

7 September 2023



MELROSE INDUSTRIES PLC
UNAUDITED RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

Trading ahead of expectations, upgraded outlook, share buybacks to be commenced early

Melrose Industries PLC (“Melrose”, the “Company” or the “Group”), an Aerospace Engines and Structures Group, today announces its interim results for the six months ended 30 June 2023 (“the Period”).

Highlights

	Adjusted ¹ results		Statutory results	
	2023	2022 ²	2023	2022 ²
Continuing operations	£m	£m	£m	£m
Revenue	1,633	1,364	1,633	1,364
Aerospace operating profit/(loss)	175	67	(4)	(93)
Operating profit/(loss) (post PLC costs)	159	45	(18)	(281)
Profit/(loss) before tax	134	9	(62)	(314)
Diluted earnings per share	7.5p	0.2p	(3.0)p	(16.8)p
Net debt ¹	553	1,294	n/a	n/a

Melrose Group – at constant currency³

Trading ahead of expectations – upgraded guidance

- Upgraded full year guidance: Aerospace 2023 adjusted¹ operating profit range increases by over 8% to between £375 million and £385 million with a higher Engines margin than previously guided
- Net debt leverage¹ reducing towards 1x EBITDA¹ by the end of 2023 (before share buyback programme)
- This outperformance further underpins the achievement of the 2025 guidance

Half year results

- Aerospace revenue of £1.63 billion, growth of 19%³ over last year (15% including businesses being exited)
- Aerospace adjusted¹ operating profit of £175 million, more than 2.5x the prior year
- Aerospace adjusted¹ operating margin of 10.7% an increase of 5.8 percentage points on the prior year and 3.2 percentage points on the second half of 2022
- Adjusted¹ diluted earnings per share increased to 7.5p (2022: 0.2p). Statutory loss per share was 3.0p (2022: 16.8p)
- Restructuring and repricing progressing well combined with improved quality and arrears reduction

- Net debt¹ of £553 million in line with expectations, reducing leverage¹ to 1.5x (pro-forma 2022 opening leverage¹ 1.8x)

Earlier shareholder returns

- Higher confidence and strong progress allows Melrose to commence early its share buyback programme, at the beginning of October 2023, starting with a £500 million buyback over 12 months and being well placed to continue thereafter keeping leverage¹ comfortably within previous guidance
- Continuation of the progressive annual dividend, with an interim dividend of 1.5 pence per share declared

New Investor Event - Engines

- To be held on site in Sweden, the global HQ for the Engines business, during October 2023 to showcase in more detail and colour the full quality of the Engines business, including a new target for Engines operating margins to rise above 30% post 2025

Management changes

- Melrose is now a long-term aerospace group with exceptional organic growth prospects. In line with this new strategic direction, on 7 March 2024 Simon Peckham and Geoffrey Martin will step down as Melrose Chief Executive and Group Finance Director respectively, to be replaced by Peter Dilnot (currently Melrose Chief Operating Officer) and Matthew Gregory (currently Chief Financial Officer GKN Aerospace) respectively. Thus providing management continuity as Melrose becomes a pureplay aerospace group. Simon Peckham, Geoffrey Martin and Christopher Miller will not stand for re-election as directors at the 2024 AGM

By division – at constant currency³

Engines

- Engines revenue growth of 19% in the first half with adjusted¹ operating profit nearly doubling and adjusted¹ operating margin up to 24.5%
- Engines aftermarket growth of 46% driven by recovering flying hours and the Group entering the lucrative aftermarket 'sweet spot' allowing an above market performance

Structures

- Structures revenue growth of 18%³ (13% including businesses being exited) and adjusted operating margin reaching 2.5% in the first half versus loss-making in the first half of 2022
- Civil ramp-up delivering 24% growth. Defence repricing and portfolio work accelerated with around 25% of the renegotiations planned by 2025 being successfully concluded in the last few months

Demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen

- The demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses from Melrose into Dowlais Group PLC successfully completed on 20 April 2023 as scheduled

Upgraded guidance for 2023 full year (assuming US \$ = 1.25 average exchange rate for the year)

Group

- Revenue of between £3.35 billion and £3.45 billion

- Aerospace adjusted¹ operating profit between £375 million and £385 million
- Aerospace adjusted¹ EBITDA of between £525 million and £535 million
- PLC costs reducing to £30 million
- Net debt leverage¹ reducing towards 1x EBITDA¹ by the end of 2023 (before share buyback programme)

Simon Peckham, Chief Executive of Melrose Industries PLC, today said:

“We are delighted with these results and the outlook for Melrose. Whilst there is still work to do, the business is very capable of producing over £1 billion of EBITDA and providing excellent returns for shareholders. This is further demonstrated by the confidence to start early the share buyback programme. Chris, Geoff and I are pleased to hand over to Peter and Matthew to continue the great performance achieved by Aerospace, and to guide this handover during the coming months and into 2024. Melrose shareholders own a truly special business, with rapidly increasing profits, exceptionally strong long-term cash flows and a disciplined shareholder focused approach to capital.”

1. Described in the glossary to the 2023 Interim Financial Statements
2. Results for the period ended 30 June 2022 have been restated for discontinued operations and the one for three share consolidation
3. Like-for-like growth is calculated at constant currency against 2022 results and excludes businesses being exited

ENDS

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CHAIRMAN'S STATEMENT

I am pleased to report a strong set of interim results for the six months ended 30 June 2023 (the "Period"), which have underpinned the confidence in making an upgrade to the full year results. Furthermore, as we have evolved into being a long-term aerospace group in line with previous announcements, we are providing details and timing about the intended executive management changes scheduled for the first half of next year to take this exciting new strategy forward.

RESULTS FOR THE CONTINUING GROUP

These results include statutory revenue for the Group of £1,633 million (2022: £1,364 million), an adjusted operating profit of £159 million (2022: £45 million) and a statutory loss before tax of £62 million (2022: £314 million). This includes solely the Aerospace business, post PLC costs, as a result of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses being demerged from the Group on 20 April 2023 and therefore being treated as discontinued in these results for accounting purposes.

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

TRADING

The Aerospace business has performed well during the Period. The industry-leading Engines division has exceeded its margin guidance and continues to demonstrate exceptional profit growth and long-term cash flows. The design-led Structures division continues to improve and deliver on its strong positions on excellent platforms.

CASH AND SHARE BUYBACK PROGRAMME

These interim results demonstrate increasing confidence and strong progress, with upgraded profit guidance and with net debt reducing towards 1x EBITDA by the end of 2023 (prior to share buybacks). With profits rising fast, and with restructuring already well-advanced to realise the Aerospace business's full potential, your Board is confident to commence early its share buyback programme, at the beginning of October 2023, starting with a £500 million buyback over 12 months, and being well placed to continue thereafter while keeping leverage well within the previous guidance.

DIVIDEND

Your Board has declared an interim dividend of 1.5 pence per share, which will be paid on 20 October 2023 to shareholders on the register at the close of business on 15 September 2023.

DEMERGER OF GKN AUTOMOTIVE, GKN POWDER METALLURGY AND GKN HYDROGEN

The demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses from the Company into Dowlais Group PLC ("Dowlais") completed on 20 April 2023 as scheduled (the "Demerger"). This transaction marks the successful transformation of these businesses whilst under Melrose ownership, enabling them to continue as a standalone automotive-focused group listed on the London Stock Exchange.

Prior to the Demerger, the Company undertook a one for three consolidation of the existing Melrose ordinary shares after 6:00 p.m. on 19 April 2023. Admission and dealings in the new Melrose ordinary shares on the London Stock Exchange commenced at 8.00 a.m. on 20 April 2023, and there are now 1,351,475,321 Melrose ordinary shares of 160/7 pence in issue.

BOARD MATTERS

Given Melrose has transitioned into a long-term aerospace group, the Company believes that this is the right time to begin evolving the executive management team to progress the changed strategy. Christopher Miller our Executive Vice-Chairman, and Simon Peckham our Chief Executive, who have each served the Company since it was founded in 2003, and Geoffrey Martin who joined as Group Finance Director in 2005, have overseen the successful execution of the Company's 'Buy, Improve, Sell' strategy. Christopher, Simon and Geoffrey have expressed their intention not to stand for re-election at the Company's Annual General Meeting in 2024, leaving behind a highly successful record of shareholder value creation.

The Board has nominated Peter Dilnot to oversee Melrose to realise the next chapter of development of the Aerospace business, and to be appointed Chief Executive from 7 March 2024. This will allow an orderly transition with the benefit of Peter's continued insight and stewardship, having served as Melrose Chief Operating Officer since 2019, during which time he also served as CEO of GKN Aerospace on an interim basis.

Peter will be joined by Matthew Gregory, whom the Board has nominated for appointment as Group Finance Director of Melrose from 7 March 2024. Matthew brings further continuity to the Company's transition, currently serving as the Chief Financial Officer of GKN Aerospace.

Separately, during the Period, Funmi Adegoke resigned as a non-executive director of the Board with effect from 16 June 2023 following a promotion within Halma PLC. We thank Funmi for her contributions to the Company and are pleased to have welcomed Gillian Elcock, who was appointed to the Board as a non-executive director with effect from 21 June 2023. Gillian has extensive investment research experience including several years covering aerospace and defence as an analyst at Putnam Investments and Insight Investment, with two engineering degrees from MIT and an MBA from the Harvard Business School.

STRATEGY AND PURPOSE

Since being founded in 2003, Melrose has created significant shareholder value through its 'Buy, Improve, Sell' strategy. Following completion of the Demerger, Melrose has now changed strategy to being purely an aerospace business, and thus will now report publicly as two divisions: Engines and Structures. The Board has already confirmed that it will not seek to undertake another acquisition of an unrelated industrial business or, in the near term, a material aerospace business.

