2 September 2021

MELROSE INDUSTRIES PLC

UNAUDITED RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

Melrose Industries PLC today announces its interim results for the six months ended 30 June 2021 ("the Period").

Highlights

	Proforma[1] (post Return of Capital)	Adjusted[2] results		Statutory results	
Continuing operations	**2021 £m**	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Revenue	**3,828**	**3,828**	3,624	**3,540**	3,386
Operating profit/(loss)	**223**	**223**	(11)	**(137)**	(618)
Profit/(loss) after tax	**109**	**109**	(80)	**(151)**	(585)
Diluted earnings per share	**2.5p**	**2.2p**	(1.7)p	**(3.1)p**	(12.1)p
Free cash flow[2]	**75**	**75**	29	**n/a**	n/a
Net debt[2]	**1,029**	**300**	3,399	**n/a**	n/a
Leverage[2]	**1.5x**	**0.5x**	3.4x	**n/a**	n/a

Group

- Melrose is trading ahead of expectations, with better profit margins, better earnings per share and significantly lower net debt[2]; building the Group's encouraging momentum
- The commitment, made on acquisition by Melrose, to improve significantly the funding of the GKN UK defined benefit pension schemes has been delivered ahead of schedule with the funding position of the schemes transformed for the better. The funding deficit of approximately £1 billion has currently reduced to approximately £150 million. Consequently the annual contribution halves to £30 million with no ongoing requirement to contribute from future disposal proceeds
- Net debt[2] at 30 June 2021 was significantly lower at £300 million; proforma net debt[2] at 30 June 2021 is £1,029 million after adjusting for the announced Return of Capital to be settled on 14 September 2021 (1.5x proforma leverage[2])
- Free cash flow[2] generation in the first half was £75 million; all the investment in restructuring costs, capital expenditure and sustainable technology has been self-funded from trading cash flows in the Period
- The Group recorded an adjusted[2] earnings per share of 2.2 pence. Adjusting for the accretion post the announced Return of Capital and share consolidation, the Proforma EPS[2] increases to 2.5 pence. The statutory loss per share was 3.1 pence
- The Nortek Air Management and Brush disposals both completed in the Period and Melrose has exchanged contracts for the sale of Nortek Control for $285 million, all of which are consistent with doubling shareholders' money, or more, on each acquisition
- On 14 September Melrose is returning £729 million, 15 pence per share, to shareholders. In addition, the Melrose Balance Sheet has spare capacity for a significant further Capital Return next year
- An interim dividend of 0.75 pence per share (2020: nil) is declared

Businesses

- Melrose businesses own world-leading sustainable technology which provides customers with solutions to significantly reduce their impact on the environment
- All businesses improved their adjusted[2] operating margin in the Period compared to 2020 full year: Aerospace by +2.9 ppts; Automotive by +4.0 ppts; Powder Metallurgy by +6.9 ppts; and Ergotron by +0.8 ppts. Automotive and Powder Metallurgy are ahead of plan on their restructuring projects
- Aerospace is well positioned on many significant platforms; the civil aerospace business is now weighted more towards the faster narrowbody recovery and Defence demand remains strong. As previously indicated, significant restructuring is ongoing
- Automotive is well placed to benefit from the transition to electric vehicles. In the first half of this year over one third of new business bookings awarded were for pure electric platforms, over 50% if full hybrid platforms are included. Additionally, during the last 18 months Automotive has been awarded six major eDrive programmes for global and Chinese vehicle manufacturers. Automotive should grow at more than double the rate of light vehicle production over the long-term
- Powder Metallurgy is making clear market share gains, growing revenue at 43% in the first half, and with close to 70% of the business achieving more than 14% adjusted[2] operating margins

Justin Dowley, Chairman of Melrose Industries PLC, today said:

"We are continuing to see recovery in all our businesses with trading ahead of expectations. Encouragingly, our Aerospace business is now weighted towards the expected narrowbody recovery. Our Automotive and Powder Metallurgy businesses are poised for strong growth as soon as the well publicised chip shortage abates and the progression in margins is ahead of plan with more to come. As with all its promises, Melrose has delivered its acquisition funding commitment to GKN pensioners early. We have scope on our balance sheet to return more money to shareholders next year and we are excited by the upcoming possibilities."

1. Proforma results are presented to give a meaningful measure of ongoing performance, adjusting for the announced Return of Capital and the associated share consolidation
2. Described in the glossary to the 2021 Interim Financial Statements

ENDS

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CHAIRMAN’S STATEMENT

I am pleased to report our interim results for the six months ended 30 June 2021 (the “Period”), which are ahead of expectations. These highlight good progress across all Group businesses.

RESULTS FOR THE CONTINUING GROUP

These results include statutory revenue for the Group of £3,540 million (2020: £3,386 million), an adjusted profit before tax of £141 million (2020: adjusted loss of £105 million) and a statutory loss before tax of £256 million (2020: £720 million).

Further details of these results are contained in the Finance Director’s Review.

TRADING

The impact of the global pandemic has continued now for over a year and, while we are not yet free from the effects, our businesses are progressing well on their recovery. It is pleasing to see our GKN businesses improving their underlying performance, delivery record and customer relations.

The semi-conductor shortage, whilst not impacting directly, continues to weigh on the production output of the automotive sector and GKN Automotive and GKN Powder Metallurgy are not immune from that. However, as demonstrated at the recent Capital Markets Day, having made a number of necessary structural changes over the past 18 months, both of these businesses are performing strongly, have world-leading technology and, with some further market recovery, are well on their way to achieving their margin targets ahead of schedule.

Encouragingly, after a challenging pandemic experience, GKN Aerospace is making steady progress. We have continued to invest heavily in world-leading technology, and we are taking the necessary actions to reshape the business. With a new CEO now in place and with exposure to narrowbody aircraft, which is currently the largest part of the civil business and beginning to show recovery, GKN Aerospace is building momentum and your Board is confident that it will achieve our margin expectations as volumes recover.

All businesses have continued to be robustly cash generative, even as significant investments have been made for future growth during the market recovery. Proforma net debt has been reduced to £1,029 million after adjustment for the announced Return of Capital, and proforma leverage is now a prudent 1.5 times adjusted EBITDA.

The Chief Executive’s Review provides greater detail on the Group’s trading for the Period.

M&A ACTIVITY

During the Period, we successfully completed the sales of the Nortek Air Management division and the Brush business and have recently agreed the sale of Nortek Control for $285 million. These mark successful outcomes for shareholders, with the businesses going to good new homes in which their development can be continued. The £2.8 billion gross sale proceeds (including Nortek Control), together with the value of the retained Ergotron business, mean shareholders are on track to enjoy a doubling of their equity investment in the Nortek acquisition. Meanwhile Brush marks the last business to be sold from the highly successful FKI acquisition, which has delivered shareholders a 2.6x equity return.

RETURN OF CAPITAL

The Return of Capital following the sales of Nortek Air Management and Brush has been approved by shareholders, with the post consolidation shares admitted to trading on Tuesday of this week and the distribution to shareholders to be settled on 14 September 2021.

In addition, as referred to in the 22 June 2021 announcement and recognising the current prudent funding position of the Group, on the assumption that our businesses continue their recoveries, your Board intends to announce a further Return of Capital to shareholders with the full year results next March.

DIVIDEND

Your Board has declared an interim dividend of 0.75 pence per share (2020: nil), which will be paid on 15 October 2021 to shareholders on the register at the close of business on 10 September 2021.

PENSIONS

The GKN UK pension schemes, which we inherited in 2018, had at that time an accounting deficit of £0.6 billion. At acquisition of GKN we increased the funding target to a prudent level which increased the funding deficit to approximately £1 billion. Within three years we have delivered on our funding commitment to trustees and members, ahead of schedule with the funding position for the schemes being transformed for the better. The current funding deficit has reduced to approximately £150 million, and therefore the annual contribution halves to £30 million per annum with no requirement for further contributions from future disposals. Your Board is very proud to have been able to achieve this for the GKN UK pension schemes. It is a clear illustration of Melrose delivering its acquisition promises.

Further details are contained in the Finance Director's Review.

BOARD MATTERS

Co-founder and Executive Vice Chairman David Roper retired as scheduled on 31 May 2021. Archie Kane will also retire on 31 December 2021. We thank both of them for their service, but particularly David for his significant contributions since helping to found Melrose in 2003. They will both be missed. We appointed a further two non-executive directors, Heather Lawrence and Victoria Jarman, to the Board on 1 June 2021, who will add their extensive experience, skills, and knowledge to your Board.

I am pleased to report your Board meets the guidelines of both the Hampton Alexander Review and the Parker Report.

STRATEGY AND PURPOSE

Having shown its resilience throughout the pandemic, the Melrose "Buy, Improve, Sell" strategy remains the same, with the disposals in the Period being the latest demonstration of its strength. We buy high quality underperforming manufacturing businesses and invest in making them stronger, better businesses for the benefit of all stakeholders, whilst delivering an excellent return for shareholders. Only Ergotron now remains within the Group from our Nortek acquisition and GKN has been focused on its key businesses. We remain fully committed to the successful strategy we adopted at inception in 2003.

OUTLOOK

We continue to execute well against our strategy and aims. The GKN businesses' operational performance continues to improve and if not for semi-conductor disruption in the auto markets the evidence of this would be even clearer. As end markets recover we expect the full operating margin benefit and targets to be delivered. We also continue to invest in the success of the businesses with a focus on leading sustainable technologies that secure our market positions and drive opportunity over the longer term.

Encouragingly, our Automotive division continues to secure new eDrive platform wins and demand remains strong for its core sideshaft products. Aerospace is seeing more definite signs of end market improvement, but our focus remains on operational change with much work still to be done. Powder Metallurgy performed well in the first half, and we see this progress continuing through the second half as we expect to see a full operating margin benefit when supply chain issues within the automotive sector alleviate.

J Dowley

Justin Dowley
Non-Executive Chairman
2 September 2021

CHIEF EXECUTIVE'S REVIEW

I am pleased with the Group's first half performance. Outlined below is an overview of each Division's performance over the Period. GKN Automotive and GKN Powder Metallurgy are ahead of plan and well progressed, with a number of key improvement and restructuring projects implemented during the year. Restructuring at GKN Powder Metallurgy is expected to be largely complete by the end of the year. A key task for GKN Powder Metallurgy is the development of its additive and hydrogen storage businesses. Whilst we appreciate and regret the effect upon our employees of some aspects of this restructuring, we have to improve our businesses' performance so that they can achieve their potential and create the best possible future prospects and competitiveness in rapidly changing times. Both businesses are being positioned in their markets to benefit from these changes as we transition to a more sustainable environment.

While GKN Aerospace results do not yet reflect the improvements already made to the underlying business, largely because of the continued COVID-19 impact on the sector, there are significant actions being undertaken to drive sustainable profitability, with more to come in the second half and through 2022. Improving the performance of our Aerospace business is a continuing focus for the months to come.

There also continues to be a strong emphasis on working capital discipline across the Group as growth has returned, which contributed to the robust cash performance, but there remains substantial opportunity for further improvements. As ever, we continue to invest heavily in the world-leading technology of our businesses, with sustainability being a key theme.

Our businesses are very well positioned to contribute to the fight against climate change and we are committed to ensuring they do so.

AEROSPACE

In the first half of the year GKN Aerospace made good progress adjusting to the ongoing COVID-related challenges in the sector. During the Period, sales were down 33% versus 2019 and 18% versus 2020 (which included a first quarter largely unaffected by COVID). Encouragingly we have started to see demand pick up in recent months, most notably due to the recovery in narrowbody build rates. We expect this to continue in the second half and then strongly into next year and beyond. GKN Aerospace is well placed to capture this recovery with established supply positions on all major narrowbody platforms, both in aerostructures and engines.

The significant ongoing cost actions taken to adjust the business to lower civil demand levels has started to read through to improving margins. We have adjusted costs to reflect the new market reality, including reducing management layers and simplifying the operating structure. We are taking difficult decisions to exit unprofitable business and sold two non-core Dutch businesses in the Period. There are actions underway to consolidate and focus our production capabilities globally, including ongoing footprint projects in Europe and further projects are planned in North America. In the first half, we facilitated the consolidation of our three Special Security (SSA) sites in the US under one SSA Board. We are already starting to see the benefits of this more coordinated approach. Our work also continues globally to improve operational performance and there is momentum for further gains in quality and delivery performance. All these improvement actions simplify and focus GKN Aerospace, reduce costs and improve productivity. In combination they provide a clear path to achieving the operating margin target of 10% and, with further market recovery, beyond.

From a market perspective, COVID clearly continues to impact the aviation sector significantly, albeit domestic and regional air travel is now recovering in all geographies. GKN Aerospace is well placed to grow revenues given the forecasted increase in narrowbody build rates and the continued positive outlook for major Defence programmes. The business has good positions on all the high volume civil and defence aircraft platforms today. For the Engines division, we are also starting to see an increase in aftermarket demand and increasing air travel will boost revenue from flight-hour related customer contracts. In parallel, we are increasing market share where appropriately profitable, including by incorporating GKN proprietary technology, such as titanium additive manufacturing, into OE engine manufacturing.

To underpin its long-term position, GKN Aerospace has continued to maintain significant investment in developing sustainable product solutions. The business is playing a leading role in the aerospace sector's move to reducing the impact of aviation on the environment. This encompasses building and flying current aircraft far more efficiently, while also developing the next generation of aircraft and engine propulsion systems to reduce emissions. For example, GKN Aerospace continues to invest in the £54 million UK H2GEAR collaboration programme and the £50 million European Clean Sky 2 programme, both aiming to develop ground-breaking hydrogen propulsion systems to power aircraft using liquid hydrogen and generating just water as a by-product. The business has also delivered the first fully integrated wings, tail and wiring system for Eviation's Alice electric aircraft which is due to have its maiden flight later this year. These and other projects provide future growth opportunities in the years ahead with GKN Aerospace's brand new £32 million Global Technology Centre in Bristol, UK playing a central role.

