was at the grant date of the PSP Award (unless the variation is approved in advance by the Company at a general meeting).

Form of PSP Awards

The Remuneration Committee may grant PSP Awards as conditional awards of Dowlais Shares, or nil or nominal cost options over Dowlais Shares. No payment is required for the grant of a PSP Award. PSP Awards structured as nil or nominal cost options will normally be exercisable from the point of vesting (or, where a PSP Award is subject to a holding period, the end of that holding period) until the tenth anniversary of the grant date.

Vesting of PSP Awards

Performance conditions will be assessed as soon as reasonably practicable after the end of the relevant performance period. The Remuneration Committee will determine the extent to which the PSP Awards will then vest, taking into account the extent to which the performance conditions have been satisfied. To the extent that they vest, PSP Awards will normally vest on the vesting date set by the Remuneration Committee at grant, which will usually be the third anniversary of the grant date (the “**Normal Vesting Date**”).

Holding period

The Remuneration Committee may also determine at grant that a PSP Award is subject to an additional holding period following vesting. Where a holding period applies, PSP Awards will vest on the Normal Vesting Date and will be subject to a two-year holding period (this usually starts on the Normal Vesting Date and ends on the fifth anniversary of the date of grant or five years after the start of the performance period). The Dowlais Shares may be held by a nominee throughout the holding period. During the holding period the vested Dowlais Shares will be subject to restrictions on sale.

Dividend equivalents

The Remuneration Committee may determine at grant, in respect of nil or nominal cost options only, that participants may receive (at exercise) an amount (either in cash or in additional Dowlais Shares) equal to the value of any dividends declared during the period beginning on the vest date and ending on the date on which the holding period of the relevant nil or nominal-cost option ends, and which would have been paid on the Dowlais Shares to which the nil or nominal-cost option relates. This amount may assume the reinvestment of dividends.

Eligibility

All members of the Dowlais executive management team (including the Executive Directors) of the Dowlais Group are eligible for selection to participate in the PSP at the discretion of the Remuneration Committee, save for Simon Peckham (Executive Director) and Geoffrey Martin (Executive Director), who will not receive any remuneration from the Company in respect of their appointments (as described further in Section 12.1 (*Executive Directors*) of Part XV (*Additional Information*) of this Prospectus).

Timing of PSP Awards

PSP Awards will normally be granted during (i) the period of 42 days starting on the date of Admission; (ii) the period of 42 days immediately following the end of a ‘Closed Period’ (as defined in the plan rules of the PSP) or (iii) any other period in which the Remuneration Committee has decided to grant a PSP Award due to the exceptional circumstances which justify such a decision (this may include events such as the day on which the directors’ remuneration policy (or amendment to it) is approved by the Company’s shareholders, or the day on which changes to the legislation or regulations affecting share plans are announced, effected or made).

Settlement

The Remuneration Committee may, in its discretion, decide to satisfy a PSP Award with a cash payment equal to the market value of the Dowlais Shares that the participant would have received had the relevant PSP Award been satisfied with Dowlais Shares.

Malus and clawback

The malus and clawback policy summarised in the section entitled “Malus and clawback” in Section 12.1 (*Executive Directors*) of Part XV (*Additional Information*) above will apply to PSP Awards.

Corporate events

If there is a change of Control (as defined in the plan rules of the PSP) of the Company, the Remuneration Committee may determine that the PSP Awards may vest (and in the case of a nil or nominal cost option, may be exercised) in relation to the vested number of shares. The vested number of shares is determined by the Remuneration Committee as follows:

- (a) if a change of Control occurs during the Vesting Period (as defined in the plan rules of the PSP), the number of Dowlais Shares in relation to which the PSP Award was originally granted (less any Dowlais Shares in respect of which it has already vested (or been exercised) or has lapsed, is multiplied by the number of days between the date of grant and the date (or expected date) of the change of Control divided by the number of days in the Vesting Period;
- (b) if a change of Control occurs during the Performance Period (as defined in the rules of the PSP), a further reduction to the number established at (a) above should be applied to reflect the likelihood as at the date (or expected date) of the change of Control of the performance conditions not being met by the end of the Performance Period.

The Remuneration Committee may determine that nil or nominal cost options are exercised in whole or in part within a reasonable period specified by it. The Remuneration Committee may determine that any nil or nominal cost option not exercised in that period shall lapse.

Alternatively, an award holder may, subject to the acquiring company’s consent, exchange any PSP Award for equivalent awards over shares in another company. Any replacement awards shall be granted on such terms and in relation to such shares as the award holder and the acquiring company may agree.

Variation of share capital

If there is a variation of the share capital of the Company or in the event of an extraordinary distribution to shareholders (including a demerger or special dividend), the Remuneration Committee may make such adjustments to the number or class of shares subject to a PSP Award, in each case as it considers appropriate.

Rights attaching to Dowlais Shares

Dowlais Shares issued and/or transferred under the PSP will not confer rights on any participant until the Dowlais Shares have fully vested and any applicable holding period has expired, at which point the participant will receive the underlying Dowlais Shares. Any Dowlais Shares issued will rank equally with Dowlais Shares then in issue (except for rights arising by reference to a record date prior to their issue).

Overall limits

The plan rules of the PSP provide that, in any 10 year rolling period, the number of Dowlais Shares which may be newly issued or transferred from treasury to satisfy PSP Awards and awards under any other employee share plan operated by the Company may not exceed 10% of the issued ordinary share capital of the Company from time to time. The number of Dowlais Shares which may be used to satisfy PSP Awards and awards under any other discretionary employee share plan operated by the Company may not exceed 5% of the issued ordinary share capital of the Company from time to time in the same period.

Dowlais Shares transferred out of treasury will count towards these limits for so long as this is required under institutional shareholder guidelines. However, PSP Awards that are relinquished or lapse will be disregarded for the purposes of these limits.