For the next few months the focus is to complete the current restructuring plans. These are well underway and are expected to be largely complete by the time of the 2023 preliminary full year results announcement in March next year. As part of this strategy, Aerospace is continuing to invest heavily in sustainable technology as it pursues its mission to be a highly trusted and sustainable aerospace partner in the sky.

OUTLOOK

The Board is confident of achieving its upgraded full year expectations. In Engines, our RRSP portfolio looks towards continued market growth and an upcoming lucrative aftermarket phase. Operational efficiencies and the benefit of ongoing restructuring means that we expect full year 2023 to show an excellent improvement in performance, with the Aerospace business positioned for further profitable success over the coming years.



Justin Dowley
Non-executive Chairman
7 September 2023

CHIEF EXECUTIVE'S REVIEW

It has been a busy period, with the successful demerger of the Dowlais businesses allowing full focus on executing the remaining restructuring plans for Aerospace, as a standalone business. Aerospace continues to perform strongly, with restructuring projects well underway and on track to be materially complete in the near future, unlocking the full potential of this great business.

The business's adjusted operating margin more than doubled compared to the prior period to 10.7%, representing good progress towards its 2025 operating margin guidance of 17-18% as outlined during the Capital Markets Event in May 2023. This has allowed an upgrade to 2023 expectations, predominantly focused on Engines, with further volume recovery and improvements to come.

Supported by continued strong momentum and market recovery underpinned by robust demand, the outlook for the Aerospace business is very positive and we remain confident in its prospects and ability to perform well in 2023 and beyond. Aerospace's technology is embedded on the world's most successful, highest volume platforms. This progress is supported over the medium-term through ongoing business improvements, as well as the increase in flight hours and narrowbody production in civil and growing defence budgets driving demand for military platforms.

Inflationary pressure and global supply chains continue to provide some challenges which are expected to continue into 2024, but the business continues to manage these and has been able to fully offset all additional costs.

Building on its commitment to developing best in class sustainable technology solutions that will assist in moving the aviation sector into the era of more sustainable air travel, the business continues to progress the technological advances made on the successful H2Gear project. Aerospace signed a partnership agreement with Embraer at the 2023 Paris Air Show, laying the path to flight testing a zero-emissions liquid hydrogen propulsion system. The business also advanced its Additive Manufacturing leadership, introducing its largest Additive Manufacturing cell at the new Global Technology Centre in the US.

Further details are set out in the divisional reviews below.

ENGINES

The Engines business made excellent progress during the first half. This was driven by strong market growth underpinned by the performance of its diverse portfolio of 19 RRSPs, which are set to generate approximately £20 billion in net cash flow in the future. These gains were reinforced by positive momentum from target growth initiatives and the benefits of business improvements.

During the Period, like-for-like revenue was up 19% versus 2022 with aftermarket growth of 46% reflecting increased flying hours and above market contribution from RRSP contracts entering their lucrative aftermarket phase. Adjusted operating margins improved 8.6 percentage points to 24.5%. Encouragingly this first half performance is ahead of previous full year guidance of 22% and moving further towards the 2025 guidance of 28%. The first half margin expansion was driven by increased aftermarket RRSP profits, global spares business expansion and operational improvement – including restructuring projects delivering positive returns.

Good progress was made with growth initiatives, including global spares ramp-up, additive manufacturing capability, and commercial contracts. The repair business grew by 21% in the first half and the Malaysia fan blade repair centre gained its CAAC certification opening up the China and Asia markets. Additionally, factory preparation is underway for a new state-of-the-art dedicated engine component repair centre in California. Additive manufacturing for structural engine components has accelerated with a multi-year £40 million investment in new production capabilities in Sweden, while commercial progress continues with all major engine OEMs to insert GKN Additive technology into existing engine designs. The business is also extending its OEM supply agreements, such as an important 10 year extension that has recently been signed with Pratt & Whitney for the production of F135 engine ducts.

Inevitably the development of engines is an ongoing process and recently Pratt & Whitney announced there was a manufacturing process issue affecting PW1100G engines. The production of powdered metal parts continues, and Pratt & Whitney will continue to deliver both new engines and new spares across all product lines. We are confident that the PW1100G engine will be highly successful and have always taken a conservative approach to its commercial development. Whilst there will be short-term issues for some customers, we are confident that there will be many years of success to come.

The substantial reshaping of the Engines manufacturing footprint is on track. Production has now ceased at the Manchester, US plant and all other restructuring moves are expected to be largely complete in the next four months. As a result of restructuring over the last three years, Engines operations will be concentrated into nine global manufacturing sites with the consolidation of key product lines into highly productive Centres of Excellence. In parallel there have been operational gains in productivity and quality with the number of 'escapes' (quality issues reaching customers) down 33% in the first half of this year. Despite the industry's supply chain challenges, the business has sustained high levels of on time delivery.

We are confident that with ongoing market recovery, RRSP portfolio contribution and operational momentum, the Engines business has the potential to achieve above 30% operating margins post 2025.

STRUCTURES

The Structures business continued to make good financial and operational progress in the first half. The ongoing ramp-up in Civil production volumes and the successful actions to reshape the Defence portfolio give promising momentum into the second half of the year. This was underpinned by further progress on restructuring and operational gains with improved quality and lower arrears despite industry supply chain issues.

During the Period, like-for-like revenue was up 18% versus 2022 with Civil growth of 24% reflecting higher OEM production rates, particularly with Airbus, Boeing and Gulfstream. Defence revenue increased by 6% (excluding work being exited) in line with the associated programme demand. Adjusted operating margins improved by 3.6 percentage points to 2.5% from a loss making position in the first half of 2022. This first half performance is in line with the expected 3% margin for the full year and demonstrates positive momentum towards the full recovery of the business as volumes ramp up. The first half margin expansion was driven by Civil volume increases, improving quality of earnings in Defence and operational improvements – including the positive impact of restructuring projects.

There was a record number of orders for new aircraft in this Period with particularly strong new demand from Asia. OEM production rates remain constrained by supply chain and operational issues, so order backlogs are currently at record levels of over 12,000 aircraft. For illustration, the A320 range is now scheduling slots into 2029. The Structures business has established positions on all major aircraft and is successfully ramping up at pace while sustaining operational standards. During the Period, quality improved further with the number of 'escapes' (quality issues reaching customers) reducing by 44% versus 2022, and customer arrears also improved by 31%.

There was also positive progress with commercial initiatives in the first half. In Defence, the repricing and portfolio work accelerated with around 25% of the renegotiations planned by 2025 being successfully concluded in the last few months. There is also momentum on exiting non-core work with production handovers well underway, particularly in the US. In Civil, a new contract was signed with Airbus extending A220 wiring supply from our global centres in Turkey, China and Mexico. Agreements have been reached with Joby and Supernal, leading players in the emerging electric air mobility market, covering composite structures and electrical distribution systems. The China JV with COMAC is also moving forward with initial work packages agreed for the new site which is on track to be operational during the first half of 2024.

The extensive restructuring programme within Structures is nearing completion following three years of activity. The resulting operational footprint will be 24 global sites largely focused on design

to build programmes. In the first half, the Netherlands consolidation project has delivered major milestones ahead of plant closures later this year. Selected work is also being moved from the US to our growing Mexico facility with all key projects underway. The ongoing industry supply chain challenges continue to be navigated without impact for key customers, however they caused internal operational issues in the first half, including reduced productivity in some sites. We would expect an improvement in the second half and into 2024.

The ongoing structural ramp-up in Civil production, coupled with positive momentum on improving the Defence portfolio and delivering operational gains, gives us confidence that Structures is on track to achieve its target 9% margin in 2025 with further expansion potential thereafter.

OUTLOOK

The Engines business continues to de-risk its progress towards achieving 28% margins in 2025 and then above 30% margins post 2025, with the market recovery continuing to accelerate, and bolstered by strong long-term platform positions and business improvements. The business is in a strong position to benefit from the opportunity in parts repair, with its expanding certified global repair capability in key strategic locations. Over the medium to long-term, the business is primed to pursue leading positions on next generation platforms, with ongoing efforts to scale up its disruptive additive fabrication technology, and expand its partnerships with leading civil engines manufacturers and air forces. We look forward to explaining this full potential in more detail at the new Engines Investor Event in October this year in Sweden.

Continued growth within the Structures business remains underpinned by very strong demand and growing backlogs, giving a positive near-term outlook led by narrowbody. Flight hours are returning strongly, with OEM deliveries ramping up fast to address the continued backlog of orders in civil, with spending increasing in defence. The business is well placed on all key platforms, and on track to achieve its target 9% margin in 2025, with civil volume ramp-ups driving growth, and the defence portfolio repricing and rationalisation well underway. Longer-term prospects are supported by ongoing footprint consolidation and quality improvements which are progressing well.

MANAGEMENT CHANGES

We have announced today that Geoffrey and I will be stepping down as Chief Executive and Group Finance Director respectively on 7 March 2024. Together with Christopher, Executive Vice-Chairman, we will also step down from the Board at the next AGM. It has been a very enjoyable 20 years, and we would like to thank all the people both within and outside Melrose who have contributed to Melrose's journey. We are very pleased to leave the business in such great condition to be taken forward by a talented management team led by Peter and Matthew. We believe that Melrose has a very exciting future as one of the world's leading aerospace companies.



Simon Peckham
Chief Executive
7 September 2023

FINANCE DIRECTOR'S REVIEW

The demerger of the Dowlais Group of businesses ("Dowlais"), comprising GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen completed on 20 April 2023 (the "demerger"). Dowlais contributed approximately two thirds of the adjusted revenue and adjusted operating profit of the Group in 2022, and, in accordance with IFRS 5, is shown as discontinued in these Condensed Interim Financial Statements, leaving Aerospace as the only business remaining in the Group.

Following the demerger, it has been deemed appropriate to report Aerospace as two separate operating segments, namely Engines and Structures, alongside the corporate cost centre.