Aerospace Outlook

GKN Aerospace has made good progress in its actions to align with the market and future opportunities although there is still much to accomplish. The business is being improved and restructured in order to benefit from market recovery, while investment continues in developing long-term sustainable technology. With these ongoing management actions and the expected ramp-up in narrowbody demand, GKN Aerospace is well placed to drive sustained sales growth and margin expansion. The recent appointment of a new CEO underpins our confidence in making good progress during the second half of this year and beyond.

AUTOMOTIVE

GKN Automotive had a good first half of the year. While the global semi-conductor shortage continues to weigh on the entire automotive sector, the business has achieved a 34% increase in sales for the Period compared to prior year, with Europe and Asia Pacific ahead of the Americas, and China up by 21%.

Whilst volatility remains, management are ahead of plan in implementing strong, additional measures to control costs and working capital. These efforts have been supported by the continued delivery of GKN Automotive's 'Full Potential' transformational programme. This progress has contributed to the business achieving 8% decremental margins in the first half compared to the second half of 2020 and holding adjusted operating margins at 6.2%, showing a clear path to its operating margin target of at least 10%.

As outlined during the Capital Markets Day in May 2021, GKN Automotive is optimally placed to benefit from the shift towards electrified mobility. As the world transitions to electric vehicles (EV), its world-leading drive system portfolio has secured strong market share amongst both global automotive OEMs and pure-play electric vehicle manufacturers. To compliment the business' leadership position in driveshafts, Melrose has accelerated GKN Automotive's investment in next generation eDrive capabilities, to capture the significant growth opportunities presented by the increasing demand for electric vehicles, including investment in eDrive R&D of over £50 million per year. This has been critical in placing GKN Automotive at the forefront of the global switch to electric vehicles.

The UK based Abingdon Innovation Centre, expanded as part of the GKN global R&D investment, has already received over £1 million from the Melrose Skills Fund, with a further £4 million to follow in supporting the switch to eDrive and the next generation of engineers. This has been supplemented with some grants from the UK government averaging about £0.5 million per year for the last three years. An important piece of this investment in Abingdon has been funding partnerships with leading research institutions in the UK automotive ecosystem, including the

University of Nottingham and the University of Newcastle, as GKN Automotive continues to proactively contribute to the ongoing decarbonisation of the global automotive sector. These partnerships are leading to the development of lighter, more efficient EV powertrains for the volume automotive market.

GKN Automotive's significant investment in the EV revolution is already yielding success. Despite the pandemic, in the past 18 months GKN Automotive has secured critical eDrive awards on six key platforms for a range of major global and Chinese vehicle manufacturers and has a strong pipeline for the future. Over one third of new business bookings awarded in the first half of this year were on pure electric platforms, and over 50% including full hybrid platforms as well. Automotive is well positioned to grow at more than double the rate for light vehicle production over the long-term.

Automotive Outlook

In the second half, GKN Automotive will need to remain agile and responsive to ongoing market headwinds, including expected production volatility, materials cost inflation and supply chain disruption. However, the benefits of key restructuring projects are expected to lead to improved margins in the second half of the year and into 2022. In the event the sales in 2022 return to 2019 levels, GKN Automotive would be well on track to achieve its margin target. Your Board believes that the underlying strength of the GKN Automotive business and operations, and the results of management's actions, have positioned the business well.

POWDER METALLURGY

GKN Powder Metallurgy has continued to gain market share and sales increased by 43% compared to the first half of 2020, and were broadly equivalent to pre-pandemic sales volumes in 2019. New business wins during the first half reached approximately £100 million, almost 30% of which result from further consolidation of the fragmented global sintering sector. We expect to continue to benefit from the market consolidation.

GKN Powder Metallurgy reacted swiftly to the second quarter semi-conductor supply challenges with targeted cost savings. It continued to be swift in exiting non-core and unprofitable business as well as taking the necessary operational improvements to achieve 11.2% adjusted operating margins for the first half. Its targeted operating margins of 14% are within reach and we expect the necessary improvement actions to be substantially complete by the end of this year.

Hydrogen and Additive

Like our other businesses, GKN Powder Metallurgy continues to invest heavily in its technology, including into its Additive Manufacturing and Hydrogen Storage initiatives. In the short time since its successful launch of GKN Hydrogen in May 2021, the business has secured pilot schemes with key targeted partners.

Powder Metallurgy Outlook

With some predictions of an easing of semi-conductor shortage in the second half, GKN Powder Metallurgy expects to see the start of a more normalised supply period. Restructuring actions are expected to be largely complete by the end of the year and the continued investments in technology, together with a fully digitised manufacturing approach, provides the business with the confidence that it will thrive as its markets return.

OTHER INDUSTRIAL

With the sale of Brush in the Period and the agreement on 23 August 2021 to sell Nortek Control, the Other Industrial division now comprises only Ergotron.

Ergotron

Ergotron's overall sales grew 11% during the Period, driven predominantly by the Office segment as a result of the steady return to work within the US. This growth is despite Ergotron exiting some low margin business. Ergotron continued to capitalise on new market opportunities, supporting companies reopening their office spaces and employees working from home. The business continues to develop and expand its market position to serve the increasingly hybrid approach to office and home working as markets recover from COVID-19.

Following strong demand within the Healthcare segment in 2020 due to pandemic-related purchasing, the first half of 2021 saw the gradual resumption of new medical facility builds and equipment upgrades. The pursuit of these opportunities during the first half of the year was supported by several strategic operational and cost optimisation initiatives.

Ergotron Outlook

During the second half of 2021, management expect continued strong demand within the Office segment. The business is well positioned to capture future growth opportunities as its core US market continues to recover and rebuild.

Simon Peckham
Chief Executive
2 September 2021

FINANCE DIRECTOR'S REVIEW

The presentation of the results in these Condensed Interim Financial Statements is impacted by the disposals of the Nortek Air Management division and the Brush business, previously held within the Other Industrial division, and their classification as discontinued operations.

In addition, on 23 August 2021 contracts were exchanged for the disposal of the Nortek Control business, previously held within the Other Industrial division. Consistent with this, Nortek Control was shown as being held for sale at 30 June 2021 and is similarly classified as a discontinued operation.

MELROSE GROUP RESULTS – CONTINUING OPERATIONS

Statutory results:

The statutory IFRS results show revenue of £3,540 million (2020: £3,386 million), an operating loss of £137 million (2020: £618 million) and a loss before tax of £256 million (2020: £720 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the Period of 4,860 million (2020: 4,858 million), were a loss of 3.1 pence (2020: loss of 12.1 pence).

Adjusted results:

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

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

The adjusted results for the period ended 30 June 2021 show revenue of £3,828 million (2020: £3,624 million), an operating profit of £223 million (2020: loss of £11 million) and a profit before tax of £141 million (2020: loss of £105 million). Adjusted diluted EPS, calculated using the weighted average number of shares in the Period, were 2.2 pence (2020: loss of 1.7 pence).

Proforma results:

Proforma results are presented for the period ended 30 June 2021 to give a meaningful measure of ongoing performance. These include the impact of the Return of Capital and share consolidation, shown as a post Balance Sheet event in these Condensed Interim Financial Statements.

Proforma earnings per share were 2.5 pence, calculated using the ongoing ordinary shares that are in issue following the 9 for 10 share capital consolidation on 31 August 2021, discussed later in this review.

Both proforma net debt and proforma leverage, presented later in this review, include the recently approved Return of Capital of £729 million to be made subsequent to the half year.

Tables summarising the statutory results and adjusted results by reportable segment are shown in note 3 of the Condensed Interim Financial Statements.

RECONCILIATION OF STATUTORY RESULTS TO ADJUSTED RESULTS

The following tables reconcile the Group statutory revenue and operating loss to adjusted revenue and adjusted operating profit/(loss):

Continuing operations:	**2021** **£m**	**2020** **£m**
Statutory revenue	**3,540**	**3,386**
Adjusting item:		
Revenue from equity accounted investments	288	238
Adjusted revenue	**3,828**	**3,624**

Adjusting revenue item:

The Group has certain investments in businesses in which it does not hold full control (EAIs), the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems ("SDS"), within the Automotive business. During the period ended 30 June 2021, EAIs in the Group generated £288 million of revenue (2020: £238 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 adjusted operating profit from these EAIs is included.

Continuing operations:	**2021** **£m**	**2020** **£m**
Statutory operating loss	**(137)**	**(618)**
Adjusting items:		
Amortisation of intangible assets acquired in business combinations	226	236
Restructuring costs	85	95
Currency movements in derivatives and movements in associated financial assets and liabilities	44	89
Other	5	8
Write down of assets	-	179
Adjustments to statutory operating loss	**360**	**607**
Adjusted operating profit/(loss)	**223**	**(11)**

Adjusting items to the statutory operating loss are consistent with prior periods and include:

The amortisation charge on intangible assets acquired in business combinations of £226 million (2020: £236 million), which is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.

Restructuring and other associated costs in the Period of £85 million (2020: £95 million) which are shown as adjusting items due to their size and non-trading nature. During the period ended 30 June 2021 they included:

- A charge of £26 million (2020: £43 million) within the Aerospace division including costs incurred as the business takes further steps to substantially reduce its cost structure, recognising the magnitude and length of the impact of COVID-19 on the aerospace industry. These include costs relating to the initial stages of a major footprint consolidation in The Netherlands, as well as the continued global integration programme, reducing management layers and simplifying the business, ensuring the Aerospace division is well positioned and able to react to changes in its new environment.
- A charge of £52 million (2020: £25 million) within the Automotive division, which included the commencement of significant footprint consolidation actions in Europe incurred as the business continues to address its cost base and deliver its 'Full Potential' transformational programme with a clear path to achieving greater than 10% adjusted operating margins.
- A total charge of £7 million (2020: £27 million) across the Powder Metallurgy, Other Industrial and Corporate divisions.

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, along with foreign exchange movements on the associated financial assets and liabilities. This totalled a charge of £44 million (2020: £89 million) in the Period and is shown as an adjusting item because of its volatility and size.

Other adjusting items, which include: acquisition and disposal related net gains, on businesses not shown as discontinued operations, of £10 million (2020: net losses of £4 million), excluded from adjusted results due to their non-trading nature; the charge for the Melrose equity-settled Incentive Scheme, including its associated employer's tax charge, of £9 million (2020: £1 million), excluded from adjusted results due to its volatility; an adjustment of £15 million (2020: £14 million) to gross up the post-tax profits of EAIs to be consistent with the adjusted operating profits of subsidiaries within the Group; and the net release of fair value items totalling £9 million (2020: £11 million), shown as an adjusting item to avoid positively distorting adjusted results.

In the comparative period, a write down of assets of £179 million, which was recognised as a result of the impact of COVID-19, of which £133 million was within the Aerospace division, was shown as an adjusting item because of the unprecedented nature of the COVID-19 pandemic, along with its non-trading nature and size.

TAX – CONTINUING OPERATIONS

The statutory results for the Period show a tax credit of £105 million (2020: £135 million), arising on a statutory loss before tax of £256 million (2020: £720 million). The Group Income Statement current underlying adjusted tax rate is approximately 22%.

During the Period ended 30 June 2021 the Group paid tax of £40 million (2020: £5 million).

DISPOSALS AND ASSETS HELD FOR SALE

The Nortek group was acquired on 31 August 2016 for an enterprise value of £2.2 billion, funded by £1.6 billion of equity and £0.6 billion of debt.

On 22 June 2021, the Group completed the disposal of Nortek Air Management to Madison Industries LLC ("Madison") for gross proceeds of £2.6 billion, and on 23 August 2021 the Group entered into an agreement to sell Nortek Control for £0.2 billion, which together represented 87% of the turnover of Nortek businesses. As such, these businesses are shown as discontinued operations in all periods throughout the Condensed Interim Financial Statements and Nortek Control is held for sale at 30 June 2021.

The net proceeds associated with the disposal of Nortek Air Management and Nortek Control, plus more than £700 million of cash generated by the Nortek businesses since acquisition and the retention of the Ergotron business in the Group, means the Group is well placed to achieve the targeted doubling of shareholders' investment on the Nortek acquisition.

In addition, the Group disposed of the Brush business on 18 June 2021, for cash consideration of £0.1 billion. Brush is the final business to be sold from the FKI acquisition in 2008, which has been a highly successful investment for Melrose shareholders, providing a 2.6x return on shareholders' initial equity, equivalent to an IRR of 29%.

Discontinued businesses included £832 million of revenue and a statutory operating profit of £5 million (2020: revenue of £817 million and operating profit of £35 million) after remeasuring Nortek Control to the disposal value of £0.2 billion and before contributing a net £1.4 billion profit on disposal of businesses in the Period.

RETURN OF CAPITAL AND NUMBER OF SHARES IN ISSUE

In line with the Group's strategy, following the disposal of Nortek Air Management and Brush, a return of £729 million in cash to shareholders, equivalent to 15 pence per existing ordinary share was proposed and subsequently voted in favour by shareholders on 9 July 2021.

This return will be made via a redeemable preference share scheme alongside a 9 for 10 share consolidation which happened on 31 August 2021 and reduced the number of ordinary shares by 10%, from 4,858 million to 4,372 million. The weighted average number of shares used for earnings per share in calculations in 2021 will be 4,695 million.

CASH GENERATION AND MANAGEMENT

As a result of good cash management initiatives adopted by all businesses in the Group, a free cash inflow of £75 million (2020: £29 million) was achieved in the Period, after restructuring costs of £92 million (2020: £88 million). Adjusted free cash flow, shown before restructuring cash spend, was £167 million (2020: £117 million).

An analysis of the adjusted free cash flow from continuing operations is shown in the table below:

	2021 £m	2020 £m
Adjusted operating profit/(loss)	223	(11)
Adjusted operating profit from EAIs	(28)	(21)
Depreciation and amortisation	209	227
Lease obligation payments	(29)	(31)
Positive non-cash impact from loss-making contracts	(23)	(31)
Working capital movements	6	220
Adjusted operating cash flow (pre-capex)	**358**	**353**
Net capital expenditure	(104)	(160)
Net interest and net tax paid	(113)	(68)
Defined benefit pension contributions	(12)	(43)
Restructuring	(92)	(88)
Dividend income from equity accounted investments	26	27
Net other	12	8
Free cash flow	**75**	**29**
Adjusted free cash flow	**167**	**117**

Net working capital was reduced by £6 million (2020: £220 million) in the first half, despite turnover growing over the same period last year by 12% at constant currency.