Amendments

The Board or the Remuneration Committee may, at any time, amend the provisions of the PSP in any respect. The prior approval of the Company's shareholders must be obtained in the case of any amendment which is made to the advantage of eligible employees and/or participants and 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. There are, however, exceptions to this requirement to obtain shareholder approval for any minor amendments 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 Dowlais Group.

Non-transferability

PSP Awards are not transferable, save that a participant's personal representatives shall have the right to exercise a nil or nominal cost option in the event of the participant's death.

Benefits not pensionable

Benefits received under the PSP are not pensionable.

Overseas plans

The Board may, at any time, establish further plans based on the PSP for overseas territories. Any such plan will be similar to the PSP but may be modified to take account of local tax, exchange control or securities laws. Any Dowlais Shares made available under such further overseas plans must be treated as counting against the limits on individual and overall participation under the PSP.

Termination

No awards may be granted under the PSP more than 10 years after Admission.

13.4 The Company's employee benefit trust

The Company intends to establish following Admission an employee benefit trust or trusts (the "Trusts") to operate in connection with the PSP. If it does, the Company intends to have the power to appoint and remove the trustee(s) of the Trusts. The Trusts will benefit current and former employees and directors (other than Non-Executive Directors) of the Dowlais Group and certain members of their families (excluding any person resident in the jurisdiction where a Trust is constituted for tax purposes, as appropriate).

The trustee(s) of the Trusts will have the power to acquire Dowlais Shares and, with effect from Admission, any Dowlais Shares so acquired may be used for the purposes of the PSP, other employee share plans established by the Dowlais Group from time to time or otherwise for the benefit of the beneficiaries of the Trusts.

With effect from Admission, the Dowlais Group may fund the Trusts by loan or gift to acquire Dowlais Shares either by market purchase or by subscription. Any awards to subscribe for Dowlais Shares or granted to the Trusts or Dowlais Shares issued to the Trusts will be treated as counting against the overall limits that apply to the PSP. Following Admission, the trustee(s) of the Trusts will not, without Dowlais Shareholder approval, hold or acquire more than 5% of the Company's issued ordinary share capital from time to time (disregarding any Dowlais Shares held by it as a nominee).

14. Pensions

The Dowlais Group sponsors defined benefit pension plans which benefit qualifying employees of certain subsidiaries. The most significant defined benefit pension plans in the Dowlais Group are the GKN Group Pension Schemes (Numbers 2 and 3) in the UK, the GKN Driveline Pension Plan and the GKN Sinter Metals Pension Plan in the US, and the GKN defined benefit pension plans offered in Germany.

All of the defined benefit pension plans are closed to new members and the UK and US plans are closed to future accrual. As at 31 December 2022, the GKN Group Pension Schemes (Numbers 2 and 3) had a net surplus of £15 million on an accounting basis (after deducting post-retirement liabilities of £2 million), the GKN Driveline Pension Plan and the GKN Sinter Metals Pension Plan had an aggregate deficit of £54 million (after deducting post-retirement liabilities of £33 million), and the GKN defined benefit pension plans offered

in Germany had an unfunded liability of £405 million. Smaller schemes in the rest of the world had a net liability of £17 million.

In addition to the above, the Dowlais Group sponsors defined contribution plans for qualifying employees of certain subsidiaries in a number of jurisdictions including, but not limited to, Brazil, Germany, Japan, the UK and the US.

15. Litigation

There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus, which may have, or have had in the recent past, significant effects on the Company's and/or the Dowlais Group's financial position or profitability.

16. Related party transactions

Details of related party transactions entered into by members of the Dowlais Group between 1 January 2020 and the date of this Prospectus include those disclosed in Note 25 to the Historical Financial Information, set out in Part B of Part XII (*Historical Financial Information*) of this Prospectus.

Save as disclosed above and as set out in Section 17 (*Material contracts*) and Section 4.2 (*History of the Share Capital and Reorganisation*) of this Part XV (*Additional Information*), no member of the Dowlais Group entered into any related party transactions between 1 January 2020 and the date of this Prospectus.

17. Material contracts

Save as disclosed below, no contracts have been entered into (other than contracts entered into in the ordinary course of business) by any member of the Dowlais Group either (i) within the period of two years immediately preceding the date of this Prospectus which are or may be material to the Dowlais Group; or (ii) which contain any provisions under which any member of the Dowlais Group has any obligation or entitlement which is material to the Dowlais Group as at the date of this Prospectus:

17.1 Demerger Agreement

On 2 March 2023, Dowlais and Melrose entered into a demerger agreement (the “**Demerger Agreement**”) to effect the Demerger and to govern aspects of the relationship between Dowlais and Melrose following completion of the Demerger.

The Demerger Agreement is conditional on (among other things):

- (a) the passing of the Resolution by Melrose Shareholders at the General Meeting;
- (b) the approval of the Demerger Distribution by the board of directors of Melrose;
- (c) the FCA having acknowledged to Dowlais or its agent (and such acknowledgement not having been withdrawn) that the application for Admission of the Dowlais Shares to the premium listing segment of the Official List: (i) has been approved; and (ii) will become effective as soon as a dealing notice has been issued by the FCA and any listing conditions have been satisfied; and
- (d) the London Stock Exchange having acknowledged to Dowlais or its agent (and such acknowledgement not having been withdrawn) that the Dowlais Shares will be admitted to trading on its main market for listed securities.

Melrose has the right in its absolute discretion by notice to Dowlais at any time prior to completion of the Demerger to terminate the Demerger Agreement in connection with an abandonment of the Demerger.

The Demerger Agreement contains certain customary mutual reimbursement obligations under which Melrose undertakes to reimburse Dowlais and Dowlais undertakes to reimburse Melrose in respect of liabilities, losses, demands, claims, costs and damages arising, directly or indirectly, from or in consequence of certain claims.