MELROSE GROUP RESULTS – CONTINUING OPERATIONS

Statutory results:

The statutory IFRS results are shown on the face of the Income Statement and show revenue of £1,633 million (2022: £1,364 million), an operating loss of £18 million (2022: £281 million) and a loss before tax of £62 million (2022: £314 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the Period, were a loss of 3.0 pence (2022: loss of 16.8 pence).

Adjusted results:

The adjusted results are also shown on the face of the Income Statement. They are adjusted to exclude certain items which are significant in size or volatility or by nature are non-trading or non-recurring, or are items released to the Income Statement that were previously a fair value item booked on an acquisition. It is the Group's accounting policy to exclude these items from the adjusted results, which are used as an Alternative Performance Measure ("APM") as described by the European Securities and Markets Authority ("ESMA"). APMs used by the Group are defined in the glossary to the 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 show revenue of £1,633 million (2022: £1,364 million), an operating profit of £159 million (2022: £45 million) and a profit before tax of £134 million (2022: £9 million). Adjusted diluted EPS, calculated using the weighted average number of shares in issue in the Period of 1,404 million (2022: 1,455 million), were 7.5 pence (2022: 0.2 pence).

The following tables shows the adjusted results for the Period split by reporting segment:

	Engines £m	Structures £m	Aerospace £m	Corporate costs £m	Total £m
Revenue	608	1,025	1,633	-	1,633
Operating profit/(loss)	149	26	175	(16)	159
Operating margin	24.5%	2.5%	10.7%	n/a	9.7%

The adjusted revenue for Engines of £608 million (2022: £484 million) shows constant currency growth of 19% over 2022, with operating profit of £149 million (2022: £77 million) giving an operating margin of 24.5% (2022: 15.9%), an increase of 8.6 percentage points.

The adjusted revenue for Structures of £1,025 million (2022: £880 million) shows like-for-like constant currency growth of 18% over 2022, (13% including businesses being exited), with operating profit of £26 million (2022: loss of £10 million) giving an operating margin of 2.5% (2022:

-1.1%), an increase of 3.6 percentage points.

Corporate costs of £16 million (2022: £22 million) included £15 million (2022: £19 million) of operating costs and £1 million (2022: £3 million) of costs relating to a divisional cash-based long-term incentive plan.

Tables summarising the reconciliation of statutory results to adjusted results by reportable segment are shown in note 3 of the Condensed Interim Financial Statements, with a Group table shown below.

RECONCILIATION OF STATUTORY RESULTS TO ADJUSTED RESULTS

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

	2023	2022
	£m	£m
Continuing operations:		
Statutory operating loss	(18)	(281)
<i>Adjusting items:</i>		
Amortisation of intangible assets acquired in business combinations	131	126
Restructuring costs	49	53
Equity-settled compensation scheme charges	26	8
Currency movements in derivatives and movements in associated financial assets and liabilities	(28)	150
Other	(1)	(11)
Adjustments to statutory operating loss	177	326
Adjusted operating profit	159	45

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 £131 million (2022: £126 million), which is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.
- Costs associated with restructuring projects in the Period totalling £49 million (2022: £53 million). These are shown as adjusting items due to their size and non-trading nature.

There are three significant ongoing multi-year restructuring programmes, impacting multiple sites across the Engines and Structures divisions, including European footprint consolidations which commenced in 2021, and significant restructuring programmes in North America which commenced in 2020. These programmes incurred a combined charge of £40 million in the Period. Since commencement, the cumulative charge on these three restructuring programmes to 30 June 2023 has been £195 million (31 December 2022: £155 million).

As at 30 June 2023, these projects on average are over 90% complete and are expected to complete in the near future. In addition to the remaining charges to be incurred on these projects, £40 million is included in restructuring provisions at 30 June 2023 to be settled in cash over the next two years.

- The charge for the equity-settled compensation schemes of £26 million (2022: £8 million), which includes an accrual for employer's tax payable of £18 million (2022: £nil). This is

excluded from adjusted results due to its size and volatility. The shares that would be issued, based on the scheme's current valuation at the end of the Period, are included in the calculation of the adjusted diluted earnings per share, which the Board considers to be a key measure of performance.

- Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts), where hedge accounting is not applied, along with foreign exchange movements on the associated financial assets and liabilities, entered into within the businesses to mitigate the potential volatility of future cash flows on long-term foreign currency customer and supplier contracts. This totalled a credit of £28 million (2022: charge of £150 million) in the Period and is shown as an adjusting item because of its volatility and size.
- Other net adjusting items, being a credit of £1 million (2022: £11 million), relating to the net release of fair value items in the Period, where items have been resolved for more favourable amounts than first anticipated at acquisition. The net release of fair value items is shown as an adjusting item, avoiding positively distorting adjusted results from items booked on acquisition.

DISCONTINUED OPERATIONS

Discontinued operations in the Period includes the demerged businesses; GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen.

In accordance with IFRIC 17, the Dowlais businesses were distributed from the Melrose Group at a fair value, calculated using the opening traded share price on 20 April 2023, being £1.46. This valuation resulted in a loss on disposal of £1.0 billion.

Costs relating to the demerger of the Dowlais Group totalled £64 million, of which £6 million were accrued at 31 December 2022. This charge is offset by a non-cash contribution of £19 million in the form of a one per cent shareholding of Dowlais Group PLC equity being retained by the Group. In addition £152 million was recycled from the translation reserve in respect of these businesses.

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

TAX – CONTINUING OPERATIONS

The statutory results for the Period show a tax credit of £22 million (2022: £70 million), arising on a statutory loss before tax of £62 million (2022: £314 million). The Group Income Statement current underlying adjusted tax rate is approximately 21% (2022: 67%). During the Period, the continuing businesses paid tax of £15 million (2022: £8 million).

SHARE CONSOLIDATION AND NUMBER OF SHARES IN ISSUE

To enable both Melrose and Dowlais to initiate at appropriate pricing levels, a one for three share consolidation was performed by Melrose on the eve of the demerger, which resulted in the number of shares in issue reducing from 4,054 million to 1,351 million. Shareholders then received one Dowlais share for every post-consolidation Melrose share they held.

In accordance with IAS 33, the one for three consolidation is applied to all periods in these Condensed Interim Financial Statements. The weighted average number of shares used for basic earnings per share calculations was 1,351 million (2022: 1,455 million), and when including the number of shares expected to be issued from the Melrose equity-settled share plan, the weighted average number of shares used for diluted earnings per share, was 1,404 million (2022: 1,455

million).

LONG-TERM INCENTIVE SCHEME

The Melrose 2020 Employee Share Plan, (“the MESP”), rewards the performance of certain senior management by issuing them Melrose shares, as described in the Directors’ Remuneration Report in the 2022 Annual Report.

As a result of splitting the Melrose Group, certain adjustments to the MESP were approved by shareholders, which preserved the rights of the participants of the plan. The first adjustment was to reflect the demerger by allocating the invested capital between the continuing Melrose Group and Dowlais. Second, recognising that the timelines of both the demerger and the crystallisation date of the MESP coincided, the performance period of the MESP was extended by one year. Finally, to recognise the platform already prepared for the Dowlais businesses whilst part of the Melrose Group, the invested capital in the GKN Automotive business and the GKN Powder Metallurgy businesses formed the basis from which the creation of further value in Dowlais will be rewarded up to 31 May 2025, in a separate parallel Melrose Automotive Share Plan (“the MASP”).

The IFRS 2 charge in respect of the MESP was calculated on inception in 2020 and charged over a three year period. It is unimpacted by the amendments described above and for the period ended 30 June 2023 the IFRS 2 charge, shown as an adjusting item, was £7 million (2022: £8 million). The charge in respect of the MASP was £1 million (2022: £nil).

CASH GENERATION AND MANAGEMENT

Adjusted free cash flow for the continuing Group in the Period was an outflow of £65 million (2022: £82 million), after net interest and tax spend of £49 million (2022: £45 million), but before restructuring spend of £53 million (2022: £15 million).

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

	2023 £m	2022 £m
Continuing operations:		
Adjusted operating profit	159	45
Depreciation and amortisation	71	73
Lease obligation payments	(16)	(14)
Positive non-cash impact from loss-making contracts	(13)	(9)
Working capital movements:		
Inventory	(53)	(71)
Receivables and payables	(116)	(47)
Adjusted operating cash flow (pre-capex)	32	(23)
Net capital expenditure	(40)	(16)
Defined benefit pension contributions - ongoing	(2)	(2)
Restructuring	(53)	(15)
Net other	(6)	4
Free cash flow pre-interest and tax	(69)	(52)
Net interest and net tax paid	(49)	(45)
Free cash flow	(118)	(97)
Adjusted free cash flow	(65)	(82)

During the Period, the working capital movements in the continuing Group were consistent with revenue growing by 15%, with inventory levels growing by 10%, £53 million, and net receivables and payables growing by 6%, £116 million. The working capital performance is expected to be stronger in the second half of the year than the first because of the seasonality trends of the Aerospace business.

Capital expenditure in the Aerospace business in the Period was £40 million (2022: gross capital expenditure of £25 million net of £9 million received from the disposal of a property). Capital expenditure in Aerospace represented 0.7x (2022: 0.4x) depreciation of owned assets.

Restructuring spend in the Period was £53 million (2022: £15 million).

In the continuing Group, net interest paid in the Period was £34 million (2022: £37 million), net tax payments were £15 million (2022: £8 million) and ongoing contributions to defined benefit pension schemes were £2 million (2022: £2 million).

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

	£m
Opening net debt	(1,139)
Net cash outflow from Dowlais businesses to date of demerger	(54)
Reduction in net debt following the demerger of Dowlais	885
2022 second interim dividend paid to shareholders	(61)
Demerger related costs and pension buy-in ¹	(118)
Proforma opening net debt	(487)
Free cash flow of the continuing Group in the Period	(118)
FX and other non-cash movements ¹	52
Net debt at 30 June 2023 at closing exchange rates	(553)

¹ Includes £16 million of demerger related costs unpaid at 30 June 2023, reversed through non-cash movements

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

Group net debt at 30 June 2023, translated at closing exchange rates (being US \$1.27 and €1.16), was £553 million (31 December 2022: £1,139 million), after a free cash outflow from the continuing Group of £118 million, described above, net favourable foreign exchange movements of £29 million, and other non-cash movements of £23 million.