Net capital expenditure in the Period was £104 million (2020: £160 million), representing 0.6x (2020: 0.8x) depreciation of owned assets, net interest paid in the Period was £73 million (2020: £63 million), tax payments were £40 million (2020: £5 million) and ongoing contributions to defined benefit pension schemes were £12 million (2020: £43 million).

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

	2021 £m	2020 £m
Net debt at 1 January	**(2,847)**	**(3,283)**
Non-trading items:		
Net cash flow from disposal and acquisition related activities	2,401	(25)
Dividend paid to Melrose shareholders	(36)	-
Free cash flow from discontinued operations	56	89
Foreign exchange and other non-cash movements	51	(209)
Cash flow from non-trading items and discontinued operations	**2,472**	**(145)**
Free cash flow	**75**	**29**
Net debt at 30 June at closing exchange rates	**(300)**	**(3,399)**
Net debt at 30 June at twelve month average exchange rates	**(335)**	**(3,330)**

Group net debt at 30 June 2021, translated at closing exchange rates (being US $1.38 and €1.16), was £300 million (31 December 2020: £2,847 million).

The movement in net debt during the Period consisted of a free cash inflow of £75 million and significant inflows primarily relating to the disposals of Nortek Air Management and Brush totalling £2,401 million, shown after the settlement of associated interest rate swaps totalling £47 million, tax paid on the extraction of Ergotron and Nortek Control from the Nortek tax group of £32 million and one-off contributions to defined benefit pension schemes within disposed businesses of £39 million. In addition, cash generated from discontinued operations totalled £56 million, a dividend was paid to shareholders of £36 million and there was a £51 million reduction to net debt in respect of foreign exchange and other non-cash movements.

For bank covenant purposes the Group's net debt is calculated at average exchange rates for the previous twelve months, to better align the calculation with the currency rates used to calculate profits, and was £335 million.

The Group net debt leverage on this basis at 30 June 2021 was 0.5x EBITDA (31 December 2020: 4.1x EBITDA), substantially below the Melrose normal leverage of 2.0x to 2.5x EBITDA.

Proforma net debt following the payment of the approved Return of Capital, discussed earlier in this review, was £1,029 million, with proforma leverage of 1.5x. This calculation excludes the agreed net proceeds from the disposal of Nortek Control.

PROVISIONS

Total provisions at 30 June 2021 were £838 million (31 December 2020: £1,021 million).

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

	Total £m
Provisions at 1 January 2021	**1,021**
Spend against provisions	(136)
Net charge to adjusted operating profit	47
Net charge shown as an adjusting item in the Income Statement	68
Utilisation of loss-making contract provision	(23)
Disposals	(111)
Other (including foreign exchange)	(28)
Provisions at 30 June 2021	**838**

The net charge to adjusted operating profit in the Period of £47 million, includes £10 million in respect of certain non-cash divisional long-term incentive plan charges. The remainder is primarily in respect of warranty, product liability and workers' compensation charges which are closely matched by similar cash payments in the Period.

The net charge shown as an adjusting item in the Income Statement of £68 million includes a net charge of £75 million related to restructuring activities which is partly offset by a net release of £7 million related to fair value items.

During the Period £136 million of cash was spent against provisions with £89 million relating to restructuring activities.

Provisions of £111 million were disposed of with the sale of the Brush and Nortek Air Management businesses and included within Other are foreign exchange movements of £20 million, the transfer of Nortek Control related provisions to held for sale of £6 million and the impact of discounting on certain provisions of £2 million.

PENSIONS AND POST-EMPLOYMENT OBLIGATIONS

At 30 June 2021 total plan assets of the Melrose Group's defined benefit pension plans were £3,212 million (31 December 2020: £3,775 million) and total plan liabilities were £3,905 million (31 December 2020: £4,613 million), a net deficit of £693 million (31 December 2020: £838 million). The reduction in gross assets and gross liabilities includes defined benefit pension plan assets of £428 million and defined benefit pension plan liabilities of £372 million, disposed with the Nortek Air Management and Brush businesses.

The most significant pension schemes in the Group are the GKN Group Pension Schemes (Numbers 1 - 4), two of which are allocated to Aerospace and two of which are allocated to the Automotive division. At 30 June 2021 in total these four plans had aggregate gross assets of £2,465 million (31 December 2020: £2,556 million) and liabilities of £2,549 million (31 December 2020: £2,755 million), and a net deficit of £84 million (31 December 2020: £199 million), split 47% of the deficit held within Aerospace and 53% within Automotive.

The funding commitment of the GKN UK defined benefit schemes, made by the Group when GKN was acquired in 2018, has been delivered ahead of schedule and the ongoing contributions to these defined benefit pension schemes will halve to £30 million per annum, with no further requirement to contribute amounts following disposals of businesses.

The values of the Group plans were updated at 30 June 2021 by independent actuaries to reflect the latest key assumptions. A summary of the assumptions used are shown in note 12 to the Condensed Interim Financial Statements.

FINANCIAL RISKS AND UNCERTAINTIES

The principal financial risks and uncertainties faced by the Group include: liquidity risk; finance cost risk; exchange rate risk; contract and warranty risk; and commodity cost risk and are explained in detail on pages 41 and 42 of the 2020 Annual Report. Further explanations and details of the strategic risk profile of the Group, which includes non-financial risk, are set out on pages 46 to 53 of the 2020 Annual Report.

EXCHANGE RATES USED IN THE PERIOD

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

US Dollar	**Average rate**	**Closing rate**
Six months to 30 June 2021	1.39	1.38
Twelve months to 31 December 2020	1.28	1.37
Six months to 30 June 2020	1.26	1.24
Euro		
Six months to 30 June 2021	1.15	1.16
Twelve months to 31 December 2020	1.13	1.12
Six months to 30 June 2020	1.14	1.10

The Group policy on foreign currency risk is explained on pages 41 and 42 of the 2020 Annual Report, a copy of which is available on the Company's website, www.melroseplc.net.

The following table shows an indication of a full year impact of a 10 percent strengthening of the major currencies, if they were to strengthen in isolation against all other currencies, on the re-translation of adjusted operating profit into Sterling:

£m	**USD**	**EUR**	**CNY**	**Other**
Movement in adjusted operating profit	29	11	8	12
% impact on adjusted operating profit	6%	2%	2%	2%

In the first half of the year the Group suffered an 8% adverse translational foreign exchange impact compared to the same period last year.

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

A 10 percent strengthening in either the US Dollar or Euro would result in a partial natural hedge against the translational movement in profits and would have had the following impact on debt as at 30 June 2021:

£m	**USD**	**EUR**
Increase in debt	85	47

LIQUIDITY RISK MANAGEMENT

The Group's net debt position at 30 June 2021 was £300 million (31 December 2020: £2,847 million). Adjusting for the approved Return of Capital to shareholders, proforma net debt at 30 June 2021 was £1,029 million, as described earlier.

The Group's committed bank facilities include a multi-currency denominated term loan that is due to mature in April 2024 and a multi-currency denominated revolving credit facility that matures in January 2023:

		Local currency		**£m**
	Size	Drawn	Headroom	Headroom
Term loan maturing April 2024:				
USD	960	960	-	-
GBP	100	100	-	-
Revolving credit facility maturing January 2023:				
USD	2,000	-	2,000	1,449
GBP	1,100	-	1,100	1,100
Euro	500	-	500	429
Total bank debt				**2,978**

As at 30 June 2021, the term loan was fully drawn and the multi-currency committed revolving credit facility was undrawn. Applying the exchange rates at 30 June 2021, the headroom equated to just under £3.0 billion (31 December 2020: £1.6 billion applying the exchange rates at 31 December 2020).

In addition to the headroom on the multi-currency committed revolving credit facility, cash, deposits and marketable securities, net of overdrafts, in the Group amounted to £1.3 billion at 30 June 2021 (31 December 2020: £160 million). As at 30 June 2021, £1.0 billion of the cash was placed in low volatility money market funds that can be withdrawn at short notice.

The Group also holds capital market borrowings as at 30 June 2021 consisting of:

Maturity date	Notional amount £m	Coupon % p.a.	Cross-currency swaps million	Interest rate on swaps % p.a.
September 2022	450	5.375%	US$373	5.70%
			€284	3.87%
May 2032	300	4.625%	n/a	n/a

The committed bank funding has two financial covenants, being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half-yearly in June and December.

The Group had a waiver for its net debt to adjusted EBITDA covenant test as at 30 June 2021, and following the disposal of Nortek Air Management the net debt to adjusted EBITDA covenant test level will be 4.25x at 31 December 2021; 4.0x at 30 June 2022; and 3.75x at 31 December 2022, before returning to 3.5x at 30 June 2023 and onwards. At 30 June 2021 the Group leverage afforded substantial headroom and was 0.5x, or 1.5x when adjusting net debt for the agreed £729 million Return of Capital to shareholders.

The interest cover bank covenant test is set at 3.0x at 30 June 2021 and 31 December 2021; and 3.25x at 30 June 2022, before returning to 4.0x from 31 December 2022 onwards. As at 30 June 2021 the Group interest cover was 5.6x, affording comfortable headroom.

FINANCE COST RISK MANAGEMENT

The policy of the Board is to fix approximately 70% of the interest rate exposure of the Group. Following the sale of Nortek Air Management and Brush, the Group's net debt reduced significantly and, to maintain the policy of fixing 70% of the ongoing interest rate exposure, several of the interest rate swaps were cancelled at a cost of £47 million.

At 30 June 2021 the weighted average cost of the instruments used to fix the cost of LIBOR on the Group's committed bank facility was c.1.2% and the bank margin on the Group's committed bank facility will reduce, following the disposal of the Nortek Air Management division and Brush business, to 0.95% on the revolving credit facility and 0.75% for the term loan from October 2021 onwards.

The Group also holds cross-currency swaps associated with the remaining fixed rate capital market borrowings, described earlier in this review, with a weighted average income statement cost of c.3.4% per annum.

The combined average Income Statement cost of the Group's debt for the next 12 months is expected to be approximately 3.6% (31 December 2020: 3.9%) before the amortisation of the bank arrangement fees and approximately 4.3% (31 December 2020: 4.2%) including this amortisation charge.

GOING CONCERN

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

The Group has modelled a reasonably possible downside scenario against future cash forecasts. The Group's Balance Sheet is transformed compared to the same time last year, and for any reasonably possible downside scenario, the Group has sufficient headroom to avoid breaching any financial covenant and would not require any additional sources of financing throughout the forecast period.

The long-term impact of COVID-19 remains uncertain and the impacts of the pandemic on trading conditions could be more prolonged or severe than that which the Directors have considered in this reasonably possible scenario.

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

Geoffrey Martin
Group Finance Director
2 September 2021

CAUTIONARY STATEMENT

This announcement contains forward-looking statements. These statements are made in good faith based on the information available up to the time of the approval of this announcement, and should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Accordingly, readers are cautioned not to place undue reliance on any such forward-looking statements. Subject to compliance with applicable laws and regulations, the Company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this announcement.

This announcement has been prepared solely to provide information to shareholders to assess the Company's strategies and the potential for those strategies to succeed, and neither the Company nor its directors accept any liability to any other person save as would arise under English law.

RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

a) the condensed financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the UK;

b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events and their impact, and description of principal risks and uncertainties for the remaining six months of the financial year); and

c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Simon Peckham
Chief Executive
2 September 2021

Geoffrey Martin
Group Finance Director
2 September 2021

INDEPENDENT REVIEW REPORT TO MELROSE INDUSTRIES PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity and related notes 1 to 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP.

Deloitte LLP
Statutory Auditor, London, United Kingdom
2 September 2021

Melrose Industries PLC
Condensed Consolidated Income Statement

Continuing operations	Notes	6 months ended 30 June 2021 Unaudited £m	Restated[1] 6 months ended 30 June 2020 Unaudited £m	Restated[1] Year ended 31 December 2020 Audited £m
Revenue	3	**3,540**	3,386	7,132
Cost of sales		**(2,998)**	(3,052)	(6,330)
Gross profit		**542**	334	802
Share of results of equity accounted investments	8	**13**	7	32
Net operating expenses		**(692)**	(959)	(1,321)
Operating loss	3,4	**(137)**	(618)	(487)
Finance costs		**(120)**	(103)	(195)
Finance income		**1**	1	3
Loss before tax		**(256)**	(720)	(679)
Tax	5	**105**	135	114
Loss after tax for the period from continuing operations		**(151)**	(585)	(565)
Discontinued operations				
Profit for the period from discontinued operations	9	**1,318**	17	32
Profit/(loss) after tax for the period		**1,167**	(568)	(533)
Attributable to:				
Owners of the parent		**1,166**	(569)	(536)
Non-controlling interests		**1**	1	3
		1,167	(568)	(533)
Earnings per share				
Continuing operations				
- Basic	6	**(3.1)p**	(12.1)p	(11.7)p
- Diluted	6	**(3.1)p**	(12.1)p	(11.7)p
Continuing and discontinued operations				
- Basic	6	**24.0p**	(11.7)p	(11.0)p
- Diluted	6	**24.0p**	(11.7)p	(11.0)p

Adjusted[2] results from continuing operations

Adjusted revenue	3	**3,828**	3,624	7,723
Adjusted operating profit/(loss)	3,4	**223**	(11)	141
Adjusted profit/(loss) before tax	4	**141**	(105)	(41)
Adjusted profit/(loss) after tax	4	**109**	(80)	(27)
Adjusted basic earnings per share	6	**2.2p**	(1.7)p	(0.6)p
Adjusted diluted earnings per share	6	**2.2p**	(1.7)p	(0.6)p

[1] Results for the period ended 30 June 2020 and the year ended 31 December 2020 have been restated for discontinued operations (see note 2).
[2] Defined in the summary of significant accounting policies (see note 2).