The Demerger Agreement also sets out how (i) guarantees given by the Melrose Group for the benefit of companies in the Dowlais Group (or vice versa), (ii) contractual arrangements with third parties (to the extent not dealt with by other material contracts), and (iii) assets owned or possessed by the Melrose Group which were used by the Dowlais Group, exclusively or otherwise (or vice versa), will be dealt with following the Demerger.

17.2 Specific Matters Agreement

On 2 March 2023, Dowlais and Melrose entered into a specific matters agreement (the “**Specific Matters Agreement**”) which contains cross-indemnities and undertakings for certain specific, known risks.

17.3 Tax Matters Agreement

Overview of agreement

On 2 March 2023, Dowlais and Melrose entered into a tax matters agreement to govern certain aspects of the tax affairs of the Dowlais Group and the Melrose Group following completion of the Demerger.

The tax matters agreement contains provisions relating to (amongst other things) (i) the allocation of certain specific tax liabilities between the Dowlais Group and the Melrose Group; (ii) access to and use of tax reliefs by members of each group in relation to tax periods up to completion of the Demerger; (iii) the basis on and manner in which each group will prepare tax returns and other tax documents, and (iv) the conduct of each group’s tax affairs (including the sharing of tax information and the manner in which any disputes with any tax authorities will be dealt with).

Overview of terms

Subject to certain exclusions and limitations, if and to the extent that a tax liability arises in the Dowlais Group following the Demerger in respect of a period up to completion of the Demerger (including, without limitation, any tax liability properly attributable to the Melrose Group), then:

- (a) the Dowlais Group shall use and/or surrender (as relevant) any available tax reliefs to mitigate or reduce such tax liability;
- (b) if and to the extent that there are insufficient tax reliefs available to eliminate the relevant tax liability in full, any tax reliefs which: (i) have not already been utilised by the Melrose Group; and (ii) are capable of being surrendered by the Melrose Group, shall be surrendered for no consideration to reduce such tax liability; and
- (c) if and to the extent following (b) there are insufficient tax reliefs available to eliminate the relevant tax liability in full, the remainder of any such tax liability shall be borne by the Dowlais Group.

The inverse applies to any tax liability arising in the Melrose Group following the Demerger.

The tax matters agreement does not contain a general reimbursement or indemnity provision in respect of tax liabilities: (i) incurred by the Dowlais Group which relates to the business of the Melrose Group or to the assets of the Melrose Group; or (ii) incurred by the Melrose Group which relate to the business of the Dowlais Group or to the assets of the Dowlais Group. Indemnities have been provided for a small number of specifically identified tax issues.

The tax matters agreement also provides that each of the Dowlais Group and the Melrose Group shall be responsible for its own tax administration (including, without limitation, the filing of its own tax returns), subject to granting the other party the ability to review and comment on certain tax documents in certain circumstances.

The tax matters agreement also sets out how (i) tax grouping (including without limitation group payment) arrangements, (ii) transfer pricing arrangements, and (iii) certain other specifically identified tax issues, will be dealt with following the Demerger.

17.4 Senior Facilities Agreement

On 22 February 2023, Dowlais and GKN Industries entered into a senior term and revolving facilities agreement between, among others, Dowlais as the original parent, GKN Industries as the company and HSBC Bank plc as the agent (the “**Agent**”) (the “**Senior Facilities Agreement**”) pursuant to which certain term and revolving credit facilities (the “**Facilities**”) are made available. The initial commitments under the Facilities are provided by the financial institutions named therein as original lenders (together, the “**Lenders**”).

The original borrower of each of the Facilities is GKN Industries (the “**Borrower**”). The original guarantors of each of the Facilities are Dowlais and GKN Industries. Certain other members of the Group will, on or around the date of completion of the Demerger and at certain other times as determined pursuant to the minimum guarantor coverage requirements (referred to below), accede to the Senior Facilities Agreement as guarantors. Subject to certain limitations, each guarantor jointly and severally guarantees the obligations of each borrower

and each guarantor under the Senior Facilities Agreement and the other finance documents (together, the “**Dowlais Facilities Documents**”).

The Facilities made available by the Lenders under the Senior Facilities Agreement comprise:

- (a) a £100,000,000 term loan facility denominated in Sterling, with a maturity date falling three years after the date of drawdown of Facility A, which is expected to be the date of completion of the Demerger (the “**Dowlais Drawdown Date**”);
- (b) a \$400,000,000 term loan facility denominated in US Dollars, with a maturity date falling three years after the Dowlais Drawdown Date; and
- (c) a €100,000,000 term loan facility denominated in Euro, with a maturity date falling three years after the Dowlais Drawdown Date,
such term loan facilities together being “**Facility A**”; and
- (d) a £350,000,000 multicurrency revolving credit facility denominated in Sterling, with an initial maturity date falling three years after the Dowlais Drawdown Date, subject to the extension option described below;
- (e) a \$660,000,000 multicurrency revolving credit facility denominated in US Dollars, with an initial maturity date falling three years after the Dowlais Drawdown Date, subject to the extension option described below; and
- (f) a €450,000,000 multicurrency revolving credit facility denominated in Euro, with an initial maturity date falling three years after the Dowlais Drawdown Date, subject to the extension option described below,
such multicurrency revolving credit facilities together being “**Facility B**”.

The Borrower may extend the maturity date in respect of Facility B up to two times (in each case by no more than one year) by giving notice to the Agent not less than 30 days’ prior to original maturity date (or, following the first extension of the original maturity date (if applicable), the first anniversary of the original maturity date).

Utilisation of the Facilities is subject to certain conditions precedent typical for facilities of this type.