For bank covenant purposes the Group's net debt is calculated at average exchange rates for the previous twelve months, to better align the calculation with the currency rates used to calculate profits, and was £572 million.

The Group net debt leverage on this basis at 30 June 2023 was 1.5x EBITDA compared to a proforma opening leverage of 1.8x EBITDA (31 December 2022: reported 1.4x EBITDA).

PROVISIONS

Total provisions at 30 June 2023 were £275 million (31 December 2022: £611 million).

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

	Total £m
Provisions at 1 January 2023	611
<i>Continuing businesses:</i>	
Net charge in the Period	56
Spend against provisions	(52)
Utilisation of loss-making contract provision	(13)
Foreign exchange	(7)
<i>Discontinued businesses:</i>	
Movement in provisions in the Period	24
Demerger of Dowlais	(344)
Provisions at 30 June 2023	275

The net charge to the Income Statement in the Period for continuing operations was £56 million, including £32 million relating to restructuring activities and £18 million relating to employer's tax

payable on equity-settled compensation schemes. These two items are both shown as adjusting items and included in the adjusting items section discussed earlier in this review.

During the Period, £13 million was utilised against loss-making contract provisions in Aerospace and £52 million of cash was spent against provisions with £40 million relating to restructuring activities.

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

The net movement on provisions in the Period within Dowlais was £24 million, with £344 million of provisions leaving the Group on demerger.

PENSIONS AND POST-EMPLOYMENT OBLIGATIONS

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

The values of the Group plans were updated at 30 June 2023 by independent actuaries to reflect the latest key assumptions and are summarised as follows:

	Assets £m	Liabilities £m	Accounting deficit £m
GKN UK Group pension schemes Number 1	593	(644)	(51)
GKN UK Group pension schemes Number 4	416	(416)	-
Other Group pension schemes	46	(84)	(38)
Total Group pension schemes	1,055	(1,144)	(89)

At 30 June 2023, following the demerger of Dowlais, the total plan assets of Melrose Group's defined benefit pension plans has reduced to £1,055 million (31 December 2022: £1,941 million) and total plan liabilities to £1,144 million (31 December 2022: £2,429 million), a net deficit of £89 million (31 December 2022: £488 million).

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

During the Period, the Group commenced a process to buy-out the GKN UK Group Pension Scheme Number 4. The first stage of the process, purchasing a buy-in policy which fully secures all members' benefits, was completed in the Period, resulting in assets and liabilities of £416 million being recorded equally at 30 June 2023. The buy-out process is expected to complete in the first half of 2024.

At 30 June 2023, the GKN UK Group Pension Scheme Number 1 had gross assets of £593 million (31 December 2022: £628 million), gross liabilities of £644 million (31 December 2022: £667 million) and a net deficit of £51 million (31 December 2022: £39 million).

Other pension schemes in the Group include US pension plans which are generally funded schemes and closed to new members. At 30 June 2023, these US pension plans had a net deficit of £25 million.

A summary of the assumptions used are shown in note 11 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. The nature of these risks in relation to the Group are explained in detail on pages 35 to 37 of the 2022 Annual Report, a copy of which is available on the Company's website, www.melroseplc.net.

Further explanations and details of the strategic risk profile of the Group, which includes non-financial risk, are set out on pages 40 to 48 of the 2022 Annual Report.

EXCHANGE RATES USED IN THE PERIOD

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

	Average rate	Closing rate
US Dollar		
Six months to 30 June 2023	1.23	1.27
Twelve months to 31 December 2022	1.24	1.21
Six months to 30 June 2022	1.30	1.22
Euro		
Six months to 30 June 2023	1.14	1.16
Twelve months to 31 December 2022	1.17	1.13
Six months to 30 June 2022	1.19	1.16

The Group policy on foreign currency risk is explained on page 36 of the 2022 Annual Report.

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

£m	USD	EUR
Movement in adjusted operating profit	29	6
% impact on adjusted operating profit	8%	2%

In the first half of the year, the Group incurred a 5% translational foreign exchange gain on adjusted operating profit 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%.

The Group utilises its multi-currency banking facility and cross-currency swaps, where relevant, to maintain an appropriate mix of debt in US Dollars, Euros and Sterling. The hedge of having debt drawn in US Dollars and Euros protects against some of the Balance Sheet and banking covenant foreign exchange translation risk. A 10 percent strengthening in either the US Dollar or Euro would have had the following impact on debt as at 30 June 2023:

£m	USD	EUR
Increase in debt	37	13

LIQUIDITY RISK MANAGEMENT

The Group's net debt position at 30 June 2023 was £553 million (31 December 2022: £1,139

million).

The Group entered into new committed bank facilities that became effective on completion of the demerger and fully replaced the existing bank facility. These new facilities consist of a multi-currency denominated term loan and multi-currency denominated revolving credit facilities that mature in April 2026. The Group also has the option to extend, for up to two one-year periods, US \$550 million, £300 million and €300 million of the revolving credit facilities. Details of the new facilities and amounts borrowed as at 30 June 2023 are shown below;

	Local currency			£m
	Size	Drawn	Headroom	Headroom
Term loan:				
USD	300	300	-	-
EUR	100	100	-	-
Revolving credit facility:				
USD	800	96	704	554
GBP	300	-	300	300
Euro	300	-	300	258
Total headroom				1,112

As at 30 June 2023, the term loan was fully drawn and there was £0.1 billion of drawings on the multi-currency committed revolving credit facility. Applying the exchange rates at 30 June 2023, the headroom equated to approximately £1.1 billion.

In addition to the headroom on the multi-currency committed revolving credit facility, at 30 June 2023 cash, deposits and marketable securities, net of overdrafts, in the Group amounted to £20 million (31 December 2022: £292 million), whilst drawings on uncommitted borrowing facilities amounted to £58 million (31 December 2022: £nil).

At 30 June 2023, capital market borrowings held by the Group consisted of an outstanding value of £130 million of a bond due to mature in May 2032, with a current coupon rate of 4.625%.

The committed bank funding has two financial covenants, being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which will be tested half-yearly in June and December, with the first testing date for the net debt to adjusted EBITDA and interest cover covenants being the periods ending 31 December 2023 and 30 June 2024 respectively.

The Group net debt to adjusted EBITDA covenant test level is set at maximum of 3.5x from the first testing date and the interest cover covenant is set at a minimum 4.0x from its initial testing date.

FINANCE COST RISK MANAGEMENT

The policy of the Board is to fix approximately 70% of the interest rate exposure of the Group.

In addition to the fixed coupon payable under the £130 million bond discussed above, the Group uses financial derivatives to fix a portion of the cost of its committed bank facility. At 30 June 2023, 74% of debt has a fixed interest rate consistent with the Group policy and the maximum rates the Group will pay on the fixed portions of its US Dollar and Euro bank debt are 3.4% and 3.0% respectively. The bank margin on the Group's committed bank facility is currently in the range of 1.3% to 1.55% depending on which of the facilities are being utilised.

The Group's cost of drawn debt for the year is currently expected to be approximately 5.3%.

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 and for this reasonably possible downside scenario, the Group has sufficient headroom to avoid breaching any of its financial covenants and would not require any additional sources of financing throughout the forecast period.

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

The macroeconomic environment remains uncertain and volatile and the impacts of the economic factors discussed above could be more prolonged or severe than that which the Directors have considered in the Group's reasonably possible downside scenario.

However, 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
7 September 2023

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.

NO OFFER OF SECURITIES

Nothing in this announcement constitutes an offer of securities for sale in the U.S. Securities may not be sold in the U.S. absent registration or an exemption from registration.

RESPONSIBILITY STATEMENT

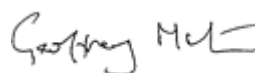
We confirm to the best of our knowledge:

- 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
7 September 2023



Geoffrey Martin
Group Finance Director
7 September 2023

INDEPENDENT REVIEW REPORT TO MELROSE INDUSTRIES PLC

Conclusion

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 2023 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 13.

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 2023 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.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 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 (ISRE (UK) 2410). 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.

As disclosed in note 2, the annual financial statements of the group are 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".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of 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.

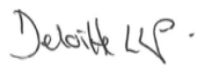
In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. 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.

A handwritten signature in dark ink that reads "Deloitte LLP". The signature is written in a cursive, slightly stylized font.