Melrose Industries PLC
Condensed Consolidated Statement of Comprehensive Income

	Notes	**6 months ended 30 June 2021 Unaudited £m**	6 months ended 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Profit/(loss) after tax for the period		**1,167**	(568)	(533)
Items that will not be reclassified subsequently to the Income Statement:				
Net remeasurement gain/(loss) on retirement benefit obligations		**135**	(15)	244
Fair value gain/(loss) on investments in equity instruments		**5**	(5)	(16)
Income tax (charge)/credit relating to items that will not be reclassified	5	**(29)**	2	(42)
		111	(18)	186
Items that may be reclassified subsequently to the Income Statement:				
Currency translation on net investments		**(128)**	417	(42)
Share of other comprehensive (expense)/income from equity accounted investments		**(1)**	23	16
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	9	**87**	-	-
Derivative gains/(losses) on hedge relationships		**47**	(97)	(99)
Transfer to Income Statement on hedge relationships		**38**	1	8
Income tax (charge)/credit relating to items that may be reclassified	5	**(13)**	10	9
		30	354	(108)
Other comprehensive income for the period		**141**	336	78
Total comprehensive income/(expense) for the period		**1,308**	(232)	(455)
Attributable to:				
Owners of the parent		**1,307**	(234)	(458)
Non-controlling interests		**1**	2	3
		1,308	(232)	(455)

Melrose Industries PLC
Condensed Consolidated Statement of Cash Flows

	Notes	**6 months ended 30 June 2021 Unaudited £m**	Restated(1) 6 months ended 30 June 2020 Unaudited £m	Restated(1) Year ended 31 December 2020 Audited £m
Operating activities				
Net cash from operating activities from continuing operations	13	**181**	191	476
Net cash from operating activities from discontinued operations	13	**3**	111	288
Net cash from operating activities		**184**	302	764
Investing activities				
Disposal of businesses, net of cash disposed	9	**2,519**	-	10
Purchase of property, plant and equipment		**(98)**	(145)	(253)
Proceeds from disposal of property, plant and equipment		**3**	3	25
Purchase of computer software and capitalised development costs		**(9)**	(18)	(37)
Dividends received from equity accounted investments		**26**	27	54
Purchase of investments		**-**	(2)	(2)
Acquisition of subsidiaries, net of cash acquired		**-**	(21)	(19)
Interest received		**1**	1	3
Net cash from/(used in) investing activities from continuing operations		**2,442**	(155)	(219)
Net cash used in investing activities from discontinued operations	13	**(12)**	(15)	(29)
Net cash from/(used in) investing activities		**2,430**	(170)	(248)
Financing activities				
Repayment of borrowings		**(1,363)**	(73)	(598)
Settlement of interest rate swaps		**(47)**	-	-
Cost of raising debt finance		**-**	(1)	(1)
Repayment of principal under lease obligations		**(29)**	(31)	(63)
Dividends paid to owners of the parent	7	**(36)**	-	-
Net cash used in financing activities from continuing operations		**(1,475)**	(105)	(662)
Net cash used in financing activities from discontinued operations	13	**(6)**	(7)	(14)
Net cash used in financing activities		**(1,481)**	(112)	(676)
Net increase/(decrease) in cash and cash equivalents, net of bank overdrafts		**1,133**	20	(160)
Cash and cash equivalents, net of bank overdrafts at the beginning of the period		**160**	317	317
Effect of foreign exchange rate changes		**5**	2	3
Cash and cash equivalents, net of bank overdrafts at the end of the period	13	**1,298**	339	160

(1) Results for the period ended 30 June 2020 and year ended 31 December 2020 have been restated for discontinued operations (see note 2).

As at 30 June 2021, the Group had net debt of £300 million (31 December 2020: £2,847 million). A definition and reconciliation of the movement in net debt is shown in note 13.

Melrose Industries PLC
Condensed Consolidated Balance Sheet

	Notes	**30 June 2021 Unaudited £m**	Restated[1] 30 June 2020 Unaudited £m	31 December 2020 Audited £m
Non-current assets				
Goodwill and other intangible assets		**7,607**	10,039	9,198
Property, plant and equipment		**2,675**	3,422	3,133
Investments		**39**	49	34
Interests in equity accounted investments		**416**	439	430
Deferred tax assets		**221**	259	180
Derivative financial assets		**68**	42	101
Trade and other receivables		**463**	501	439
		11,489	14,751	13,515
Current assets				
Inventories		**972**	1,317	1,126
Trade and other receivables		**1,317**	1,518	1,658
Derivative financial assets		**31**	10	47
Current tax assets		**14**	18	23
Cash and cash equivalents		**1,329**	415	311
Assets classified as held for sale	9	**282**	55	-
		3,945	3,333	3,165
Total assets	3	**15,434**	18,084	16,680
Current liabilities				
Trade and other payables		**2,115**	2,274	2,456
Interest-bearing loans and borrowings		**44**	90	165
Lease obligations	14	**52**	79	81
Derivative financial liabilities		**36**	182	58
Current tax liabilities		**146**	121	188
Provisions	10	**370**	397	415
Liabilities associated with assets held for sale	9	**72**	40	-
		2,835	3,183	3,363
Net current assets/(liabilities)		**1,110**	150	(198)
Non-current liabilities				
Trade and other payables		**442**	438	421
Interest-bearing loans and borrowings		**1,538**	3,615	2,926
Lease obligations	14	**317**	524	474
Derivative financial liabilities		**124**	371	210
Deferred tax liabilities		**627**	756	732
Retirement benefit obligations	12	**693**	1,162	838
Provisions	10	**468**	711	606
		4,209	7,577	6,207
Total liabilities	3	**7,044**	10,760	9,570
Net assets		**8,390**	7,324	7,110
Equity				
Issued share capital		**333**	333	333
Share premium account		**8,138**	8,138	8,138
Merger reserve		**109**	109	109
Other reserves		**(2,330)**	(2,330)	(2,330)
Translation and hedging reserve		**-**	431	(30)
Retained earnings		**2,110**	615	861
Equity attributable to owners of the parent		**8,360**	7,296	7,081
Non-controlling interests		**30**	28	29
Total equity		**8,390**	7,324	7,110

[1] Cash and cash equivalents and current interest-bearing loans and borrowings have been restated, with no impact on net assets (see note 2).

Melrose Industries PLC
Condensed Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Other reserves £m	Translation and hedging reserve £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2020	333	8,138	109	(2,330)	78	1,197	7,525	26	7,551
(Loss)/profit for the period	-	-	-	-	-	(569)	(569)	1	(568)
Other comprehensive income/(expense)	-	-	-	-	353	(18)	335	1	336
Total comprehensive income/(expense)	-	-	-	-	353	(587)	(234)	2	(232)
Equity-settled share-based payments	-	-	-	-	-	5	5	-	5
At 30 June 2020 (unaudited)	333	8,138	109	(2,330)	431	615	7,296	28	7,324
Profit for the period	-	-	-	-	-	33	33	2	35
Other comprehensive (expense)/income	-	-	-	-	(461)	204	(257)	(1)	(258)
Total comprehensive (expense)/income	-	-	-	-	(461)	237	(224)	1	(223)
Equity-settled share-based payments	-	-	-	-	-	9	9	-	9
At 31 December 2020 (audited)	333	8,138	109	(2,330)	(30)	861	7,081	29	7,110
Profit for the period	-	-	-	-	-	1,166	1,166	1	1,167
Other comprehensive income	-	-	-	-	30	111	141	-	141
Total comprehensive income	-	-	-	-	30	1,277	1,307	1	1,308
Dividends paid	-	-	-	-	-	(36)	(36)	-	(36)
Equity-settled share-based payments	-	-	-	-	-	8	8	-	8
At 30 June 2021 (unaudited)	**333**	**8,138**	**109**	**(2,330)**	**-**	**2,110**	**8,360**	**30**	**8,390**

Notes to the Condensed Interim Financial Statements

1. Corporate information

The interim financial information for the six months ended 30 June 2021 has been reviewed by the auditor, but not audited. The information for the year ended 31 December 2020 shown in this report does not constitute statutory accounts for that year as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor has reported on those accounts. Their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Summary of significant accounting policies

The interim financial information for the six months ended 30 June 2021, which has been approved by the Board of Directors, has been prepared on the basis of the accounting policies set out in the Group's 2020 Annual Report on pages 143 to 152.

The Group's 2020 Annual Report can be found on the Group's website www.melroseplc.net. These Condensed Interim Financial Statements should be read in conjunction with the 2020 information. The Condensed Interim Financial Statements have been prepared in accordance with UK-endorsed International Financial Reporting Standards ("IFRS") which does not differ from the previous EU-endorsed IFRS, and hence the previously reported accounting policies still apply. These Condensed Interim Financial Statements do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006 and should be read in conjunction with the Annual Report 2020. These Condensed Interim Financial Statements have been prepared in accordance with IAS 34: "Interim Financial Reporting" contained in UK-adopted IFRS.

Discontinued operations and assets held for sale

During the first half of the year, the Group completed the disposal of the Nortek Air Management segment and the Brush business, previously included in the Other Industrial segment. In addition, the Board formally commenced a disposal process aligned to its strategic priorities, to dispose of the Nortek Control business, previously included in the Other Industrial segment, with a high expectation that this would conclude within one year. An update is provided in note 15. In accordance with IFRS 5: "Non-current assets held for sale and discontinued operations", associated assets and liabilities at 30 June 2021 are classified as held for sale and separately shown on the Balance Sheet.

The results of Nortek Air Management, Brush and Nortek Control have been classified within discontinued operations for all periods presented; with the Income Statement, the Statement of Cash Flows and their associated notes being restated accordingly. In addition, discontinued operations for 2020 include the results of the Wheels and Structures business, also classified as held for sale at 30 June 2020, which was disposed in November 2020. Further detail is shown in note 9.

Prior half year restatement of cash and cash equivalents and bank overdrafts

During the second half of 2020, the Group changed its presentation of cash and cash equivalents and bank overdrafts within the Balance Sheet relating to cash pooling arrangements. Whilst the Group has the legal right to offset amounts under these cash pooling arrangements, it was determined that the appropriate presentation should be on a gross basis in line with the requirements of IAS 32: "Financial Instruments: Presentation" and other associated interpretations. The 30 June 2020 Balance Sheet comparatives have been restated accordingly. The impact of this change is to increase both cash and cash equivalents and bank overdrafts within current interest-bearing loans and borrowings by £76 million as at 30 June 2020. This has no impact on net assets or other primary statements.

Alternative performance measures

The Group presents Alternative Performance Measures ("APMs") in addition to the statutory results of the Group. These are presented in accordance with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA").

APMs used by the Group are set out in the glossary to these Condensed Interim Financial Statements and the reconciling items between statutory and adjusted results are listed below and described in more detail in note 4.

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 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 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;

2. Summary of significant accounting policies (continued)

- Removal of adjusting items, interest and tax on equity accounted investments to reflect operating results;
- The charge for the Melrose equity-settled compensation scheme, including its associated employer's tax charge;
- 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:
- Acceleration of unamortised debt issue costs written off as a consequence of Group refinancing;
- Significant settlement gains and losses associated with interest rate swaps following acquisition or disposal related activity, which is not considered by the Group to be part of the normal operating costs; and
- The fair value changes on cross-currency swaps, entered into by GKN prior to acquisition, relating to cost of hedging which are not deferred in equity.

In addition to the items above, adjusting items impacting profit after tax include:
- The net effect on tax of significant restructuring from strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- The net effect of significant new tax legislation; and
- The tax effects of adjustments to profit/(loss) before tax.

The Board considers the adjusted results to be an important measure used to monitor how the businesses are performing as this provides a meaningful reflection of how the businesses are managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods, when all businesses are held for a complete reporting period.

The adjusted measures are used to partly determine the variable element of remuneration of senior management throughout the Group and are also in alignment with performance measures used by certain external stakeholders. The adjusted measures are also taken into account when valuing individual businesses as part of the "Buy, Improve, Sell" Group strategy model.

Adjusted profit is not a defined term under IFRS and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current period results and comparative periods where provided.

Going concern

The Condensed Interim Financial Statements have been prepared on a going concern basis as the Directors consider that adequate resources exist for the Company to continue in operational existence for the foreseeable future.

The Group's liquidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity/financing headroom (c. £3 billion) at 30 June 2021 and throughout the going concern forecast period. Forecast covenant compliance is considered further below.

Covenants

The Group's banking facility has two financial covenants being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half yearly in June and December.

Due to the pervasive impact of COVID-19 on certain of the Group's businesses, revised financial covenants with lending banks were agreed in 2020. These revised financial covenants, updated for the disposal of Nortek Air Management, for the going concern period are as follows:

	30 June 2021	**31 December 2021**	**30 June 2022**
Net debt to adjusted EBITDA	Waived	4.25x	4.00x
Interest cover	3.00x	3.00x	3.25x

Testing

The Group has modelled two scenarios in its assessment of going concern; a base case and a reasonably possible sensitised case.

The base case takes into account the estimated impact of a continued recovery from the COVID-19 pandemic as well as other end market and operational factors throughout the going concern period and has been monitored against the actual results and cash generation in the period since 1 July 2021.

The reasonably possible sensitised case models more conservative sales assumptions in the remaining period of 2021 and the relevant period in 2022, however, given there is liquidity headroom of approximately £3 billion and the Group's leverage was 0.5x at 30 June 2021, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, even with significant reductions, no covenant is breached at any of the forecast testing dates being 31 December 2021 and 30 June 2022, with the testing at 31 December 2022 also favourable, and the Group does not require any additional sources of finance, even following repayment of the £450 million bond in September 2022.

2. Summary of significant accounting policies (continued)

In addition to the reasonably possible sensitised case a 'reverse stress test' has been prepared to consider the point at which the covenants may be breached. This reverse stress test indicates that a significant reduction in sales, beyond what is considered reasonable, would be required in order to breach covenants. In this remote situation, management could take further mitigating actions to protect profits and conserve cash, such as reducing capital expenditure to minimum maintenance levels.

3. Segment information

Segment information is presented in accordance with IFRS 8: "Operating segments" which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reported to the Group's Chief Operating Decision Maker ("CODM"), which has been deemed to be the Group's Board, in order to allocate resources to the segments and assess their performance.