As at the Latest Practicable Date, each of Facility A and Facility B is undrawn. Facility A and Facility B are expected to be drawn on or around the date of completion of the Demerger.

Subject to certain exceptions, loans made available under each of Facility A and Facility B shall bear interest at a rate per annum equal to the aggregate of: (i) the applicable base rate (which for loans drawn in Sterling is the Bank of England’s Sterling Overnight Index Average (SONIA), for loans drawn in US Dollars is the Federal Reserve Bank of New York’s Secured Overnight Financing Rate (SOFR) (or, if applicable, the term SOFR reference rate administered by CME Group Benchmark Administration Limited (Term SOFR)) and for loans drawn in Euro is the Euro Interbank Offered Rate administered by the European Money Markets Institute (EURIBOR)) and (ii) a margin, which is subject to a ratchet based on the total net leverage ratio of the Group (as set out in the Senior Facilities Agreement). The opening margin in respect of Facility A shall be 1.40% per annum and the opening margin in respect of Facility B shall be 1.60% per annum.

The proceeds of Facility A are available for, among other things: (i) refinancing amounts outstanding under existing financing arrangements made available to, among others, Melrose IntermediateCo under a senior term and revolving facilities agreement originally dated 17 January 2018 (as amended and/or restated from time to time) (the “**Existing Facilities Agreement**”) by way of repayment by GKN Industries to GKN Enterprise of the Pre-Demerger Distribution Payables; (ii) paying certain fees, costs and/or expenses in connection with the Demerger and/or (iii) general corporate purposes.

The proceeds of Facility B are available for financing the Group’s working capital requirements and general corporate purposes (which may include refinancing amounts outstanding under the Existing Facilities Agreement).

The proceeds of Facility A and a portion of the proceeds of Facility B will be used to repay the Pre-Demerger Distribution Payables immediately following Admission.

Pursuant to the terms of the Senior Facilities Agreement, each obligor (including Dowlais, GKN Industries and each member of the Group required to accede to the Senior Facilities Agreement as a guarantor), is required to make certain customary representations and warranties at various times throughout the term of the Senior Facilities Agreement. In addition, the terms of the Senior Facilities Agreement contain certain restrictions on

the operations of the Group. These include customary positive and negative covenants including, without limitation, restrictions on mergers, acquisitions, disposals, incurrence of financial indebtedness and/or loans to persons outside of the Group (subject in certain cases to exceptions and/or *de minimis* baskets), a negative pledge in respect of the Group's assets and certain guarantor coverage requirements. Dowlais is also required to comply with certain information covenants, including delivery to the Agent (for distribution to the Lenders) of financial information relating to the Group.

The Senior Facilities Agreement contains the following financial covenants:

- (a) Interest Cover: the ratio of consolidated EBITDA of the Group to the consolidated net finance charges of the Group not to be less than 4.0:1.0; and
- (b) Debt Cover: the ratio of consolidated total net debt of the Group to consolidated EBITDA of the Group not to exceed 3.5:1.0.

Each financial covenant is tested bi-annually, by reference to each set of half-year or annual financial statements and/or each compliance certificate delivered pursuant to the terms of the Senior Facilities Agreement. The interest cover financial covenant shall first be tested in respect of the 12-month period ending 30 June 2024. The debt cover financial covenant shall first be tested in respect of the 12-month period ending 31 December 2023.

When determining consolidated EBITDA for the purposes of testing the financial covenants referred to above, Dowlais shall be permitted to, among other things: (i) include the operating profits of any entity or business acquired during the relevant period; (ii) exclude the operating profits of any entity or business sold during the relevant period; and (iii) include certain *pro forma* adjustments in respect of acquisitions and disposals (and certain group initiatives implemented during the relevant period) in each case projected by Dowlais after taking into account the run rate effect of cost savings and other synergies which Dowlais believes can be achieved within a specified timeframe following the relevant acquisition, disposal and/or group initiative referred to above, provided that the aggregate amount of pro forma adjustments included in respect of any relevant period must not exceed 15% of consolidated EBITDA.

The Senior Facilities Agreement contains certain events of default including, without limitation, in respect of (i) non-payment (subject to a grace period); (ii) breach of financial covenant; (iii) misrepresentation (subject to a materiality threshold and a grace period); (iv) cross default (subject to a *de minimis* exemption basket); (v) insolvency; and (vi) insolvency proceedings. Certain of the other events of default are also subject to exceptions, *de minimis* baskets, materiality thresholds and/or grace periods. The occurrence of any event of default under the Senior Facilities Agreement would permit, among other things, the acceleration of any loan and cancellation of commitments made available under the Facilities.

17.5 Transitional Services Agreement

Overview of agreement

On 2 March 2023, Melrose entered into a Transitional Services Agreement with Dowlais under which Melrose has agreed to provide, or procure the provision of, certain transitional services to the Dowlais Group for an agreed term following completion of the Demerger. The Transitional Services Agreement will continue until the date that the last service term expires (subject to any extension as described below). The services that are to be provided under the Transitional Services Agreement include finance and treasury, company secretariat and legal, tax and certain strategic advisory services.

Overview of terms

Melrose is bound to provide or procure the provision of the services to the Dowlais Group for the relevant term. Melrose must use its reasonable endeavours to provide the services in accordance with all lawful and reasonable directions, instructions and requests from the Dowlais Group, provided that any such direction, instruction or request shall not run contrary to anything agreed between the parties under the Transitional Services Agreement.

Melrose is also bound to ensure each service is performed to the substantially equivalent standard as such service is provided within the Melrose Group during the term based on Melrose's actual performance of, and its internal policies and procedures in relation to, such equivalent services where applicable.

Melrose is not obliged to provide any service to the extent the provision of such service would be materially more onerous than the provision of the service corresponding to that service as was provided by the Melrose Group to the Dowlais Group during the 12 months prior to the Demerger.