Deloitte LLP
Statutory Auditor
London, United Kingdom
6 September 2023

Melrose Industries PLC

Condensed Consolidated Income Statement

		6 months ended 30 June 2023 Unaudited £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 Unaudited £m	Restated ⁽¹⁾ Year ended 31 December 2022 Audited £m
Continuing operations	Notes			
Revenue	3	1,633	1,364	2,954
Cost of sales		(1,326)	(1,176)	(2,533)
Gross profit		307	188	421
Net operating expenses		(325)	(469)	(691)
Operating loss	3,4	(18)	(281)	(270)
Finance costs		(45)	(33)	(83)
Finance income		1	-	25
Loss before tax		(62)	(314)	(328)
Tax	5	22	70	99
Loss after tax for the period from continuing operations		(40)	(244)	(229)
Discontinued operations				
Loss for the period from discontinued operations	8	(1,020)	(113)	(74)
Loss after tax for the period		(1,060)	(357)	(303)
Attributable to:				
Owners of the parent		(1,060)	(360)	(308)
Non-controlling interests		-	3	5
		(1,060)	(357)	(303)
Earnings per share				
Continuing operations				
- Basic	6	(3.0)p	(16.8)p	(16.3)p
- Diluted	6	(3.0)p	(16.8)p	(16.3)p
Continuing and discontinued operations				
- Basic	6	(78.5)p	(24.7)p	(21.9)p
- Diluted	6	(78.5)p	(24.7)p	(21.9)p
Adjusted⁽²⁾ results from continuing operations				
Adjusted operating profit	3,4	159	45	147
Adjusted profit before tax	4	134	9	62
Adjusted profit after tax	4	106	3	58
Adjusted basic earnings per share	6	7.8p	0.2p	4.1p
Adjusted diluted earnings per share	6	7.5p	0.2p	4.1p

⁽¹⁾ Results for the period ended 30 June 2022 and the year ended 31 December 2022 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

		6 months ended 30 June 2023 Unaudited £m	6 months ended 30 June 2022 Unaudited £m	Year ended 31 December 2022 Audited £m
	Notes			
Loss after tax for the period		(1,060)	(357)	(303)
Items that will not be reclassified subsequently to the Income Statement:				
Net remeasurement (loss)/gain on retirement benefit obligations		(91)	258	(32)
Fair value loss on investments in equity instruments		(2)	(27)	(34)
Income tax credit/(charge) relating to items that will not be reclassified	5	22	(72)	(1)
		(71)	159	(67)
Items that may be reclassified subsequently to the Income Statement:				
Currency translation on net investments		(190)	512	593
Share of other comprehensive (expense)/income from equity accounted investments		(11)	22	13
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	8	(152)	-	(11)
Derivative gains/(losses) on hedge relationships		8	(19)	(39)
Transfer to Income Statement on hedge relationships		-	(1)	2
Income tax (charge)/credit relating to items that may be reclassified	5	(5)	6	5
		(350)	520	563
Other comprehensive (expense)/income for the period		(421)	679	496
Total comprehensive (expense)/income for the period		(1,481)	322	193
Attributable to:				
Owners of the parent		(1,481)	318	187
Non-controlling interests		-	4	6
		(1,481)	322	193

Melrose Industries PLC

Condensed Consolidated Statement of Cash Flows

		6 months ended 30 June 2023 Unaudited £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 Unaudited £m	Restated ⁽¹⁾ Year ended 31 December 2022 Audited £m
	Notes			
Operating activities				
Net cash used in operating activities from continuing operations	12	(172)	(69)	(39)
Net cash from operating activities from discontinued operations	12	36	39	243
Net cash (used in)/from operating activities		(136)	(30)	204
Investing activities				
Disposal of businesses, net of cash disposed	8	(320)	(8)	478
Settlement receipt from loans held with demerged entities	8	1,205	-	-
Purchase of property, plant and equipment		(36)	(21)	(69)
Proceeds from disposal of property, plant and equipment		-	9	45
Purchase of computer software and capitalised development costs		(4)	(4)	(7)
Acquisition of subsidiaries, net of cash acquired		-	-	(4)
Settlement of derivatives used in net investment hedging		-	-	(109)
Equity accounted investment additions		-	-	(3)
Interest received		2	-	1
Net cash from/(used in) investing activities from continuing operations		847	(24)	332
Net cash used in investing activities from discontinued operations	12	(67)	(35)	(140)
Net cash from/(used in) investing activities		780	(59)	192
Financing activities				
Repayment of borrowings		(1,262)	-	(598)
Drawings on borrowing facilities		450	7	632
Costs of raising debt finance		(11)	-	-
Repayment of principal under lease obligations		(16)	(14)	(29)
Purchase of own shares, including associated costs	7	-	(119)	(504)
Dividends paid to owners of the parent	7	(61)	(44)	(77)
Net cash used in financing activities from continuing operations		(900)	(170)	(576)
Net cash used in financing activities from discontinued operations	12	(6)	(11)	(23)
Net cash used in financing activities		(906)	(181)	(599)
Net decrease in cash and cash equivalents, net of bank overdrafts		(262)	(270)	(203)
Cash and cash equivalents, net of bank overdrafts at the beginning of the period		292	468	468
Effect of foreign exchange rate changes		(10)	25	27
Cash and cash equivalents, net of bank overdrafts at the end of the period	12	20	223	292

⁽¹⁾ Results for the period ended 30 June 2022 and year ended 31 December 2022 have been restated for discontinued operations (see note 2).

As at 30 June 2023, the Group had net debt of £553 million (31 December 2022: £1,139 million). A definition and reconciliation of the movement in net debt is shown in note 12.

Melrose Industries PLC

Condensed Consolidated Balance Sheet

	Notes	30 June 2023 Unaudited £m	30 June 2022 Unaudited £m	31 December 2022 Audited £m
Non-current assets				
Goodwill and other intangible assets		3,496	7,022	6,846
Property, plant and equipment		748	2,561	2,599
Investments		78	68	62
Interests in equity accounted investments		11	432	435
Deferred tax assets		508	318	373
Derivative financial assets		27	32	36
Other receivables		735	580	670
Retirement benefit surplus	11	-	295	93
		5,603	11,308	11,114
Current assets				
Inventories		557	1,002	1,025
Trade and other receivables		797	1,467	1,426
Derivative financial assets		10	31	38
Current tax assets		-	28	29
Cash and cash equivalents		110	293	355
Assets classified as held for sale		-	641	-
		1,474	3,462	2,873
Total assets	3	7,077	14,770	13,987
Current liabilities				
Trade and other payables		1,220	2,661	2,347
Interest-bearing loans and borrowings		148	548	63
Lease obligations	13	38	56	60
Derivative financial liabilities		57	223	86
Current tax liabilities		19	129	141
Provisions	9	176	285	281
Liabilities associated with assets held for sale		-	97	-
		1,658	3,999	2,978
Net current liabilities		(184)	(537)	(105)
Non-current liabilities				
Other payables		343	402	431
Interest-bearing loans and borrowings		517	973	1,433
Lease obligations	13	151	311	306
Derivative financial liabilities		115	171	141
Deferred tax liabilities		448	673	619
Retirement benefit obligations	11	89	517	581
Provisions	9	99	398	330
		1,762	3,445	3,841
Total liabilities	3	3,420	7,444	6,819
Net assets		3,657	7,326	7,168
Equity				
Issued share capital		309	327	309
Share premium account		3,271	3,271	3,271
Merger reserve		109	109	109
Capital redemption reserve		753	735	753
Other reserves		(2,330)	(2,330)	(2,330)
Translation and hedging reserve		288	595	638
Retained earnings		1,257	4,582	4,379
Equity attributable to owners of the parent		3,657	7,289	7,129
Non-controlling interests		-	37	39
Total equity		3,657	7,326	7,168

Melrose Industries PLC

Condensed Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Translation and hedging reserve £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non- controlling interests £m	Total equity £m
At 1 January 2022	333	3,271	109	729	(2,330)	76	5,319	7,507	33	7,540
(Loss)/profit for the period	-	-	-	-	-	-	(360)	(360)	3	(357)
Other comprehensive income	-	-	-	-	-	519	159	678	1	679
Total comprehensive income/(expense)	-	-	-	-	-	519	(201)	318	4	322
Purchase of own shares (note 7)	(6)	-	-	6	-	-	(500)	(500)	-	(500)
Dividends paid (note 7)	-	-	-	-	-	-	(44)	(44)	-	(44)
Equity-settled share-based payments	-	-	-	-	-	-	8	8	-	8
At 30 June 2022 (unaudited)	327	3,271	109	735	(2,330)	595	4,582	7,289	37	7,326
Profit for the period	-	-	-	-	-	-	52	52	2	54
Other comprehensive income/(expense)	-	-	-	-	-	43	(226)	(183)	-	(183)
Total comprehensive income/(expense)	-	-	-	-	-	43	(174)	(131)	2	(129)
Purchase of own shares (note 7)	(18)	-	-	18	-	-	(4)	(4)	-	(4)
Dividends paid (note 7)	-	-	-	-	-	-	(33)	(33)	-	(33)
Equity-settled share-based payments	-	-	-	-	-	-	8	8	-	8
At 31 December 2022 (audited)	309	3,271	109	753	(2,330)	638	4,379	7,129	39	7,168
Loss for the period	-	-	-	-	-	-	(1,060)	(1,060)	-	(1,060)
Other comprehensive expense	-	-	-	-	-	(350)	(71)	(421)	-	(421)
Total comprehensive expense	-	-	-	-	-	(350)	(1,131)	(1,481)	-	(1,481)
Dividends paid (note 7)	-	-	-	-	-	-	(61)	(61)	-	(61)
Demerger distribution (note 8)	-	-	-	-	-	-	(1,973)	(1,973)	-	(1,973)
Derecognition of non-controlling interests on demerger (note 8)	-	-	-	-	-	-	-	-	(39)	(39)
Equity-settled share-based payments	-	-	-	-	-	-	2	2	-	2
Deferred tax on equity-settled share- based payments (note 5)	-	-	-	-	-	-	41	41	-	41
At 30 June 2023 (unaudited)	309	3,271	109	753	(2,330)	288	1,257	3,657	-	3,657

Notes to the Condensed Interim Financial Statements

1. Corporate information

The interim financial information for the six months ended 30 June 2023 has been reviewed by the auditor, but not audited. The information for the year ended 31 December 2022 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 2023, 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 2022 Annual Report on pages 161 to 171, as impacted by the demerger, see note 8.

The Group's 2022 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 2022 information and have been prepared in accordance with UK-endorsed International Financial Reporting Standards ("IFRS"). These Condensed Interim Financial Statements do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006 and have been prepared in accordance with IAS 34: "Interim Financial Reporting" contained in UK-endorsed IFRS.

Share consolidation

On 19 April 2023, a share consolidation took place whereby shareholders received one new share in the Company for every three existing shares held. In accordance with IAS 33: "Earnings per Share", a one for three adjustment is required to the weighted average number of shares in existence prior to the share consolidation and prior periods have been restated accordingly.

Discontinued operations and disposals

On 20 April 2023, the Group completed the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses through the flotation of Dowlais Group PLC ("Dowlais") on the London Stock Exchange. The results of the Dowlais businesses have been classified within discontinued operations for all periods presented; with the Income Statement, the Statement of Cash Flows and their associated notes being restated accordingly. See note 8 for further detail.