As a result of the disposal, the results of the Nortek Air Management business during the period are classified within discontinued operations and the comparative results in 2020 have been restated accordingly. In addition, the results of the Brush business, which was disposed in June 2021, and the Nortek Control business, which has been classified as held for sale as described in note 2, have also been classified as discontinued operations. The Brush and Nortek Control businesses were previously classified within the Other Industrial segment and comparative results for 2020 have been restated accordingly.

The operating segments are as follows:

Aerospace – a multi-technology global tier one supplier of both civil and defence air frames and engine structures.

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.

Other Industrial – comprises the Group's Ergotron business.

In addition, there are central cost centres which are also reported to the Board. The central corporate cost centres contain the Melrose Group head office costs and charges related to the divisional management long-term incentive plans.

Reportable segment results include items directly attributable to a segment as well as those which can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis, in a manner similar to transactions with third parties.

The Group's geographical segments are determined by the location of the Group's non-current assets and, for revenue, the location of external customers. Inter-segment sales are not material and have not been disclosed.

The following tables present the results and certain asset and liability information regarding the Group's operating segments and central cost centres for the six month period ended 30 June 2021 and comparative periods.

a) Segment revenues

6 months ended 30 June 2021

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Adjusted revenue	**1,219**	**1,965**	**535**	**109**	**3,828**
Equity accounted investments	(3)	(272)	(13)	-	(288)
Revenue	**1,216**	**1,693**	**522**	**109**	**3,540**

6 months ended 30 June 2020 – restated[(1)]

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Adjusted revenue	**1,580**	**1,541**	**396**	**107**	**3,624**
Equity accounted investments	(3)	(228)	(7)	-	(238)
Revenue	**1,577**	**1,313**	**389**	**107**	**3,386**

[(1)] Revenue has been restated for discontinued operations (see note 2).

3. Segment information (continued)

a) Segment revenues (continued)

Year ended 31 December 2020 – restated[1]

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Adjusted revenue	**2,804**	**3,797**	**905**	**217**	**7,723**
Equity accounted investments	(6)	(566)	(19)	-	(591)
Revenue	**2,798**	**3,231**	**886**	**217**	**7,132**

[1] Revenue has been restated for discontinued operations (see note 2).

b) Segment operating profit

6 months ended 30 June 2021

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	**41**	**121**	**60**	**27**	**(26)**	**223**
Items not included in adjusted operating profit[1]:						
Amortisation of intangible assets acquired in business combinations	(122)	(71)	(25)	(8)	-	(226)
Restructuring costs	(26)	(52)	(3)	-	(4)	(85)
Movement in derivatives and associated financial assets and liabilities	-	1	-	-	(45)	(44)
Equity accounted investments adjustments	-	(15)	-	-	-	(15)
Melrose equity-settled compensation scheme charges	-	-	-	-	(9)	(9)
Acquisition and disposal related gains	2	-	8	-	-	10
Net release and changes in discount rates of fair value items	3	4	2	-	-	9
Operating (loss)/profit	**(102)**	**(12)**	**42**	**19**	**(84)**	**(137)**
Finance costs						(120)
Finance income						1
Loss before tax						**(256)**
Tax						105
Loss for the period from continuing operations						**(151)**

[1] For further details on adjusting items, refer to note 4.
[2] Corporate adjusted operating loss of £26 million includes £10 million of costs in respect of divisional long-term incentive plans.

3. Segment information (continued)

b) Segment operating profit (continued)

6 months ended 30 June 2020 – restated[1]

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate[3] £m	Total £m
Adjusted operating profit/(loss)	**54**	**(64)**	**(3)**	**22**	**(20)**	**(11)**
Items not included in adjusted operating profit[2]:						
Amortisation of intangible assets acquired in business combinations	(129)	(74)	(24)	(9)	-	(236)
Impairment of assets	(133)	(18)	(28)	-	-	(179)
Restructuring costs	(43)	(25)	(23)	(2)	(2)	(95)
Movement in derivatives and associated financial assets and liabilities	8	(4)	-	-	(93)	(89)
Equity accounted investments adjustments	-	(14)	-	-	-	(14)
Acquisition and disposal related costs	-	-	-	-	(4)	(4)
Melrose equity-settled compensation scheme charges	-	-	-	-	(1)	(1)
Net release and changes in discount rates of fair value items	18	(12)	5	-	-	11
Operating (loss)/profit	**(225)**	**(211)**	**(73)**	**11**	**(120)**	**(618)**
Finance costs						(103)
Finance income						1
Loss before tax						**(720)**
Tax						135
Loss for the period from continuing operations						**(585)**

[1] Operating profit has been restated for discontinued operations (see note 2).
[2] For further details on adjusting items, refer to note 4.
[3] Corporate adjusted operating loss of £20 million includes £5 million of costs in respect of divisional long-term incentive plans.

Year ended 31 December 2020 – restated[1]

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate[3] £m	Total £m
Adjusted operating profit/(loss)	**14**	**82**	**39**	**52**	**(46)**	**141**
Items not included in adjusted operating profit[2]:						
Amortisation of intangible assets acquired in business combinations	(256)	(147)	(52)	(17)	-	(472)
Restructuring costs	(110)	(60)	(48)	(1)	(2)	(221)
Impairment of assets	(133)	(21)	(30)	-	-	(184)
Equity accounted investments adjustments	-	(30)	-	-	-	(30)
Melrose equity-settled compensation scheme charges	-	-	-	-	(11)	(11)
Acquisition and disposal related costs	-	-	-	-	(5)	(5)
Impact of GMP equalisation on UK pension schemes	(1)	(1)	-	-	-	(2)
Movement in derivatives and associated financial assets and liabilities	(9)	(2)	-	-	193	182
Net release and changes in discount rates of fair value items	85	(4)	34	-	-	115
Operating (loss)/profit	**(410)**	**(183)**	**(57)**	**34**	**129**	**(487)**
Finance costs						(195)
Finance income						3
Loss before tax						**(679)**
Tax						114
Loss for the year from continuing operations						**(565)**

[1] Operating profit has been restated for discontinued operations (see note 2).
[2] For further details on adjusting items, refer to note 4.
[3] Corporate adjusted operating loss of £46 million includes £12 million of costs in respect of divisional long-term incentive plans.

3. Segment information (continued)

c) Segment total assets and liabilities

	Total assets			Total liabilities		
	30 June 2021 £m	Restated[(1)] 30 June 2020 £m	Restated[(2)] 31 December 2020 £m	**30 June 2021 £m**	Restated[(1)] 30 June 2020 £m	Restated[(2)] 31 December 2020 £m
Aerospace	**6,295**	7,384	6,614	**2,337**	3,096	2,691
Automotive	**4,902**	5,276	5,172	**2,128**	2,163	2,407
Powder Metallurgy	**1,737**	1,897	1,816	**426**	493	476
Other Industrial	**607**	690	604	**89**	94	76
Corporate	**1,611**	695	513	**1,992**	4,287	3,281
Continuing operations	**15,152**	15,942	14,719	**6,972**	10,133	8,931
Discontinued operations	**282**	2,142	1,961	**72**	627	639
Total	**15,434**	18,084	16,680	**7,044**	10,760	9,570

(1) Assets and liabilities at 30 June 2020 have been restated for discontinued operations and presentation of cash and cash equivalents and bank overdrafts (see note 2).
(2) Assets and liabilities at 31 December 2020 have been restated for discontinued operations (see note 2).

d) Segment capital expenditure and depreciation

	Capital expenditure[(1)]			Depreciation of owned assets[(1)]			Depreciation of leased assets		
	6 months ended 30 June 2021 £m	Restated[(2)] 6 months ended 30 June 2020 £m	Restated[(2)] Year ended 31 December 2020 £m	**6 months ended 30 June 2021 £m**	Restated[(2)] 6 months ended 30 June 2020 £m	Restated[(2)] Year ended 31 December 2020 £m	**6 months ended 30 June 2021 £m**	Restated[(2)] 6 months ended 30 June 2020 £m	Restated[(2)] Year ended 31 December 2020 £m
Aerospace	**23**	61	98	**60**	65	121	**11**	15	28
Automotive	**46**	54	130	**97**	100	199	**8**	8	18
Powder Metallurgy	**18**	12	33	**27**	31	61	**4**	5	9
Other Industrial	**-**	2	2	**1**	2	3	**-**	-	1
Corporate	**-**	-	-	**-**	-	1	**1**	1	1
Continuing operations	**87**	129	263	**185**	198	385	**24**	29	57
Discontinued operations	**12**	16	27	**16**	16	33	**7**	9	17
Total	**99**	145	290	**201**	214	418	**31**	38	74

(1) Includes computer software and development costs. Capital expenditure excludes lease additions.
(2) Capital expenditure and depreciation have been restated for discontinued operations (see note 2).

e) Geographical information

The Group operates in various geographical areas around the world. The parent company's country of domicile is the UK and the Group's revenues and non-current assets in the rest of Europe and North America are also considered to be material.

The Group's revenue from external customers and information about specific segment assets (non-current assets excluding deferred tax assets, non-current trade and other receivables and non-current derivative financial assets) by geographical location are detailed below:

	Revenue[(1)] from external customers			Segment assets		
	6 months ended 30 June 2021 £m	Restated[(2)] 6 months ended 30 June 2020 £m	Restated[(2)] Year ended 31 December 2020 £m	**30 June 2021 £m**	Restated[(2)] 30 June 2020 £m	Restated[(2)] 31 December 2020 £m
UK	**301**	309	571	**2,051**	2,215	2,132
Rest of Europe	**1,027**	861	1,892	**4,527**	5,220	4,820
North America	**1,693**	1,761	3,642	**3,005**	3,568	3,137
Other	**519**	455	1,027	**1,154**	1,290	1,216
Continuing operations	**3,540**	3,386	7,132	**10,737**	12,293	11,305
Discontinued operations	**832**	817	1,782	**-**	1,656	1,490
Total	**4,372**	4,203	8,914	**10,737**	13,949	12,795

(1) Revenue is presented by destination.
(2) Revenue and segment assets have been restated for discontinued operations (see note 2).

4. Reconciliation of adjusted profit measures

As described in note 2, adjusted profit measures are an alternative performance measure used by the Board to monitor the performance of the Group.

a) Operating profit

Continuing operations	Notes	**6 months ended 30 June 2021 £m**	Restated(1) 6 months ended 30 June 2020 £m	Restated(1) Year ended 31 December 2020 £m
Operating loss		**(137)**	(618)	(487)
Amortisation of intangible assets acquired in business combinations	a	**226**	236	472
Restructuring costs	b	**85**	95	221
Movement in derivatives and associated financial assets and liabilities	c	**44**	89	(182)
Equity accounted investments adjustments	d	**15**	14	30
Melrose equity-settled compensation scheme charges	e	**9**	1	11
Acquisition and disposal related gains and losses	f	**(10)**	4	5
Net release and changes in discount rates of fair value items	g	**(9)**	(11)	(115)
Impairment of assets		**-**	179	184
Impact of GMP equalisation on UK pension schemes		**-**	-	2
Total adjustments to operating loss		**360**	607	628
Adjusted operating profit/(loss)		**223**	(11)	141

(1) Results have been restated for discontinued operations (see note 2).

a. The amortisation charge on intangible assets acquired in business combinations of £226 million (2020: £236 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 period of £85 million (2020: £95 million) are shown as adjusting items due to their size and non-trading nature. During the period ended 30 June 2021 they included:

- A charge of £26 million (2020: £43 million) within the Aerospace division including costs incurred as the business takes further steps to substantially reduce its cost structure, recognising the magnitude and length of the impact of COVID-19 on the aerospace industry. These include costs relating to the initial stages of a major footprint consolidation in The Netherlands, as well as the continued global integration programme, reducing management layers and simplifying the business, ensuring the Aerospace division is well positioned and able to react to changes in its new environment.

- A charge of £52 million (2020: £25 million) within the Automotive division, which included the commencement of significant footprint consolidation actions in Europe incurred as the business continues to address its cost base and deliver its ‘Full Potential’ transformational programme with a clear path to achieving greater than 10% adjusted operating margins.

- A total charge of £7 million (2020: £27 million) across the Powder Metallurgy, Other Industrial and Corporate divisions.

c. Hedge accounting is not applied within the GKN businesses for transactional foreign exchange exposure. Consequently, for consistency and because of their volatility and size, the movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts) entered into to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts in the businesses, along with foreign exchange movements on the associated financial assets and liabilities, totalled a charge of £44 million (2020: £89 million).

d. 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 (“SDS”), within the Automotive business. The EAIs generated £288 million (2020: £238 million) of revenue in the period, 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.