Upon completion of the Demerger, Melrose will retain a stake of 1% of the issued share capital of Dowlais as consideration for the expected costs of the performance and provision of the services by the Melrose Group to the Dowlais Group under the Transitional Services Agreement, as well as other costs.

At any time after completion of the Demerger, Dowlais may terminate early or reduce the provision, level or volume of any service on prior written notice in accordance with the relevant notice period. The term of any service under the Transitional Services Agreement may be extended by the mutual agreement of both parties. There will be no adjustment to the consideration in the event of an early termination or reduction to the scope of any service. If the costs of performing and providing the services are expected to materially exceed that which is anticipated as at the date of the Transitional Services Agreement, the parties will discuss in good faith and agree such further costs as are necessary to adequately compensate Melrose.

17.6 Sponsor's Agreement

In connection with the Demerger and Admission, Dowlais, Melrose and the Sponsor entered into the Sponsor's Agreement on 3 March 2023. Pursuant to the terms of the Sponsor's Agreement:

- (a) Dowlais has appointed the Sponsor as sponsor in connection with the Demerger, the application for approval of this Prospectus and Admission, and the Sponsor has accepted such appointment. Melrose has appointed the Sponsor as sponsor in connection with the Demerger and the application for approval of the Melrose Circular, and the Sponsor has accepted such appointment;
- (b) the Sponsor has been granted all powers, authorities and discretions which are reasonably necessary for or reasonably incidental to the performance of its responsibilities under the Listing Rules;
- (c) each of Dowlais and Melrose has agreed to deliver certain documents, in so far as the documents relate to them, to the Sponsor relating to this Prospectus, the application for Admission and the Melrose Circular and the Sponsor's responsibilities under the Listing Rules;
- (d) each of Dowlais and Melrose has given customary representations, warranties, undertakings and indemnities to the Sponsor; and
- (e) the Sponsor has the right to terminate the Sponsor's Agreement in certain circumstances prior to completion of the Demerger. These circumstances include, among others: (i) if any statement in this Prospectus and/or the Melrose Circular (and/or certain other documents or announcements) is or has become or has been discovered to be untrue, incorrect or misleading which in the opinion of the Sponsor (acting reasonably and in good faith) is material in the context of its obligations as sponsor under the Listing Rules; and (ii) the breach by Dowlais or Melrose of any of their respective representations, warranties or undertakings contained in the Sponsor's Agreement which in the opinion of the Sponsor (acting reasonably and in good faith) is material and adverse in the context of its obligations as sponsor under the Listing Rules. In addition, the Sponsor's Agreement will automatically terminate if the Demerger Agreement is terminated in accordance with its provisions.

17.7 Trade Mark Agreements

The GKN Trade marks are owned by the Melrose Group and are licensed to the Dowlais Group.

Pursuant to the Reorganisation, various intragroup agreements were entered into by entities within the Melrose Group in relation to the GKN Trade Marks, which included certain novations of existing intragroup trade mark licence agreements on 27 January 2023 for £126 million (the "**Trade Mark Agreements**"). The Trade Mark Agreements were entered into in order to restructure the licensing arrangements around the separation of the Dowlais Group from the Melrose Group.

On completion of the Demerger, certain of the Trade Mark Agreements are to be amended and restated to provide a long term framework to legislate for the future use of the GKN Trade Marks by the GKN Businesses following the Demerger. This framework has been agreed between the Dowlais Group and the Melrose Group to protect their respective interests in the GKN Trade Marks, and the Dowlais Group will be granted a tailored perpetual licence to use the GKN Trade Marks (subject to only limited termination rights, including on insolvency).

18. Working capital statement

The Company is of the opinion that, taking into account the banking and other facilities available to the Dowlais Group, the working capital available to the Dowlais Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this Prospectus.

19. Significant change

There has been no significant change in the financial position or financial performance of the Dowlais Group since 31 December 2022, being the date to which the Historical Financial Information set out in Part B of Part XII (*Historical Financial Information*) of this Prospectus was published.

20. Auditor

Deloitte LLP has prepared the reports set out in Part A of Part XII (*Historical Financial Information*) and Part A of Part XIII (*Unaudited Pro Forma Financial Information*) of this Prospectus.

The auditor of the Company appointed for the Financial Year 2023 is Deloitte LLP, whose registered office is 2 New Street Square, London EC4A 3BZ.

21. Consents

Rothschild & Co. has given and has not withdrawn its written consent to the inclusion of its name in this Prospectus in the form and context in which it is included.

Citi has given and has not withdrawn its written consent to the inclusion of its name in this Prospectus in the form and context in which it is included.

J.P. Morgan has given and has not withdrawn its written consent to the inclusion of its name in this Prospectus in the form and context in which it is included.

Investec has given and has not withdrawn its written consent to the inclusion of its name in this Prospectus in the form and context in which it is included.

Deloitte LLP has given and has not withdrawn its written consent to the inclusion in this Prospectus of the reports set out in Part A of Part XII (*Historical Financial Information*) and the report set out in Part A of Part XIII (*Unaudited Pro Forma Financial Information*) of this Prospectus and has authorised the contents of those parts of the Prospectus which comprise its reports for the purposes of Rule 5.3.2R(2)(f) of the Prospectus Regulation Rules.

22. Non-Statutory accounts

The financial information contained in this Prospectus which relates to the Dowlais Group does not constitute statutory accounts as referred to in Section 434(3) of the Companies Act.

23. No incorporation of website information

The contents of www.dowlais.com or any website directly or indirectly linked to www.dowlais.com, including www.gknautomotive.com, www.gknpm.com and www.gknhydrogen.com, have not been verified and do not form part of this Prospectus, and information contained therein should not be relied upon.

24. General

The Company will not receive any proceeds as a result of the Demerger.