Dowlais became a related party to the Group on demerger.

In addition, discontinued operations for 2022 include the results of the Ergotron business which was disposed of on 6 July 2022.

Alternative performance measures

The Group presents Alternative Performance Measures ("APMs") in addition to the statutory results. 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 profit measures exclude items which are significant in size or volatility or by nature are non-trading or non-recurring or any item released to the Income Statement that was previously a fair value item booked on an acquisition.

On this basis, the following are the principal items included within adjusting items impacting operating profit:

- Amortisation of intangible assets that are acquired in a business combination, excluding computer software and development costs;
- Significant restructuring project costs and other associated costs, including losses incurred following the announcement of closure for identified businesses, arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- Acquisition and disposal related gains and losses;
- Impairment charges that are considered to be significant in nature and/or value to the trading performance of the business;
- Movement in derivative financial instruments not designated in hedging relationships, including revaluation of associated financial assets and liabilities;
- The charge for the Melrose equity-settled compensation scheme, including its associated employer's tax charge; and
- The net release of fair value items booked on acquisitions.

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

- Acceleration of unamortised debt issue costs written off as a consequence of Group refinancing;
- Significant settlement gains and losses associated with interest rate swaps following acquisition or disposal related activity, which are not considered by the Group to be part of normal financing costs;
- Finance costs in respect of the Group's net debt strategically allocated to a demerger group of businesses at the start of the period and subsequently settled on demerger; and
- The fair value changes on cross-currency swaps, entered into by GKN prior to acquisition, relating to cost of hedging which are not deferred in equity.

In addition to the items above, adjusting items impacting profit after tax include:

- The net effect on tax of significant restructuring from strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- The net effect of significant new tax legislation; and
- The tax effects of adjustments to profit before tax, described above.

2. Summary of significant accounting policies (continued)

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

The adjusted measures are used to partly determine the variable element of remuneration of senior management throughout the Group and are also in alignment with performance measures used by certain external stakeholders. The adjusted measures are also taken into account when valuing individual businesses.

Adjusted profit is not a defined term under IFRS and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current 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 at 30 June 2023 (£1.1 billion) 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 (leverage) covenant and an interest cover covenant, both of which are tested half yearly in June and December. As a result of the demerger, the Group has renegotiated its banking arrangements. No covenant testing was required at 30 June 2023. The leverage covenant will be tested from 31 December 2023 and the interest cover covenant will be tested from 30 June 2024. Covenant calculations are detailed in the glossary to these Condensed Interim Financial Statements.

The financial covenants for the going concern period are as follows:

	30 June 2023	31 December 2023	30 June 2024
Net debt to adjusted EBITDA	n/a	3.50x	3.50x
Interest cover	n/a	n/a	4.00x

Testing

The Group 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 in the Aerospace end markets as well as other operational and strategic factors throughout the going concern period and has been monitored against the actual results and cash generation in the period since 1 July 2023.

The reasonably possible sensitised case models more conservative sales assumptions in the remaining period of 2023 and the relevant period in 2024. However, given there is liquidity headroom of £1.1 billion and the Group's leverage is 1.5x at 30 June 2023, comfortably below future testing levels, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, no covenant is breached at either of the forecast testing dates being 31 December 2023 and 30 June 2024, with the testing at 31 December 2024 also favourable, and the Group does not require any additional sources of finance following its refinancing in April 2023.

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.

Impairment assessment

Following the Group's demerger of GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen on 20 April 2023 the internal reporting structure changed for the remaining GKN Aerospace business to show an Engines segment and a Structures segment (see note 3). As a consequence, the Aerospace group of CGUs was reorganised into an Engines group of CGUs and Structures group of CGUs effective from 20 April 2023.

As a result of the change in the groups of CGUs structure, an allocation of goodwill to the two new groups of CGUs has been performed based on their valuation at 20 April 2023. Subsequently, impairment testing was completed, dated 20 April 2023, based on the old structure of one group of CGUs (Aerospace) and the new structure of two groups of CGUs (Engines and Structures). No impairment was identified in respect of any of the groups of CGUs.

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.

Following the demerger of the Automotive, Powder Metallurgy and Other Industrial segments during the period their results are classified within discontinued operations and the comparative results for 2022 have been restated accordingly. In addition, the results of the Aerospace business are now viewed by the CODM as separated into Engines and Structures. The incremental information is provided below with comparative results for 2022 also re-presented accordingly.

The operating segments are as follows:

Engines – An industry leading global tier one supplier to the aerospace engines market, including structural engineered components; parts repair; commercial and aftermarket contracts.

Structures – A multi-technology global tier one supplier of both civil and defence air frames, including lightweight composite and metallic structures; electrical distribution systems and components.

In addition, there is a central cost centre which is also reported to the Board. The central cost centre contains the Melrose Group head office costs and charges related to the divisional management long-term incentive plans.

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

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

The following tables present the results and certain asset and liability information regarding the Group's operating segments and central cost centre for the six month period ended 30 June 2023 and comparative periods.

a) Segment revenues

	6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Continuing operations			
Engines	608	484	1,035
Structures	1,025	880	1,919
Revenue	1,633	1,364	2,954

⁽¹⁾ Revenue has been restated for discontinued operations (see note 2) and the re-presentation of the Engines and Structures segments.

b) Segment operating profit

6 months ended 30 June 2023	Engines £m	Structures £m	Corporate ⁽¹⁾ £m	Total £m
Continuing operations				
Adjusted operating profit/(loss)	149	26	(16)	159
Items not included in adjusted operating profit ⁽²⁾ :				
Amortisation of intangible assets acquired in business combinations	(68)	(63)	-	(131)
Restructuring costs	(12)	(36)	(1)	(49)
Melrose equity-settled compensation scheme charges	-	-	(26)	(26)
Net release and changes in discount rates of fair value items	-	1	-	1
Movement in derivatives and associated financial assets and liabilities	3	(4)	29	28
Operating profit/(loss)	72	(76)	(14)	(18)
Finance costs				(45)
Finance income				1
Loss before tax				(62)
Tax				22
Loss after tax for the period from continuing operations				(40)

⁽¹⁾ Corporate adjusted operating loss of £16 million includes a £1 million charge in respect of divisional management long-term incentive plans.

⁽²⁾ For further details on adjusting items, refer to note 4.

3. Segment information (continued)

6 months ended 30 June 2022 – restated⁽¹⁾

	Engines £m	Structures £m	Corporate ⁽²⁾ £m	Total £m
Continuing operations				
Adjusted operating profit/(loss)	77	(10)	(22)	45
Items not included in adjusted operating profit ⁽³⁾ :				
Movement in derivatives and associated financial assets and liabilities	9	4	(163)	(150)
Amortisation of intangible assets acquired in business combinations	(64)	(62)	-	(126)
Restructuring costs	(10)	(42)	(1)	(53)
Melrose equity-settled compensation scheme charges	-	-	(8)	(8)
Acquisition and disposal related (losses)/gains	(5)	-	6	1
Net release and changes in discount rates of fair value items	1	9	-	10
Operating profit/(loss)	8	(101)	(188)	(281)
Finance costs				(33)
Loss before tax				(314)
Tax				70
Loss after tax for the period from continuing operations				(244)

⁽¹⁾ Operating profit has been restated for discontinued operations (see note 2) and the re-presentation of the Engines and Structures segments.

⁽²⁾ Corporate adjusted operating loss of £22 million includes a £3 million charge in respect of divisional management long-term incentive plans.

⁽³⁾ For further details on adjusting items, refer to note 4.

Year ended 31 December 2022 – restated⁽¹⁾

	Engines £m	Structures £m	Corporate ⁽²⁾ £m	Total £m
Continuing operations				
Adjusted operating profit/(loss)	162	24	(39)	147
Items not included in adjusted operating profit ⁽³⁾ :				
Amortisation of intangible assets acquired in business combinations	(135)	(125)	-	(260)
Restructuring costs	(25)	(63)	(2)	(90)
Movement in derivatives and associated financial assets and liabilities	20	1	(100)	(79)
Melrose equity-settled compensation scheme charges	-	-	(15)	(15)
Net release and changes in discount rates of fair value items	3	9	-	12
Acquisition and disposal related (losses)/gains	(5)	-	20	15
Operating profit/(loss)	20	(154)	(136)	(270)
Finance costs				(83)
Finance income				25
Loss before tax				(328)
Tax				99
Loss after tax for the year from continuing operations				(229)

⁽¹⁾ Operating profit has been restated for discontinued operations (see note 2) and the re-presentation of the Engines and Structures segments.

⁽²⁾ Corporate adjusted operating loss of £39 million includes a £3 million charge in respect of divisional management long-term incentive plans.

⁽³⁾ For further details on adjusting items, refer to note 4.

c) Segment total assets and liabilities

	Total assets			Total liabilities		
	30 June 2023 £m	Restated ⁽¹⁾ 30 June 2022 £m	Restated ⁽¹⁾ 31 December 2022 £m	30 June 2023 £m	Restated ⁽¹⁾ 30 June 2022 £m	Restated ⁽¹⁾ 31 December 2022 £m
Engines	3,926	3,951	3,798	1,449	956	1,202
Structures	2,596	2,915	2,894	1,115	1,531	1,315
Corporate	555	496	761	856	2,173	1,838
Continuing operations	7,077	7,362	7,453	3,420	4,660	4,355
Discontinued operations	-	7,408	6,534	-	2,784	2,464
Total	7,077	14,770	13,987	3,420	7,444	6,819

⁽¹⁾ Total assets and liabilities have been restated for discontinued operations (see note 2) and the re-presentation of the Engines and Structures segments.