4. **Reconciliation of adjusted profit measures (continued)**

a) Operating profit (continued)

e. The charge for the Melrose equity-settled Incentive Scheme, including its associated employer's tax charge, of £9 million (2020: £1 million) is excluded from adjusted results due to its volatility. The shares that would be issued, based on the Scheme's current value at the end of the reporting period, are included in the calculation of the adjusted diluted earnings per share, which the Board considers to be a key measure of performance.

f. Acquisition and disposal related net gains in continuing businesses of £10 million (2020: net losses of £4 million) were recorded in the period and related to profits on disposal of manufacturing sites, associated costs and reassessment of contingent consideration on a previous bolt-on acquisition. These items are excluded from adjusted results due to their non-trading nature and volatility.

g. Certain items previously recorded as fair value items on acquisitions, have been resolved for more favourable amounts than first anticipated. The net release of fair value items recognised on acquisitions in the period of £9 million (2020: £11 million) included a credit of £6 million relating to provisions recognised on the acquisition of GKN and a credit of £3 million relating to the movement in discount rates on the loss-making contract provisions recognised as fair value items. The net release of any excess fair value item is shown as an adjusting item to avoid positively distorting adjusted results.

b) Profit before tax

Continuing operations	Notes	**6 months ended 30 June 2021 £m**	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Loss before tax		**(256)**	(720)	(679)
Adjustments to operating loss per above		**360**	607	628
Settlement of interest rate swaps	h	**39**	-	-
Fair value changes on cross-currency swaps	i	**(2)**	4	2
Bank facility negotiation fees		**-**	4	8
Total adjustments to loss before tax		**397**	615	638
Adjusted profit/(loss) before tax		**141**	(105)	(41)

[1] Results have been restated for discontinued operations (see note 2).

h. On disposal of Nortek Air Management and Brush, the significant proceeds received together with future expectations of debt requirements enabled the Group to settle certain interest rate swap instruments that were no longer needed. Specific recycling from the cash flow hedge reserve, under IFRS 9, of £39 million has been accelerated and shown as an adjusting item due to its non-trading nature.

i. The fair value changes on cross-currency swaps relating to cost of hedging which are not deferred in equity, are shown as an adjusting item because of their volatility and non-trading nature.

c) Profit after tax

Continuing operations	Notes	**6 months ended 30 June 2021 £m**	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Loss after tax		**(151)**	(585)	(565)
Adjustments to loss before tax per above		**397**	615	638
Tax effect of adjustments to loss before tax	5	**(77)**	(106)	(99)
Tax effect of significant legislative changes	5	**(55)**	-	-
Tax effect of significant restructuring		**-**	-	7
Equity accounted investments – tax	j	**(5)**	(4)	(8)
Total adjustments to loss after tax		**260**	505	538
Adjusted profit/(loss) after tax		**109**	(80)	(27)

[1] Results have been restated for discontinued operations (see note 2).

j. As explained in paragraph d above, the profits and losses of EAIs are shown after 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.

5. Tax

Analysis of the (credit)/charge in the period:	**6 months ended 30 June 2021 £m**	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Continuing operations			
Current tax	**33**	20	6
Deferred tax	**(138)**	(155)	(120)
Total tax credit from continuing operations	**(105)**	(135)	(114)
Discontinued operations			
Current tax	**59**	-	70
Deferred tax	**(3)**	10	34
Total tax charge from discontinued operations	**56**	10	104
Total tax credit	**(49)**	(125)	(10)

[1] Tax has been restated for discontinued operations (see note 2).

Continuing operations:
The effective tax rate in respect of adjusted profit before tax for the half year is 22.7% (2020: 23.8%). Adjusted tax has been calculated by applying the expected tax rate to the adjusted profit before tax of £141 million (2020: loss of £105 million), giving an adjusted tax charge of £32 million (2020: credit of £25 million).

The adjusted tax charge of £32 million (2020: credit of £25 million) excludes a tax credit on adjusting items of £77 million (2020: £106 million). This represents a deferred tax credit on intangible asset amortisation of £43 million (2020: £33 million) and a tax credit on other adjusting items of £34 million (2020: £73 million). The adjusted tax charge also excludes a tax credit of £55 million (2020: £nil) in respect of recognition of deferred tax assets as a result of legislative changes. In addition, the adjusted tax charge/(credit) includes a charge in respect of EAIs of £5 million (2020: £4 million).

In addition to the amount credited in the Income Statement, a charge of £42 million (2020: credit of £12 million) has been recognised directly in the Statement of Comprehensive Income. This represents a tax charge of £29 million (2020: credit of £2 million) in respect of the remeasurement of retirement benefit obligations and a tax charge of £13 million (2020: credit of £10 million) in respect of movements on hedge relationships and translation differences.

6. Earnings per share

Earnings attributable to owners of the parent	**6 months ended 30 June 2021 £m**	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Earnings for basis of earnings per share	**1,166**	(569)	(536)
Less: profit for the period from discontinued operations (note 9)	**(1,318)**	(17)	(32)
Earnings for basis of earnings per share from continuing operations	**(152)**	(586)	(568)

	6 months ended 30 June 2021 Number	6 months ended 30 June 2020 Number	Year ended 31 December 2020 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	**4,858**	4,858	4,858
Further shares for the purposes of diluted earnings per share (million)	**2**	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share (million)	**4,860**	4,858	4,858

6. Earnings per share (continued)

Earnings per share	**6 months ended 30 June 2021 pence**	Restated[1] 6 months ended 30 June 2020 pence	Restated[1] Year ended 31 December 2020 pence
Basic earnings per share			
From continuing and discontinued operations	**24.0**	(11.7)	(11.0)
From continuing operations	**(3.1)**	(12.1)	(11.7)
From discontinued operations	**27.1**	0.4	0.7
Diluted earnings per share			
From continuing and discontinued operations	**24.0**	(11.7)	(11.0)
From continuing operations	**(3.1)**	(12.1)	(11.7)
From discontinued operations	**27.1**	0.4	0.7

Adjusted earnings from continuing operations	**6 months ended 30 June 2021 £m**	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Adjusted earnings[2] for the basis of adjusted earnings per share	**108**	(81)	(30)

Adjusted earnings per share from continuing operations

	6 months ended 30 June 2021 pence	Restated[1] 6 months ended 30 June 2020 pence	Restated[1] Year ended 31 December 2020 pence
Adjusted basic earnings per share	**2.2**	(1.7)	(0.6)
Adjusted diluted earnings per share	**2.2**	(1.7)	(0.6)

[1] Earnings has been restated for discontinued operations (see note 2).
[2] Adjusted earnings for the 6 months ended 30 June 2021 comprises adjusted profit after tax (see note 4c) of £109 million (2020: loss after tax of £80 million), net of an allocation of profit to non-controlling interests of £1 million (2020: £1 million). Adjusted earnings for the year ended 31 December 2020 comprises adjusted loss after tax of £27 million, net of an allocation to non-controlling interests of £3 million.

7. Dividends

	6 months ended 30 June 2021 £m	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Final dividend for the year ended 31 December 2020 of 0.75p	**36**	-	-
Total dividends paid	**36**	-	-

An interim dividend of 0.75 pence per ordinary share (2020: nil) is declared by the Board. Following a 9 for 10 share consolidation on 31 August 2021, detailed in the Finance Director's Review, the interim dividend will be paid on 4,372 million ordinary shares, totalling £33 million (2020: £nil).

In addition, a proposed Return of Capital of 15 pence per ordinary share, totalling approximately £729 million was approved by shareholders on 9 July 2021 and is expected to be paid in September 2021 (see note 15).

8. Share of results of equity accounted investments

Summary information for the Group's equity accounted investments is as follows:

Continuing operations	**6 months ended 30 June 2021 £m**	6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Revenue	**288**	238	591
Operating costs	**(260)**	(217)	(529)
Adjusted operating profit	**28**	21	62
Adjusting items	**(10)**	(10)	(22)
Profit before tax	**18**	11	40
Tax	**(5)**	(4)	(8)
Share of results of equity accounted investments	**13**	7	32

9. Disposals, discontinued operations and assets held for sale

On 18 June 2021, the Group completed the sale of the Brush business, previously included in the Other Industrial division, for cash consideration of £127 million. The costs charged to the Income Statement associated with the disposal were £2 million. The profit on disposal was £24 million after the recycling of cumulative translation gains of £22 million.

On 22 June 2021, the Group announced the completion of the sale of the Nortek Air Management business for net cash consideration of £2,470 million. The costs charged to the Income Statement associated with the disposal were £41 million. The profit on disposal was £1,347 million after the recycling of cumulative translation losses of £110 million.

During the first half of the year, the Board formally commenced a sale process aligned to its strategic priorities, to dispose of the Nortek Control business, previously included in the Other Industrial division, with a high expectation that this would conclude within one year. An update is provided in note 15. In accordance with IFRS 5: "Non-current assets held for sale and discontinued operations", associated assets and liabilities at 30 June 2021 are classified as held for sale and are separately shown on the Balance Sheet.

During the period, the Aerospace and Powder Metallurgy businesses disposed of certain non-core entities. Cumulative disposal proceeds from these activities amounted to £3 million and the profit on disposal was £1 million after the recycling of cumulative translation gains of £1 million, and disposal costs of £1 million.

The results of Nortek Air Management, Brush and Nortek Control have been classified within discontinued operations for all periods presented. In addition, discontinued operations for 2020 include the results of the Wheels and Structures business which was disposed in November 2020.

Financial performance of discontinued operations:

	6 months ended 30 June 2021 £m	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Revenue	**832**	817	1,782
Operating costs[2]	**(827)**	(782)	(1,633)
Operating profit	**5**	35	149
Finance costs	**(2)**	(2)	(5)
Profit before tax	**3**	33	144
Tax	**(56)**	(10)	(104)
(Loss)/profit after tax	**(53)**	23	40
Gain/(loss) on disposal of net assets of discontinued operations, net of recycled cumulative translation differences	**1,371**	(6)	(8)
Profit for the period from discontinued operations	**1,318**	17	32

[1] Restated for discontinued operations (see note 2).
[2] Operating costs in the period ended 30 June 2021, included an £85 million charge on remeasurement to fair value less costs to sell related to the Nortek Control business on reclassification to assets held for sale (see note 2).

Cash flow information relating to discontinued operations is shown in note 13.

9. Disposals, discontinued operations and assets held for sale (continued)

Classes of assets and liabilities held for sale and disposed of during the period were as follows:

	Held for sale			
	Reclassified	**Remeasured**	**Held for sale**	**Businesses disposed**
	£m	**£m**	**£m**	**£m**
Goodwill and other intangible assets	267	(85)	182	901
Property, plant and equipment	18	-	18	254
Retirement benefit obligations	-	-	-	56
Inventories	46	-	46	233
Trade and other receivables	36	-	36	247
Cash and cash equivalents	-	-	-	41
Total assets	367	(85)	282	1,732
Trade and other payables	(35)	-	(35)	(328)
Lease obligations	(13)	-	(13)	(138)
Provisions	(6)	-	(6)	(111)
Current and deferred tax	(18)	-	(18)	(58)
Total liabilities	(72)	-	(72)	(635)
Net assets	**295**	**(85)**	**210**	**1,097**
Cash consideration, net of costs(1)				2,556
Cumulative translation difference recycled on disposals				(87)
Profit on disposal of businesses				**1,372**
Profit on disposal of businesses classified as discontinued operations				1,371
Profit on disposal of businesses classified within continuing operations				1
				1,372
Net cash inflow arising on disposal:				
Consideration received in cash and cash equivalents, net of costs(2)				**2,560**
Less: cash and cash equivalents disposed				(41)
				2,519

(1) Cash consideration of £2,600 million net of £44 million of disposal costs charged to the Income Statement, £4 million of these costs were accrued at 30 June 2021.
(2) Cash consideration of £2,600 million net of £40 million of disposal costs paid in the period.

10. Provisions

	Loss-making contracts £m	Property related costs £m	Environmental and litigation £m	Warranty related costs £m	Restructuring £m	Other £m	Total £m
At 1 January 2021	241	43	191	330	147	69	1,021
Utilised	(23)	-	(26)	(20)	(89)	(1)	(159)
Charge to operating profit(1)	2	-	24	43	82	13	164
Release to operating profit(2)	-	-	(26)	(16)	(7)	-	(49)
Impact of discounting(3)	(2)	-	-	-	-	-	(2)
Transfer to held for sale	-	-	(2)	(4)	-	-	(6)
Disposal of businesses	(5)	(6)	(29)	(35)	(18)	(18)	(111)
Exchange adjustments	(4)	-	(3)	(9)	(3)	(1)	(20)
At 30 June 2021	**209**	**37**	**129**	**289**	**112**	**62**	**838**
Current	51	12	67	139	93	8	370
Non-current	158	25	62	150	19	54	468
	209	37	129	289	112	62	838

(1) Includes £82 million of adjusting items and £82 million recognised in adjusted operating profit.
(2) Includes £14 million of adjusting items and £35 million recognised in adjusted operating profit.
(3) Includes £1 million charge within finance costs relating to the time value of money and a credit of £3 million relating to changes in discount rates on loss-making contract provisions recognised as fair value items on the acquisition of GKN, which has been included as an adjusting item within operating profit.

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.

10. Provisions (continued)

The provision for property related costs represents the estimated dilapidation costs for ongoing leases. This is expected to result in cash expenditure over the next eight years.

Environmental and litigation provisions relate to the estimated remediation costs of pollution, soil and groundwater contamination at certain sites and estimated future costs and settlements in relation to legal claims and associated insurance obligations. Due to their nature, it is not possible to predict precisely when these provisions will be utilised.

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. Warranty terms are, on average, between one and five years.

Restructuring provisions relate to committed costs in respect of restructuring programmes, usually resulting in cash spend within one year.

Other provisions include long-term incentive plans for divisional senior management and the employer tax on equity-settled incentive schemes which are expected to result in cash expenditure over the next two to five years.

Where appropriate, provisions have been discounted using discount rates between 0% and 9% (31 December 2020: 0% and 7%) depending on the territory in which the provision resides and the length of its expected utilisation.

11. Financial instruments

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their fair values as at 30 June 2021, 30 June 2020 and 31 December 2020:

	Current £m	Non-current £m	Total £m
30 June 2021			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	1,329	-	1,329
Net trade receivables	898	-	898
Classified as fair value:			
Investments	-	39	39
Derivative financial assets:			
Foreign currency forward contracts	26	59	85
Cross-currency swaps	3	-	3
Embedded derivatives	2	9	11
Assets classified as held for sale	282	-	282
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	(44)	(1,538)	(1,582)
Government refundable advances	(8)	(49)	(57)
Lease obligations	(52)	(317)	(369)
Other financial liabilities	(1,736)	(32)	(1,768)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(35)	(38)	(73)
Interest rate swaps	-	(15)	(15)
Cross-currency swaps	-	(67)	(67)
Embedded derivatives	(1)	(4)	(5)
Liabilities associated with assets held for sale	(72)	-	(72)
30 June 2020			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents – restated[1]	415	-	415
Net trade receivables	1,048	-	1,048
Classified as fair value:			
Investments	-	49	49
Derivative financial assets:			
Foreign currency forward contracts	8	27	35
Embedded derivatives	2	15	17
Assets classified as held for sale	55	-	55
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings – restated[1]	(90)	(3,615)	(3,705)
Government refundable advances	(8)	(63)	(71)
Lease obligations	(79)	(524)	(603)
Other financial liabilities	(1,777)	(21)	(1,798)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(121)	(155)	(276)
Interest rate swaps	(35)	(96)	(131)
Cross-currency swaps	(25)	(112)	(137)
Embedded derivatives	(1)	(8)	(9)
Liabilities associated with assets held for sale	(40)	-	(40)
31 December 2020			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	311	-	311
Net trade receivables	1,228	-	1,228
Classified as fair value:			
Investments	-	34	34
Derivative financial assets:			
Foreign currency forward contracts	45	90	135
Embedded derivatives	2	11	13
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	(165)	(2,926)	(3,091)
Government refundable advances	(7)	(51)	(58)
Lease obligations	(81)	(474)	(555)
Other financial liabilities	(1,941)	(49)	(1,990)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(46)	(40)	(86)
Interest rate swaps	(2)	(85)	(87)
Cross-currency swaps	(9)	(80)	(89)
Embedded derivatives	(1)	(5)	(6)

[1] Restated for the presentation of cash and cash equivalents and bank overdrafts (see note 2).