The Melrose Group is assuming the costs and expenses that are directly attributable to the Demerger. Dowlais will not bear any costs and expenses that are directly attributable to the Demerger.

25. Documents available for inspection

Copies of the following documents will be published in electronic form and will be available on the Dowlais Group's website at www.dowlais.com for a period of 12 months from the date of publication of this Prospectus:

- (a) the Articles;
- (b) the Historical Financial Information for the three Financial Years ended 31 December 2020, 31 December 2021 and 31 December 2022, which is set out in Part B of Part XII (*Historical Financial Information*) of this Prospectus and the report thereon;
- (c) the report on the unaudited Pro Forma Financial Information of the Dowlais Group from Deloitte as set out in Part A of Part XIII (*Unaudited Pro Forma Financial Information*) of this Prospectus;
- (d) the consent letters referred to in Section 21 (*Consents*) of this Part XV (*Additional Information*); and
- (e) a copy of this Prospectus.

Dated: 3 March 2023

PART XVI
DEFINITIONS AND GLOSSARY

The following definitions apply throughout this Prospectus unless the context otherwise requires:

“2WD”	means two wheel drive;
“4WD”	means four wheel drive;
“Admission”	means the admission of the Dowlais Shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange becoming effective;
“Adjusted Operating Margin”	means for any given Financial Year, Adjusted Operating Profit divided by Adjusted Revenue;
“Adjusted Operating Profit”	means operating profit/(loss) adjusted for amortisation of intangible assets acquired in business combinations, restructuring costs, movement in derivatives and associated financial assets and liabilities, EAI adjustments, net releases and changes in discount rates of fair value items, acquisition and disposal-related gains and losses, impairment of assets, and the impact of GMP equalisation on UK pension schemes;
“Adjusted Revenue”	means statutory revenue plus revenue from equity accounted investments;
“Articles”	means the articles of association of the Company adopted with effect from Admission;
“Audit Committee”	means the audit committee of the Board;
“AWD”	means all wheel drive;
“Banks”	means the Sponsor, Citi, J.P. Morgan and Investec;
“BEV”	means battery electric vehicle;
“Board”	means the board of directors of the Company from time to time;
“Business Days”	means days (not being a Saturday or a Sunday) on which banks are generally open for business in London, United Kingdom;
“CAGR”	means compound annual growth rate;
“Chair”	means the Chair of the Company as at the date of this Prospectus, whose details are set out in Section 1 (<i>Directors</i>) of Part VIII (<i>Directors, Senior Managers, Employees and Corporate Governance</i>);
“Chinese Yuan”	means the lawful currency of the People’s Republic of China;
“Citi”	means Citigroup Global Markets Limited;
“City Code”	means the City Code on Takeovers and Mergers as in effect from time to time;
“Code”	has the meaning given to it in Section 9 (<i>US securities law considerations</i>) of Part IV (<i>Important Information</i>);
“Company”	means Dowlais;
“Companies Act”	means the Companies Act 2006;
“Consolidation Record Time”	6:00 p.m. on 19 April 2023 (or such other time and/or date as the Directors may determine), being the time at which Melrose Shareholders are required to be on the Melrose Share Register in order to participate in the Melrose Share Consolidation and by reference to which the Melrose Share Consolidation is to be effected;

“Corporate Governance Code”	means the UK Corporate Governance Code published in July 2018 by the Financial Reporting Council, as amended from time to time;
“CREST”	means the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear is the operator;
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended;
“Demerger”	means the proposed demerger of the Dowlais Group from the Melrose Group to be implemented through the Demerger Distribution and on the terms and subject to the conditions set out in the Demerger Agreement;
“Demerger Agreement”	means the agreement relating to the Demerger between Melrose and the Company dated 2 March 2023, a summary of the principal terms of which is set out in Section 17.1 (<i>Demerger Agreement</i>) of Part XV (<i>Additional Information</i>);
“Demerger Distribution”	means the <i>in specie</i> distribution of the Dowlais Shares (other than the Melrose Retained Stake) by Melrose as more fully described in the Melrose Circular;
“Demerger Record Time”	means 10:00 p.m. (London time) on 19 March 2023 (or such other time and/or date as the directors of Melrose may determine), being the time at which the Melrose Shareholders are required to be on the Melrose Share Register in order to be entitled to the Demerger Distribution and by reference to which the Demerger Distribution is to be effected;
“Directors”	means the directors of the Company as at the date of this Prospectus, whose details are set out in Part VII (<i>Directors, Company Secretary, Registered Office and Advisers</i>), and “Director” means any one of them;
“Directors’ Remuneration Policy”	has the meaning given to it in Section 12 (Directors’ Remuneration Policy) of Part XV (Additional Information);
“Disclosure Guidance and Transparency Rules”	means the disclosure guidance and transparency rules made by the FCA under Part VI of FSMA (as set out in the FCA Handbook), as, from time to time, amended;
“Dowlais”	means Dowlais Group plc, a public company limited by shares incorporated in England and Wales, with registered number 14591224;
“Dowlais Group” or “Group”	means Dowlais and its subsidiaries from time to time;
“Dowlais Shareholders”	means the holders of Dowlais Shares;
“Dowlais Shares”	means all of the issued shares of the Company;
“Dual Roles”	has the meaning given to it in Section 10.2 (<i>Conflicts of interest</i>) in Part XV (<i>Additional Information</i>);
“EAI”	means equity accounted investment;
“EDUs”	means electric drive units;
“Eligible US Holders”	has the meaning given to it in the Notice to Certain Investors;
“ERISA”	has the meaning given to it in Section 9 (<i>US securities law considerations</i>) of Part IV (<i>Important Information</i>);
“ERP”	means enterprise resource planning;
“EU”	means the economic and political confederation of European nations which share a common foreign and security policy and co-operate on justice and home affairs known as the European Union;