3. Segment information (continued)

d) Segment capital expenditure and depreciation

	Capital expenditure ⁽¹⁾			Depreciation of owned assets ⁽¹⁾			Depreciation of leased assets		
	6 months ended 30 June 2023 £m	Restated ⁽²⁾ 6 months ended 30 June 2022 £m	Restated ⁽²⁾ Year ended 31 December 2022 £m	6 months ended 30 June 2023 £m	Restated ⁽²⁾ 6 months ended 30 June 2022 £m	Restated ⁽²⁾ Year ended 31 December 2022 £m	6 months ended 30 June 2023 £m	Restated ⁽²⁾ 6 months ended 30 June 2022 £m	Restated ⁽²⁾ Year ended 31 December 2022 £m
Engines	20	14	38	21	22	46	3	3	7
Structures	22	13	39	38	39	77	8	8	14
Corporate	-	-	-	-	-	-	1	1	1
Continuing operations	42	27	77	59	61	123	12	12	22
Discontinued operations	51	84	231	43	120	238	6	11	25
Total	93	111	308	102	181	361	18	23	47

⁽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) and the re-presentation of the Engines and Structures segments.

e) Geographical information

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

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

	Revenue ⁽¹⁾ from external customers			Segment assets		
	6 months ended 30 June 2023 £m	Restated ⁽²⁾ 6 months ended 30 June 2022 £m	Restated ⁽²⁾ Year ended 31 December 2022 £m	30 June 2023 £m	Restated ⁽²⁾ 30 June 2022 £m	Restated ⁽²⁾ 31 December 2022 £m
UK	282	232	509	1,027	1,098	1,042
Rest of Europe	251	185	408	2,318	2,538	2,501
North America	1,062	918	1,971	962	1,069	1,038
Other	38	29	66	26	25	28
Continuing operations	1,633	1,364	2,954	4,333	4,730	4,609
Discontinued operations	1,582	2,362	4,715	-	5,353	5,333
Total	3,215	3,726	7,669	4,333	10,083	9,942

⁽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

		6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Continuing operations	Notes			
Operating loss		(18)	(281)	(270)
Amortisation of intangible assets acquired in business combinations	a	131	126	260
Restructuring costs	b	49	53	90
Melrose equity-settled compensation scheme charges	c	26	8	15
Movement in derivatives and associated financial assets and liabilities	d	(28)	150	79
Net release and changes in discount rates of fair value items	e	(1)	(10)	(12)
Acquisition and disposal related gains	f	-	(1)	(15)
Total adjustments to operating loss		177	326	417
Adjusted operating profit		159	45	147

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

4. Reconciliation of adjusted profit measures (continued)

- a. The amortisation charge on intangible assets acquired in business combinations of £131 million (2022: £126 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. Costs associated with significant restructuring projects totalled £49 million (2022: £53 million). These are shown as adjusting items due to their size and non-trading nature.

There are three significant ongoing multi-year restructuring programmes, impacting a number of sites across the Engines and Structures divisions, including European footprint consolidations which commenced in 2021, and significant restructuring programmes in North America which commenced in 2020. These programmes incurred a combined charge of £40 million in the six months ended 30 June 2023. Since commencement, the cumulative charge on these three restructuring programmes to 30 June 2023 has been £195 million (31 December 2022: £155 million).

As at 30 June 2023, these projects on average are over 90% complete and are expected to conclude within the next 12 months. In addition to the remaining charges to be incurred on these projects, £40 million is included in restructuring provisions at 30 June 2023 to be settled in cash over the next two years.

- c. The charge for the Melrose equity-settled compensation scheme of £26 million (2022: £8 million), which includes an accrual for employer's tax payable of £18 million (2022: £nil), is excluded from adjusted results due to its size and volatility. The shares that would be issued, based on the Scheme's current value at the end of the reporting period, are included in the calculation of the adjusted diluted earnings per share, which the Board considers to be a key measure of performance.
- d. Includes movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts), where hedge accounting is not applied, along with foreign exchange movements on the associated financial assets and liabilities, entered into within the businesses to mitigate the potential volatility of future cash flows on long-term foreign currency customer and supplier contracts. This totalled a credit of £28 million (2022: charge of £150 million) and is shown as an adjusting item because of its volatility and size.
- e. 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 £1 million (2022: £10 million) is shown as an adjusting item to avoid positively distorting adjusted results.
- f. Acquisition and disposal related net gains were £nil (2022: £1 million) and are excluded from adjusted results due to their non-trading nature and volatility.

b) Profit before tax

		6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Continuing operations	Notes			
Loss before tax		(62)	(314)	(328)
Adjustments to operating loss per above		177	326	417
Finance costs on demerger settled net debt	g	17	-	-
Accelerated unamortised debt issue costs	h	2	-	-
Fair value changes on cross-currency swaps	i	-	(3)	(3)
Settlement of bonds	j	-	-	(24)
Total adjustments to loss before tax		196	323	390
Adjusted profit before tax		134	9	62

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

- g. Finance costs in respect of the proportion of the Group's net debt strategically allocated to a demerger group of businesses at the start of the period and subsequently settled on demerger. These are excluded from adjusted results to ensure the finance costs of the continuing Group are appropriately shown alongside the trading performance of the continuing businesses.
- h. Following the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses, the existing bank facilities at that time were repaid and all unamortised bank fees were written off. This is shown as an adjusting item due to its non-trading nature.
- i. 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.

4. Reconciliation of adjusted profit measures (continued)

- j. During the prior year, the Group undertook a tender to buy back the 2032 £300 million bond. There were £170 million of bonds repurchased, on which a gain of £24 million was realised. This was shown as an adjusting item due to its non-trading nature.

c) Profit after tax

		6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Continuing operations	Note			
Loss after tax		(40)	(244)	(229)
Adjustments to loss before tax per above		196	323	390
Tax effect of adjustments to loss before tax	5	(50)	(76)	(105)
Tax effect of significant restructuring		-	-	2
Total adjustments to loss after tax		146	247	287
Adjusted profit after tax		106	3	58

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

5. Tax

		6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Analysis of the (credit)/charge in the period:				
Continuing operations				
Current tax		12	7	12
Deferred tax		(34)	(77)	(111)
Total tax credit from continuing operations		(22)	(70)	(99)
Discontinued operations				
Current tax		39	22	58
Deferred tax		(11)	(33)	(38)
Total tax charge/(credit) from discontinued operations		28	(11)	20
Total tax charge/(credit)		6	(81)	(79)

⁽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 period is 20.9% (2022: 66.7%). Adjusted tax has been calculated by applying the expected tax rate to the adjusted profit before tax of £134 million (2022: £9 million), giving an adjusted tax charge of £28 million (2022: £6 million).

The adjusted tax charge of £28 million (2022: £6 million) excludes a tax credit on adjusting items of £50 million (2022: £76 million). This represents a deferred tax credit on intangible asset amortisation of £30 million (2022: £30 million) and a tax credit on other adjusting items of £20 million (2022: £46 million).

Other comprehensive income and changes in equity:

In addition to the amount included in the Income Statement, a credit of £17 million (2022: charge of £66 million) has been recognised directly in the Statement of Comprehensive Income. This represents a tax credit of £22 million (2022: charge of £72 million) in respect of the remeasurement of retirement benefit obligations and a tax charge of £5 million (2022: credit of £6 million) in respect of movements on hedge relationships and translation differences. There is also a tax credit of £41 million (2022: £nil) recognised directly in the Statement of Changes in Equity in respect of deferred tax on equity-settled share-based payments.

6. Earnings per share

	6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Earnings attributable to owners of the parent			
Earnings for basis of earnings per share	(1,060)	(360)	(308)
Less: loss for the period from discontinued operations (note 8)	1,020	116	79
Earnings for basis of earnings per share from continuing operations	(40)	(244)	(229)

⁽¹⁾ Earnings has been restated for discontinued operations (see note 2).

	6 months ended 30 June 2023 Number	Restated ⁽¹⁾ 6 months ended 30 June 2022 Number	Restated ⁽¹⁾ Year ended 31 December 2022 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million) ⁽¹⁾	1,351	1,455	1,406
Further shares for the purposes of diluted earnings per share (million)	53	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share (million)	1,404	1,455	1,406

⁽¹⁾ Adjusted to include the effects of the one for three share consolidation (see note 2).

	6 months ended 30 June 2023 pence	Restated ⁽¹⁾ 6 months ended 30 June 2022 pence	Restated ⁽¹⁾ Year ended 31 December 2022 pence
Earnings per share			
Basic earnings per share			
From continuing and discontinued operations	(78.5)	(24.7)	(21.9)
From continuing operations	(3.0)	(16.8)	(16.3)
From discontinued operations	(75.5)	(7.9)	(5.6)
Diluted earnings per share			
From continuing and discontinued operations	(78.5)	(24.7)	(21.9)
From continuing operations	(3.0)	(16.8)	(16.3)
From discontinued operations	(75.5)	(7.9)	(5.6)

⁽¹⁾ Earnings per share has been restated for discontinued operations and to include the effects of the one for three share consolidation (see note 2).

	6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Adjusted earnings from continuing operations			
Adjusted earnings for the basis of adjusted earnings per share	106	3	58

⁽¹⁾ Earnings has been restated for discontinued operations (see note 2).

Adjusted earnings per share from continuing operations

	6 months ended 30 June 2023 pence	Restated ⁽¹⁾ 6 months ended 30 June 2022 pence	Restated ⁽¹⁾ Year ended 31 December 2022 pence
Adjusted basic earnings per share	7.8	0.2	4.1
Adjusted diluted earnings per share	7.5	0.2	4.1

⁽¹⁾ Earnings per share has been restated for discontinued operations and to include the effects of the one for three share consolidation (see note 2).

7. Dividends

	6 months ended 30 June 2023 £m	6 months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Second interim dividend for the year ended 31 December 2022 of 1.5p (4.5p) ⁽¹⁾	61	-	-
Interim dividend for the year ended 31 December 2022 of 0.825p (2.475p) ⁽¹⁾	-	-	33
Final dividend for the year ended 31 December 2021 of 1.0p (3.0p) ⁽¹⁾	-	44	44
Total dividends paid	61	44	77

⁽¹⁾ Adjusted to include the effects of the one for three share consolidation (see note 2).