11. Financial instruments (continued)

The fair value of the derivative financial instruments, other than embedded derivatives, is derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and they are therefore categorised within level 2 of the fair value hierarchy set out in IFRS 13: “Fair value measurement”. The embedded derivatives are classified as level 3 fair value under the IFRS 13 fair value hierarchy. The Group’s policy is to recognise transfers into and out of the different fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer to occur. There have been no transfers between levels in the period.

12. Retirement benefit obligations

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 period, defined benefit pension plans with a net surplus of £56 million were disposed with the Nortek Air Management and Brush businesses (see note 9).

The most significant defined benefit pension plans in the Group at 30 June 2021 were:

GKN Group Pension Schemes (Numbers 1 – 4)
The GKN Group Pension Schemes (Numbers 1 – 4) are funded plans, closed to new members and were closed to future accrual in 2017. The valuation of the plans was based on a full actuarial valuation as of 30 June 2019, updated to 30 June 2021 by independent actuaries.

GKN UK 2016 Pension Plan
The GKN UK 2016 Pension Plan is a funded plan, closed to new members with no active members, containing assets and liabilities in respect of the pension schemes from various legacy GKN businesses. The valuation of the plan was based on a full actuarial valuation as of 5 April 2019, updated to 30 June 2021 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 2020, updated to 30 June 2021 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.

The amount recognised in the Balance Sheet in respect of defined benefit plans was as follows:

30 June 2021

	UK plans[1] £m	US plans £m	European plans £m	Other plans £m	**Total £m**
Plan assets	2,959	197	24	32	**3,212**
Plan liabilities	(3,006)	(303)	(557)	(39)	**(3,905)**
Net liabilities	(47)	(106)	(533)	(7)	**(693)**

[1] Includes a net liability in respect of the GKN Group Pension Schemes (Numbers 1 and 3) and GKN post-employment medical plans and a net asset in respect of the GKN UK 2016 Pension Plan and the GKN Group Pension Schemes (Numbers 2 and 4).

30 June 2020

	UK plans[1] £m	US plans £m	European plans £m	Other plans £m	**Total £m**
Plan assets	3,357	264	30	42	**3,693**
Plan liabilities	(3,755)	(460)	(586)	(54)	**(4,855)**
Net liabilities	(398)	(196)	(556)	(12)	**(1,162)**

[1] Includes a net liability in respect of the GKN Group Pension Schemes (Numbers 1 – 4), GKN post-employment medical plans and the Nortek UK plan and a net asset in respect of the Brush UK Pension Plan and the GKN UK 2016 Pension Plan.

12. Retirement benefit obligations (continued)

31 December 2020

	UK plans[1] £m	US plans £m	European plans £m	Other plans £m	**Total £m**
Plan assets	3,442	271	27	35	**3,775**
Plan liabilities	(3,560)	(408)	(603)	(42)	**(4,613)**
Net liabilities	(118)	(137)	(576)	(7)	**(838)**

[1] Includes a net liability in respect of the GKN Group Pension Schemes (Numbers 1 – 3), GKN post-employment medical plans and the Nortek UK plan and a net asset in respect of the Brush UK Pension Plan, the GKN UK 2016 Pension Plan and the GKN Group Pension Scheme Number 4.

Valuations of material plans have been updated at 30 June 2021 by independent actuaries to reflect updated assumptions regarding discount rates, inflation rates and asset values. The major assumptions were as follows:

	Rate of increase of pensions in payment % p.a.	Discount rate % p.a.	Price inflation % p.a. (RPI/CPI)
30 June 2021			
GKN UK – Group Pension Schemes (Numbers 1 – 4)	2.5	1.9	2.9/2.4
GKN UK – 2016 Pension Plan	2.0	1.9	2.9/2.4
GKN US plans	n/a	2.7	n/a
GKN Europe plans	1.7	1.0	1.7/1.7
30 June 2020			
GKN UK – Group Pension Schemes (Numbers 1 – 4)	2.7	1.5	2.8/2.1
GKN UK – 2016 Pension Plan	2.7	1.5	2.8/2.1
GKN US plans	n/a	2.7	n/a
GKN Europe plans	1.3	1.1	1.3/1.3
Brush UK Pension Plan	2.7	1.5	2.8/2.1
31 December 2020			
GKN UK – Group Pension Schemes (Numbers 1 – 4)	2.4	1.4	2.7/2.2
GKN UK – 2016 Pension Plan	1.9	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
Brush UK Pension Plan	3.1	1.4	2.7/2.2

In addition, the defined benefit plan assets and liabilities have been updated to reflect the contributions made to the defined benefit plans and the benefits earned during the period to 30 June 2021.

13. Notes to the Cash Flow Statement

Continuing operations	6 months ended 30 June 2021 £m	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Reconciliation of operating loss to net cash generated from operating activities			
Operating loss	**(137)**	(618)	(487)
Adjusting items (note 4)	**360**	607	628
Adjusted operating profit/(loss)	**223**	(11)	141
Adjustments for:			
Depreciation of property, plant and equipment	**183**	199	391
Amortisation of computer software and development costs	**26**	28	51
Share of adjusted operating profit of equity accounted investments	**(28)**	(21)	(62)
Restructuring costs paid and movements in provisions	**(103)**	(110)	(135)
Defined benefit pension contributions paid	**(12)**	(43)	(107)
Change in inventories	**(104)**	69	173
Change in receivables	**3**	512	269
Change in payables	**107**	(361)	(71)
Acquisition costs and associated transaction taxes	**-**	(2)	-
Tax paid	**(40)**	(5)	(14)
Interest paid on loans and borrowings	**(67)**	(57)	(144)
Interest paid on lease obligations	**(7)**	(7)	(16)
Net cash from operating activities	**181**	191	476

[1] Restated for discontinued operations (see note 2).

Reconciliation of cash and cash equivalents, net of bank overdrafts	6 months ended 30 June 2021 £m	Restated[1] 6 months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Cash and cash equivalents per Balance Sheet	**1,329**	415	311
Bank overdrafts included within current interest-bearing loans and borrowings	**(31)**	(76)	(151)
Cash and cash equivalents, net of bank overdrafts per Statement of Cash Flows	**1,298**	339	160

[1] Restated for the presentation of cash and cash equivalents and bank overdrafts (see note 2).

Cash flow from discontinued operations	6 months ended 30 June 2021 £m	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Net cash from discontinued operations	**86**	116	284
Defined benefit pension contributions paid	**(40)**	-	(4)
Tax (paid)/received	**(41)**	(3)	13
Interest paid on lease obligations	**(2)**	(2)	(5)
Net cash from operating activities from discontinued operations[2]	**3**	111	288
Purchase of property, plant and equipment	**(11)**	(12)	(24)
Purchase of computer software and capitalised development costs	**(1)**	(3)	(5)
Net cash used in investing activities from discontinued operations	**(12)**	(15)	(29)
Repayment of principal under lease obligations	**(6)**	(7)	(14)
Net cash used in financing activities from discontinued operations	**(6)**	(7)	(14)

[1] Restated for discontinued operations (see note 2).
[2] Includes tax paid of £32 million following the extraction of Ergotron and Nortek Control from the Nortek tax group prior to the disposal of Nortek Air Management and specific defined benefit pension contributions of £39 million paid on disposal of Nortek Air Management and Brush.

13. Notes to the Cash Flow Statement (continued)

Net debt reconciliation

Net debt consists of interest-bearing loans and borrowings (excluding any acquisition related fair value adjustments), cross-currency swaps and cash and cash equivalents. Currency denominated balances within net debt are translated to Sterling at swapped rates where hedged by cross-currency swaps.

Net debt is an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of interest-bearing loans and borrowings (current and non-current) and cash and cash equivalents.

A reconciliation from the most directly comparable IFRS measure to net debt is given below.

	30 June 2021 £m	Restated[1] 30 June 2020 £m	31 December 2020 £m
Interest-bearing loans and borrowings – due within one year	**(44)**	(90)	(165)
Interest-bearing loans and borrowings – due after one year	**(1,538)**	(3,615)	(2,926)
External debt	**(1,582)**	(3,705)	(3,091)
Less:			
Cash and cash equivalents	**1,329**	415	311
	(253)	(3,290)	(2,780)
Adjustments:			
Impact of cross-currency swaps	**(64)**	(137)	(89)
Non-cash acquisition fair value adjustments	**17**	28	22
Net debt	**(300)**	(3,399)	(2,847)

[1] Restated for the presentation of cash and cash equivalents and bank overdrafts (see note 2).

The table below shows the key components of the movement in net debt:

	At 31 December 2020 £m	Cash flow £m	Acquisitions and disposals £m	Other non-cash movements £m	Effect of foreign exchange £m	**At 30 June 2021 £m**
External debt (excluding bank overdrafts)	(2,940)	1,360	-	-	29	**(1,551)**
Cross-currency swaps	(89)	3	-	-	22	**(64)**
Non-cash acquisition fair value adjustments	22	-	-	(5)	-	**17**
	(3,007)	1,363	-	(5)	51	**(1,598)**
Cash and cash equivalents, net of bank overdrafts	160	(1,386)	2,519	-	5	**1,298**
Net debt	(2,847)	(23)	2,519	(5)	56	**(300)**

14. Lease obligations

Amounts payable under lease obligations:

Minimum lease payments	**30 June 2021 £m**	30 June 2020 £m	31 December 2020 £m
Amounts payable:			
Within one year	**66**	99	101
After one year but within five years	**158**	262	239
Over five years	**214**	359	325
Less: future finance charges	**(69)**	(117)	(110)
Present value of lease obligations	**369**	603	555
Analysed as:			
Amounts due for settlement within one year	**52**	79	81
Amounts due for settlement after one year	**317**	524	474
Present value of lease obligations	**369**	603	555

During the period £151 million of lease obligations were either disposed with the Nortek Air Management and Brush businesses (£138 million) or reclassified as held for sale (£13 million) (see note 9).

14. Lease obligations (continued)

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.

15. Post balance sheet events

On 9 July 2021 shareholders approved a Return of Capital of 15 pence per ordinary share, along with a share consolidation of 9 ordinary shares for every 10 held. The share consolidation took place on 31 August 2021, reducing ordinary shares in issue from 4,858 million to 4,372 million. The Return of Capital of £729 million will be settled on 14 September 2021.

On 23 August 2021, the Group signed a sale and purchase agreement to dispose of Nortek Control for an enterprise value of $285 million. This business has been presented within discontinued operations and held as an asset for sale in these Condensed Interim Financial Statements.

Glossary

Alternative Performance Measures ("APMs")

In accordance with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA"), additional information is provided on the APMs used by the Group below.

In the reporting of financial information, the Group uses certain measures that are not required under IFRS. These additional measures (commonly referred to as APMs) provide additional information on the performance of the business and trends to stakeholders. These measures are consistent with those used internally, and are considered important to understanding the financial performance and financial health of the Group. APMs are considered to be an important measure to monitor how the businesses are performing because this provides a meaningful comparison of how the business is managed and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.

These APMs may not be directly comparable with similarly titled measures reported by other companies and they are not intended to be a substitute for, or superior to, IFRS measures. All Income Statement and Cash Flow measures are provided for continuing operations unless otherwise stated.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures			
Adjusted revenue	Revenue	Share of revenue of equity accounted investments (note 8)	Adjusted revenue includes the Group's share of revenue of equity accounted investments ("EAIs"). This enables comparability between reporting periods.
Adjusting items	None	Adjusting items (note 4)	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. These include items which are significant in size or volatility or by nature are non-trading or non-recurring, any item released to the Income Statement that was previously a fair value item booked on an acquisition, and includes adjusted profit from EAIs. This provides a meaningful comparison of how the business is managed and measured on a day-to-day basis and provides consistency and comparability between reporting periods.
Adjusted operating profit	Operating profit/(loss)[2]	Adjusting items (note 4)	The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.