“Euro” or “€”	means the lawful currency of the EU member states that comprise the euro area;
“Euroclear”	means Euroclear UK & International Limited, a company incorporated under the laws of England and Wales, the operator of CREST (as defined in the CREST Regulations);
“EUWA”	means the European Union (Withdrawal) Act 2018;
“EV”	means electric vehicle;
“Executive Directors”	means the executive Directors as at the date of this Prospectus, and “Executive Director” means any one of them whose details are set out in Section 1 (<i>Directors</i>) of Part VIII (<i>Directors, Senior Managers, Employees and Corporate Governance</i>);
“Existing Facilities Agreement”	has the meaning given to it in Section 17.4 (<i>Senior Facilities Agreement</i>) in Part XV (<i>Additional Information</i>);
“FCA”	means the United Kingdom Financial Conduct Authority;
“FHEV”	means full hybrid electric vehicle;
“Financial Year”	means the one-year period beginning 1 January and ending 31 December;
“FSMA”	means the Financial Services and Markets Act 2000, as amended;
“GDPR”	has the meaning given to it in Part VI (<i>The Business</i>);
“General Meeting”	means the general meeting of Melrose to be held at Investec Bank plc, 30 Gresham Street, London EC2V 7QP on 30 March 2023 at 10:00 a.m., to consider and, if thought fit, pass the Resolution, notice of which is set out in the Melrose Circular, and any adjournment thereof;
“GKN Enterprise”	means GKN Enterprise Limited, a private company limited by shares incorporated in England and Wales, with registered number 00984980;
“GKN Industries”	means G.K.N. Industries Limited, a private company limited by shares incorporated in England and Wales, with registered number 00032262;
“GKN Trade Marks”	has the meaning given to it in Part VI (<i>The Business</i>);
“GKN PM”	means GKN Powder Metallurgy Holdings Limited, a private company limited by shares incorporated in England and Wales, with registered number 00347378;
“Global OEM”	means an OEM with manufacturing locations in more than one region;
“GMP”	means guaranteed minimum pension;
“Gone Away Shareholder”	has the meaning given to it in Section 4.5 (<i>Information about the Dowlais Shares</i>) of Part XV (<i>Additional Information</i>);
“HASCO”	means HUAYU Automotive Systems Co Limited, GKN Automotive’s local partner in the Chinese joint venture Shanghai GKN HUAYU Driveline Systems Co Limited;
“Historical Financial Information”	means the information set out in Part XII (<i>Historical Financial Information</i>);
“HMRC”	means HM Revenue and Customs;
“ICE”	means internal combustion engine;

“IFRS”	means the International Financial Reporting Standards, as issued by the International Accounting Standards Board and as adopted in the UK;
“Incorporation Share”	has the meaning given to it in Section 4.2 (<i>History of the share capital and Reorganisation</i>) in Part XV (<i>Additional Information</i>);
“Institutional Accredited Investor”	has the meaning given to it in the Notice to Certain Investors;
“Investec”	means Investec Bank plc;
“IRS”	means the US Internal Revenue Service;
“ISIN”	means the International Security Identification Number;
“J.P. Morgan”	means J.P. Morgan Securities plc (which conducts its UK investment banking business as J.P. Morgan Cazenove);
“Latest Practicable Date”	2 March 2023, being the latest practicable date prior to publication of this Prospectus;
“LEI”	means the Legal Entity Identifier;
“Life of Programme Revenues”	means revenues expected to be generated throughout the duration of new contracts that have been secured during a specified period;
“Listing Rules”	means the listing rules made by the FCA under Section 73A and Part VI of FSMA (as set out in the FCA Handbook), as amended from time to time;
“London Stock Exchange”	means the London Stock Exchange plc;
“Melrose”	means Melrose Industries PLC, a public company limited by shares incorporated in England and Wales, with registered number 9800044;
“Melrose Circular”	means the circular to Melrose Shareholders dated the date of this Prospectus containing, among other things, details of the Demerger and notice of the General Meeting;
“Melrose Group”	means Melrose and its subsidiaries from time to time, which prior to completion of the Demerger will be deemed to include the Dowlais Group and, following the completion of the Demerger, will be deemed to exclude the Dowlais Group;
“Melrose IntermediateCo”	means Melrose PLC, a public company limited by shares incorporated in England and Wales, with registered number 04763064;
“Melrose Retained Stake”	has the meaning given to it in Section 3 (<i>Demerger</i>) of Part XV (<i>Additional Information</i>);
“Melrose Share Consolidation”	the consolidation of the Melrose Shares pursuant to the Resolution to be proposed at the General Meeting;
“Melrose Shareholders”	means the holders of Melrose Shares;
“Melrose Share Register”	means the share register of Melrose;
“Melrose Shares”	means the ordinary shares of 160/21p each in the capital of Melrose;
“Nomination Committee”	means the nomination committee of the Board;
“Non-Executive Directors”	means the non-executive Directors of the Company as at the date of this Prospectus, whose details are set out in Section 1 (<i>Directors</i>) of Part VIII (<i>Directors, Senior Managers, Employees and Corporate Governance</i>), and “Non-Executive Director” means any one of them;

“Normal Vesting Date”	has the meaning given to it in Section 13.1 (<i>PSP</i>) of Part XV (<i>Additional Information</i>);
“OEM”	means original equipment manufacturer;
“Official List”	means the Official List of the FCA;
“Overseas Shareholders”	means holders of Melrose Shares with a registered address outside the UK or who are citizens or residents of countries that are not the UK;
“Periods under review”	means the Financial Years 2020, 2021 and 2022;
“PFIC”	has the meaning given to it in Part XIV (<i>Taxation</i>);
“PHEV”	means plug-in hybrid electric vehicle;
“PRA”	means the Prudential Regulation Authority;
“Pre-Demerger Distribution Payables”	has the meaning given to it in Section 4.2(a) (<i>History of the share capital and Reorganisation</i>) of Part XV (<i>Additional Information</i>);
“Prospectus”	means this document dated 3 March 2023, comprising a prospectus relating to the Company for the purpose of Admission;
“Prospectus Delegated Regulation”	the UK version of the Commission Delegated Regulation (EU) 2019/980 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended;
“Prospectus Regulation Rules”	means the prospectus regulation rules made by the FCA under Section 73A of FSMA (as set out in the FCA Handbook);
“Proxy Form”	means the form of proxy enclosed with the Melrose Circular for the use by Melrose Shareholders in connection with the General Meeting;
“PSP”	has the meaning given to it in Section 12.1 (<i>Executive Directors</i>) of Part XV (<i>Additional Information</i>);
“PSP Awards”	has the meaning given to it in Section 13.1 (<i>PSP</i>) of Part XV (<i>Additional Information</i>);
“QIB”	has the meaning given to it in Section 9 (<i>US securities law considerations</i>) of Part IV (<i>Important Information</i>);
“Qualifying Melrose Shareholders”	means a Melrose Shareholder recorded on the Melrose Share Register at the Demerger Record Time;
“Regulation S”	has the meaning given to it in the Notice to Certain Investors;
“Relevant Officer”	has the meaning given to it in Section 5 (<i>Articles of association</i>) of Part XV (<i>Additional Information</i>);
“Remuneration Committee”	means the remuneration committee of the Board;
“Reorganisation”	has the meaning given to it in Section 4.2 (<i>History of the share capital and Reorganisation</i>) in Part XV (<i>Additional Information</i>);
“Reporting Accountant”	means Deloitte LLP;
“Resale Restriction Termination Date”	has the meaning given to it in Section 9 (<i>US securities law considerations</i>) of Part IV (<i>Important Information</i>);
“Resolution”	means the ordinary resolution to be proposed and considered at the General Meeting as set out in the notice of General Meeting in the Melrose Circular in relation to the Demerger, Melrose Share Consolidation, and the Melrose incentive arrangements;
“SDRT”	means stamp duty reserve tax;
“SDS”	means Shanghai GKN HUAYU Driveline Systems Co Limited;

“Senior Independent Director”	means the senior independent Non-Executive Director of the Company as at the date of this Prospectus, whose details are set out in Section 1 (<i>Directors</i>) of Part VIII (<i>Directors, Senior Managers, Employees and Corporate Governance</i>);
“Senior Managers”	means the senior managers as at the date of this Prospectus, and “Senior Manager” means any one of them whose details are set out in Section 2 (<i>Senior managers</i>) of Part VIII (<i>Directors, Senior Managers, Employees and Corporate Governance</i>);
“Similar Laws”	has the meaning given to it in Section 9 (<i>US securities law considerations</i>) of Part IV (<i>Important Information</i>);
“Specific Matters Agreement”	means the agreement relating to specific matters in connection with the Demerger between Melrose and the Company, a summary of the principal terms of which is set out in Section 17.2 (<i>Specific Matters Agreement</i>) of Part XV (<i>Additional Information</i>);
“Sponsor” or “Rothschild & Co”	means N. M. Rothschild & Sons Limited;
“Sterling” or “£”	means the lawful currency of the UK;
“SUV”	means sport utility vehicle;
“Takeover Offer Shares”	has the meaning given to it in Section 7.2 (<i>Squeeze-out</i>) in Part XV (<i>Additional Information</i>);
“Takeover Panel”	means the Panel on Takeovers and Mergers;
“Trade Mark Agreements”	means the agreements relating to trade marks between the Dowlais Group and the Melrose Group, a summary of which is set out in Section 17.7 (<i>Trade Mark Agreements</i>) of Part XV (<i>Additional Information</i>);
“Transitional Services Agreement”	means the transitional services agreement entered into by Melrose and Dowlais, a summary of the principal terms of which is set out in Section 17.5 (<i>Transitional Services Agreement</i>) of Part XV (<i>Additional Information</i>);
“Treaty”	has the meaning given to it in Part XIV (<i>Taxation</i>);
“Trigger Event”	means, in the event of a change of control, scheme of arrangement or winding up of Melrose (or, at the discretion of the remuneration committee of Melrose, certain other corporate events of the Melrose Group), the crystallisation date of the employee share plan referred to in Section 3 (<i>Demerger</i>) of Part XV (<i>Additional Information</i>) shall accelerate, with participants receiving all or a portion of their entitlement under that plan (subject to a minimum level);
“Trusts”	has the meaning given to it in Section 13.2 (<i>The Company’s employee benefit trust</i>) of Part XV (<i>Additional Information</i>);
“UK Market Abuse Regulation”	means Regulation (EU) 596/2014 as it forms part of retained EU law as defined in the EUWA;
“UK Prospectus Regulation”	means Regulation (EU) 2017/1129 and the delegated acts, implementing acts and technical standards thereunder as such legislation forms part of retained EU law pursuant to the EUWA;
“United Kingdom” or “UK”	means the United Kingdom of Great Britain and Northern Ireland;
“United States” or “US”	means the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia;
“US Dollar” or “\$”	means the lawful currency of the United States;
“US Holder”	has the meaning given to it in Part XIV (<i>Taxation</i>);

“US Securities Act” means the United States Securities Act of 1933, as amended; and
“xEV” means BEVs, PHEVs and FHEVs.

All references to legislation in this Prospectus are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

For the purpose of this Prospectus, “subsidiary” and “subsidiary undertaking” have the meanings given by the Companies Act.

Words importing the singular shall include the plural and *vice versa*, and words importing the masculine gender shall include the feminine or neutral gender.