Revenue	**6 months ended 30 June 2021 £m**	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Revenue	**3,540**	3,386	7,132
Share of revenue of equity accounted investments (note 8)	**288**	238	591
Adjusted revenue	**3,828**	3,624	7,723

Operating profit	**6 months ended 30 June 2021 £m**	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Operating loss	**(137)**	(618)	(487)
Adjusting items to operating loss (note 4)	**360**	607	628
Adjusted operating profit/(loss)	**223**	(11)	141

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Adjusted operating margin</td><td>Operating margin[3]</td><td>Share of revenue of equity accounted investments (note 8) and adjusting items (note 4)</td><td>Adjusted operating margin represents Adjusted operating profit as a percentage of Adjusted revenue. The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing performance of the Group.</td></tr>
<tr><td>Adjusted profit before tax</td><td>Loss before tax</td><td>Adjusting items (note 4)</td><td>Profit before the impact of adjusting items and tax. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.
<table>
<tr><th>Profit before tax</th><th>6 months ended 30 June 2021 £m</th><th>Restated[1] 6 months ended 30 June 2020 £m</th><th>Restated[1] Year ended 31 December 2020 £m</th></tr>
<tr><td>Loss before tax</td><td>(256)</td><td>(720)</td><td>(679)</td></tr>
<tr><td>Adjusting items to loss before tax (note 4)</td><td>397</td><td>615</td><td>638</td></tr>
<tr><td>Adjusted profit/(loss) before tax</td><td>141</td><td>(105)</td><td>(41)</td></tr>
</table></td></tr>
<tr><td>Adjusted profit after tax</td><td>Loss after tax</td><td>Adjusting items (note 4)</td><td>Profit after tax but before the impact of the adjusting items. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.
<table>
<tr><th>Profit after tax</th><th>6 months ended 30 June 2021 £m</th><th>Restated[1] 6 months ended 30 June 2020 £m</th><th>Restated[1] Year ended 31 December 2020 £m</th></tr>
<tr><td>Loss after tax</td><td>(151)</td><td>(585)</td><td>(565)</td></tr>
<tr><td>Adjusting items to loss after tax (note 4)</td><td>260</td><td>505</td><td>538</td></tr>
<tr><td>Adjusted profit/(loss) after tax</td><td>109</td><td>(80)</td><td>(27)</td></tr>
</table></td></tr>
<tr><td>Adjusted EBITDA for leverage covenant purposes</td><td>Operating profit/ (loss)[2]</td><td>Adjusting items (note 4), depreciation of property, plant and equipment and amortisation of computer software and development costs, imputed lease charge, share of non-controlling interests and other adjustments required for leverage covenant purposes[5]</td><td>Adjusted operating profit for 12 months prior to the reporting date, before depreciation and impairment of property, plant and equipment and before the amortisation and impairment of computer software and development costs.

Adjusted EBITDA for leverage covenant purposes is a measure used by external stakeholders to measure performance.
<table>
<tr><th>Adjusted EBITDA for leverage covenant purposes</th><th>12 months ended 30 June 2021 £m</th><th>12 months[4] ended 30 June 2020 £m</th><th>Year ended[4] 31 December 2020 £m</th></tr>
<tr><td>Adjusted operating profit</td><td>375</td><td>617</td><td>340</td></tr>
<tr><td>Depreciation of property, plant and equipment and amortisation of computer software and development costs</td><td>424</td><td>507</td><td>492</td></tr>
<tr><td>Imputed lease charge</td><td>(77)</td><td>(95)</td><td>(97)</td></tr>
<tr><td>Non-controlling interests</td><td>(3)</td><td>(4)</td><td>(3)</td></tr>
<tr><td>Other adjustments required for leverage covenant purposes[5]</td><td>(8)</td><td>(31)</td><td>(8)</td></tr>
<tr><td>Adjusted EBITDA for leverage covenant purposes</td><td>711</td><td>994</td><td>724</td></tr>
</table></td></tr>
</table>

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>H1 annualised adjusted EBITDA for leverage covenant purposes</td><td>Operating profit/(loss)(2)</td><td>Adjusting items (note 4), depreciation of property, plant and equipment and amortisation of computer software and development costs, imputed lease charge, share of non-controlling interests and other adjustments required for leverage covenant purposes(5)</td><td>Adjusted operating profit for the six months prior to the reporting date, before depreciation and impairment of property, plant and equipment and before the amortisation and impairment of computer software and development costs. This is doubled to give a H1 annualised adjusted EBITDA for leverage covenant purposes.

H1 annualised adjusted EBITDA for leverage covenant purposes is a useful indicator to measure the ongoing performance of the Group.

<table>
<tr><th>H1 annualised adjusted EBITDA for leverage covenant purposes</th><th>6 months ended 30 June 2021 £m</th></tr>
<tr><td>Adjusted EBITDA for leverage covenant purposes</td><td>711</td></tr>
<tr><td>Less: Adjusted EBITDA for leverage covenant purposes for six months to 31 December 2020</td><td>(308)</td></tr>
<tr><td>H1 adjusted EBITDA for leverage covenant purposes</td><td>403</td></tr>
<tr><td>H1 annualised adjusted EBITDA for leverage covenant purposes</td><td>806</td></tr>
</table></td></tr>
<tr><td>Adjusted tax rate</td><td>Effective tax rate</td><td>Adjusting items, adjusting tax items and the tax impact of adjusting items (note 4 and note 5)</td><td>The income tax charge for the Group excluding adjusting tax, and the tax impact of adjusting items, divided by adjusted profit/(loss) before tax.

This measure is a useful indicator of the ongoing tax rate for the Group.

<table>
<tr><th>Adjusted tax rate</th><th>6 months ended 30 June 2021 £m</th><th>Restated(1) 6 months ended 30 June 2020 £m</th><th>Restated(1) Year ended 31 December 2020 £m</th></tr>
<tr><td>Tax credit per Income Statement</td><td>105</td><td>135</td><td>114</td></tr>
<tr><td>Adjusted for:</td><td></td><td></td><td></td></tr>
<tr><td>Tax impact of adjusting items</td><td>(77)</td><td>(106)</td><td>(99)</td></tr>
<tr><td>Tax impact of significant legislative changes</td><td>(55)</td><td>-</td><td>-</td></tr>
<tr><td>Tax impact of significant restructuring</td><td>-</td><td>-</td><td>7</td></tr>
<tr><td>Tax impact of EAIs</td><td>(5)</td><td>(4)</td><td>(8)</td></tr>
<tr><td>Adjusted tax (charge)/credit</td><td>(32)</td><td>25</td><td>14</td></tr>
<tr><td>Adjusted profit/(loss) before tax</td><td>141</td><td>(105)</td><td>(41)</td></tr>
<tr><td>Adjusted tax rate</td><td>22.7%</td><td>23.8%</td><td>34.1%</td></tr>
</table></td></tr>
<tr><td>Adjusted basic earnings per share</td><td>Basic earnings per share</td><td>Adjusting items (note 4 and note 6)</td><td>Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial period.</td></tr>
<tr><td>Adjusted diluted earnings per share</td><td>Diluted earnings per share</td><td>Adjusting items (note 4 and note 6)</td><td>Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of any potentially dilutive options.

The Board considers this to be a key measure of performance when all businesses are held for the complete reporting period.</td></tr>
<tr><td>Proforma earnings per share</td><td>Basic earnings per share</td><td>Adjusting items (note 4 and note 6) and changes to the number of shares (note 15)</td><td>Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the number of ordinary shares in issue of 4,372 million, following the 9 for 10 share consolidation which took place on 31 August 2021.</td></tr>
</table>

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Interest cover	None	Not applicable	Adjusted EBITDA calculated for covenant purposes (including adjusted EBITDA of businesses disposed) as a multiple of net interest payable on bank loans and overdrafts. This measure is used for bank covenant testing.

Interest cover	**12 months ended 30 June 2021 £m**	12 months[(4)] ended 30 June 2020 £m	Year ended[(4)] 31 December 2020 £m
Adjusted EBITDA for leverage covenant purposes	**711**	994	724
Adjusted EBITDA from businesses disposed in the year	**271**	-	2
Adjusted EBITDA for interest cover	**982**	994	726
Interest on bank loans and overdrafts	**(126)**	(144)	(136)
Finance income	**3**	1	3
Other interest for covenant purposes[(6)]	**(53)**	(1)	(9)
Net finance charges for covenant purposes	**(176)**	(144)	(142)
Interest cover	**5.6x**	6.9x	5.1x

Balance Sheet Measures			
Working capital	Inventories, trade and other receivables less trade and other payables	Not applicable	Working capital comprises inventories, current and non-current trade and other receivables and current and non-current trade and other payables. This measure provides additional information in respect of working capital management.
Net debt	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Reconciliation of net debt (note 13)	Net debt comprises cash and cash equivalents, interest-bearing loans and borrowings and cross-currency swaps but excludes non-cash acquisition fair value adjustments. Net debt is one measure that could be used to indicate the strength of the Group's Balance Sheet position and is a useful measure of the indebtedness of the Group.
Proforma net debt	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Reconciliation of net debt (note 13) and a Return of Capital (note 15)	Net debt (as above) is adjusted for the shareholder approved Return of Capital (note 15) to measure the ongoing indebtedness of the Group and indicate the strength of the Group's Balance Sheet position.

Net debt	**30 June 2021 £m**
Net debt at closing rates (note 13)	**300**
Return of Capital (note 15)	**729**
Proforma net debt	**1,029**

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Bank covenant definition of net debt at average rates and leverage</td><td>Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments</td><td>Impact of foreign exchange and adjustments for bank covenant purposes</td><td>Net debt (as above) is presented in the Balance Sheet translated at period end exchange rates.

For bank covenant testing purposes net debt is converted using average exchange rates for the previous 12 months.

Leverage is calculated as the bank covenant definition of net debt divided by adjusted EBITDA for leverage covenant purposes. This measure is used for bank covenant testing.

<table>
<tr><th>Net debt</th><th>30 June 2021 £m</th><th>30 June[(4)] 2020 £m</th><th>31 December[(4)] 2020 £m</th></tr>
<tr><td>Net debt at closing rates (note 13)</td><td>300</td><td>3,399</td><td>2,847</td></tr>
<tr><td>Impact of foreign exchange</td><td>35</td><td>(69)</td><td>106</td></tr>
<tr><td>Bank covenant definition of net debt at average rates</td><td>335</td><td>3,330</td><td>2,953</td></tr>
<tr><td>Leverage</td><td>0.5x</td><td>3.4x</td><td>4.1x</td></tr>
</table>
</td></tr>
<tr><td>Proforma leverage</td><td>Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments</td><td>Adjustments for bank covenant purposes, a Return of Capital (note 15), and the impact of foreign exchange</td><td>Proforma leverage is calculated as the bank covenant definition of net debt, adjusted for the shareholder approved Return of Capital (note 15), divided by adjusted EBITDA for leverage covenant purposes. This measure shows the effect of material disposal-related transactions on the Group's ongoing leverage for bank covenant testing purposes.
<table>
<tr><th></th><th>30 June 2021 £m</th></tr>
<tr><td>Bank covenant definition of net debt at average rates</td><td>335</td></tr>
<tr><td>Return of Capital (note 15)</td><td>729</td></tr>
<tr><td>Bank covenant definition of net debt at average rates, after proforma adjustment</td><td>1,064</td></tr>
<tr><td>Proforma leverage</td><td>1.5x</td></tr>
</table>
</td></tr>
</table>

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Cash Flow Measures			
Adjusted operating cash flow (pre-capex) conversion and Adjusted operating cash flow conversion	Net cash from operating activities	Non-working capital items (note 13)	Adjusted operating cash flow (pre-capex) is calculated as adjusted operating profit before depreciation and amortisation attributable to subsidiaries, repayment of principal under lease obligations, the positive non-cash utilisation from loss-making contracts and movements in working capital. Adjusted operating cash flow (pre-capex) conversion is adjusted operating cash flow (pre-capex) divided by adjusted operating profit before depreciation and amortisation attributable to subsidiaries, less repayment of principal under lease obligations and the positive non-cash utilisation from loss-making contracts. This measure provides additional useful information in respect of cash generation and is consistent with how business performance is measured internally.

Adjusted operating cash flow (pre-capex)	**6 months ended 30 June 2021 £m**	Restated[1] 6 months ended 30 June 2020 £m	Restated[1] Year ended 31 December 2020 £m
Adjusted operating profit/(loss)	**223**	(11)	141
Share of adjusted operating profit of EAIs (note 8)	**(28)**	(21)	(62)
Depreciation of owned property, plant and equipment and amortisation of owned computer software and development costs (note 3)	**185**	198	385
Depreciation of leased property, plant and equipment and amortisation of leased computer software and development costs (note 3)	**24**	29	57
Repayment of principal under lease obligations	**(29)**	(31)	(63)
Positive non-cash utilisation from loss-making contracts (note 10)	**(23)**	(31)	(59)
	352	133	399
Change in inventories	**(104)**	69	173
Change in receivables	**3**	512	269
Change in payables	**107**	(361)	(71)
Adjusted operating cash flow (pre-capex)	**358**	353	770
Adjusted operating cash flow (pre-capex) conversion	**102%**	265%	193%

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Free cash flow	Net increase/ decrease in cash and cash equivalents	Acquisition related cash flows, dividends paid to owners of the parent, foreign exchange, discontinued operating cash flows and other non-cash movements	Free cash flow represents cash generated from trading from continuing businesses after all costs including restructuring, pension contributions, tax and interest payments. A reconciliation of free cash flow is included within the Finance Director's Review.
Adjusted free cash flow	Net increase/ decrease in cash and cash equivalents	Free cash flow, as defined above, adjusted for special pension contributions and restructuring cash flows	Adjusted free cash flow represents free cash flow adjusted for special pension contributions and restructuring cash flows. A reconciliation of adjusted free cash flow is included within the Finance Director's Review.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Capital expenditure (capex)	None	Not applicable	Calculated as the purchase of owned property, plant and equipment and computer software and expenditure on capitalised development costs during the period, excluding any assets acquired as part of a business combination. Net capital expenditure is capital expenditure net of proceeds from disposal of property, plant and equipment.
Capital expenditure to depreciation ratio	None	Not applicable	Net capital expenditure divided by depreciation of owned property, plant and equipment and amortisation of computer software and development costs.
Dividend per share	Dividend per share	Not applicable	Amounts payable by way of dividends in terms of pence per share.

(1) Results for the period ended 30 June 2020 and the year ended 31 December 2020 have been restated for discontinued operations (see note 2).
(2) Operating profit/(loss) is not defined within IFRS but is a widely accepted profit measure being profit/(loss) before finance costs, finance income and tax.
(3) Operating margin is not defined within IFRS but is a widely accepted profit measure being derived from operating profit/(loss)(2) divided by revenue.
(4) Year ended 31 December 2020 and period ended 30 June 2020 remain aligned to the original calculations supporting the Group's bank debt compliance certificate, and have not been restated for discontinued operations.
(5) Included within other adjustments required for leverage covenant purposes are dividends received from equity accounted investments, the removal of adjusted operating profit of equity accounted investments and the inclusion of operating profit, depreciation and an imputed lease charge in respect of businesses classified as held for sale.
(6) Other interest for covenant purposes includes bank facility renegotiation fees and costs associated with the cancellation of interest rate swap arrangements.