An interim dividend of 1.5 pence per ordinary share is declared by the Board, totalling £20 million.

On 9 June 2022, the Group commenced a £500 million share buyback programme. At 30 June 2022, £119 million had been paid to purchase 112,595,520 shares. The programme concluded on 1 August 2022 with 318,003,512 shares re-purchased and subsequently cancelled, at a total cost, including fees, of £504 million.

8. Discontinued operations and assets held for sale

On 30 March 2023, shareholders approved the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses through the flotation of Dowlais Group PLC ("Dowlais") on the London Stock Exchange. As a consequence, the assets and liabilities of Dowlais were reclassified as held for sale in accordance with IFRS 5: "Non-current Assets Held for Sale and Discontinued Operations".

On 20 April 2023, the Group completed the demerger of Dowlais. The results of the Dowlais businesses have been classified within discontinued operations for all periods presented. In addition, discontinued operations for 2022 include the results of the Ergotron business which was disposed of on 6 July 2022.

The demerger distribution of £1,973 million has been measured at fair value in accordance with IFRIC 17: "Distributions of Non-cash Assets to Owners" and represents the number of Dowlais Group PLC shares issued to equity holders of 1,351,475,321 multiplied by the opening traded share price on 20 April 2023 of 146 pence. It was considered that the opening traded share price provided a fair representation of the value of the demerger distribution as it was the share price closest to the time of demerger. If a different share price had been used, for example a closing price on day one or first week of trading average, the demerger distribution value would have been impacted. For each 1 pence change in the share price, the demerger distribution would have been impacted by £14 million. Total demerger costs of £64 million, of which £6 million was recognised in the year ended 31 December 2022, were incurred before a contribution of £19 million in the form of one percent of Dowlais Group PLC issued equity which has been retained by the Group. The Melrose Automotive Share Plan has also been taken into account within the loss on disposal calculation, but its net impact was immaterial.

Financial performance of discontinued operations:

	6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Revenue	1,582	2,362	4,715
Operating costs	(1,550)	(2,478)	(4,740)
Operating profit/(loss)	32	(116)	(25)
Net finance costs	(7)	(8)	(13)
Profit/(loss) before tax	25	(124)	(38)
Tax	(28)	11	(20)
Loss after tax	(3)	(113)	(58)
Loss on disposal of net assets of discontinued operations, net of recycled cumulative translation differences but before transaction costs	(978)	-	(16)
Demerger transaction costs ⁽²⁾	(39)	-	-
Loss for the period from discontinued operations	(1,020)	(113)	(74)
Attributable to:			
Owners of the parent	(1,020)	(116)	(79)
Non-controlling interests	-	3	5
	(1,020)	(113)	(74)

⁽¹⁾ Restated for operations discontinued in the period (see note 2).

⁽²⁾ Demerger transaction costs of £39 million comprise total cash costs incurred in the period of £58 million, offset by a non-cash contribution from Dowlais of £19 million.

Cash flow information relating to discontinued operations is shown in note 12.

8. Discontinued operations and assets held for sale (continued)

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

	£m
Goodwill and other intangible assets	2,989
Property, plant and equipment	1,789
Current and deferred tax	127
Equity accounted investments	417
Inventories	515
Trade and other receivables	753
Derivative financial assets	45
Cash and cash equivalents	320
Total assets	6,955
Trade and other payables	1,232
Interest-bearing loans and borrowings ⁽¹⁾	1,205
Lease obligations	158
Current and deferred tax	435
Retirement benefit obligations	439
Provisions	344
Total liabilities	3,813
Net assets	3,142
Demerger distribution fair value	1,973
Derecognition of non-controlling interests on demerger	39
Demerger costs incurred	(39)
Cumulative translation difference recycled on demerger	152
Loss on disposal of businesses	(1,017)

⁽¹⁾ Prior to the demerger the interest-bearing loans and borrowings were inter-company. On demerger, these were subsequently settled.

9. Provisions

	Loss-making contracts £m	Property related costs £m	Environmental and litigation £m	Warranty related costs £m	Restructuring £m	Other £m	Total £m
At 1 January 2023	108	28	119	200	83	73	611
Utilised	(16)	-	(3)	(7)	(58)	-	(84)
Charge to operating profit ⁽¹⁾	-	-	6	15	48	54	123
Release to operating profit ⁽²⁾	(1)	-	(2)	(12)	(1)	-	(16)
Disposal of businesses ⁽³⁾	(41)	(5)	(63)	(154)	(18)	(63)	(344)
Exchange adjustments	(2)	(1)	(4)	(4)	(3)	(1)	(15)
At 30 June 2023	48	22	53	38	51	63	275
Current	20	3	43	25	28	57	176
Non-current	28	19	10	13	23	6	99
	48	22	53	38	51	63	275

⁽¹⁾ Includes £99 million of adjusting items and £24 million recognised in adjusted operating profit.

⁽²⁾ Includes £2 million of adjusting items and £14 million recognised in adjusted operating profit.

⁽³⁾ Relates to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 8).

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.

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

Environmental provisions relate to the estimated remediation costs of pollution, soil and groundwater contamination at certain sites and at 30 June 2023 amounted to £7 million (31 December 2022: £26 million). At 30 June 2023, litigation provisions amounting to £46 million (31 December 2022: £93 million) relate to 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.

9. Provisions (continued)

Restructuring provisions relate to committed costs in respect of restructuring programmes (as described in note 4), usually resulting in cash spend within one to two years.

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 years.

Where appropriate, provisions have been discounted.

10. 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 2023, 30 June 2022 and 31 December 2022:

	Current £m	Non-current £m	Total £m
30 June 2023			
Financial assets			
<i>Classified as amortised cost:</i>			
Cash and cash equivalents	110	-	110
Net trade receivables	490	-	490
<i>Classified as fair value:</i>			
Investments	-	78	78
Derivative financial assets:			
Foreign currency forward contracts	8	11	19
Interest rate swaps	-	8	8
Embedded derivatives	2	8	10
Financial liabilities			
<i>Classified as amortised cost:</i>			
Interest-bearing loans and borrowings	(148)	(517)	(665)
Government refundable advances	(8)	(47)	(55)
Lease obligations	(38)	(151)	(189)
Other financial liabilities	(824)	(20)	(844)
<i>Classified as fair value:</i>			
Derivative financial liabilities:			
Foreign currency forward contracts	(56)	(111)	(167)
Embedded derivatives	(1)	(4)	(5)
30 June 2022			
Financial assets			
<i>Classified as amortised cost:</i>			
Cash and cash equivalents	293	-	293
Net trade receivables	971	-	971
<i>Classified as fair value:</i>			
Investments	-	68	68
Derivative financial assets:			
Foreign currency forward contracts	29	22	51
Embedded derivatives	2	10	12
Assets classified as held for sale	641	-	641
Financial liabilities			
<i>Classified as amortised cost:</i>			
Interest-bearing loans and borrowings	(548)	(973)	(1,521)
Government refundable advances	(5)	(54)	(59)
Lease obligations	(56)	(311)	(367)
Other financial liabilities	(2,203)	(44)	(2,247)
<i>Classified as fair value:</i>			
Derivative financial liabilities:			
Foreign currency forward contracts	(120)	(166)	(286)
Interest rate swaps	(5)	-	(5)
Cross-currency swaps	(98)	-	(98)
Embedded derivatives	-	(5)	(5)
Liabilities associated with assets held for sale	(97)	-	(97)
31 December 2022			
Financial assets			
<i>Classified as amortised cost:</i>			
Cash and cash equivalents	355	-	355
Net trade receivables	969	-	969
<i>Classified as fair value:</i>			
Investments	-	62	62
Derivative financial assets:			
Foreign currency forward contracts	35	27	62
Embedded derivatives	3	9	12
Financial liabilities			
<i>Classified as amortised cost:</i>			
Interest-bearing loans and borrowings	(63)	(1,433)	(1,496)
Government refundable advances	(7)	(52)	(59)
Lease obligations	(60)	(306)	(366)
Other financial liabilities	(1,911)	(48)	(1,959)
<i>Classified as fair value:</i>			
Derivative financial liabilities:			
Foreign currency forward contracts	(82)	(136)	(218)
Interest rate swaps	(3)	-	(3)
Embedded derivatives	(1)	(5)	(6)

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.

11. 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, £439 million of net retirement benefit obligations were disposed with the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 8).

Also during the period, a buy-in policy was purchased for £45 million fully insuring pensioner members who were in the GKN Group Pension Scheme Number 4. Following the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses, the most significant defined benefit pension plans in the Group at 30 June 2023 were:

GKN Group Pension Schemes (Numbers 1 and 4)

The GKN Group Pension Schemes (Numbers 1 and 4) are funded plans, closed to new members and were closed to future accrual in 2017. The valuation of the plans was based on a full actuarial valuation as of 5 April 2022, updated to 30 June 2023 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 2023, updated to 30 June 2023 by independent actuaries.

The cost of the Group's defined benefit plans is determined in accordance with IAS 19 (revised): "Employee benefits" using the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations and using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK and annually in the US.

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

	UK plans ⁽¹⁾ £m	US plans £m	European plans £m	Other plans £m	Total £m
30 June 2023					
Plan assets	1,009	46	-	-	1,055
Plan liabilities	(1,064)	(71)	(9)	-	(1,144)
Net liabilities	(55)	(25)	(9)	-	(89)
Analysed as:					
Retirement benefit surplus					-
Retirement benefit obligations					(89)
Net liabilities					(89)
	UK plans ⁽¹⁾ £m	US plans £m	European plans £m	Other plans £m	Total £m
30 June 2022					
Plan assets	2,146	174	23	29	2,372
Plan liabilities	(1,861)	(262)	(435)	(36)	(2,594)
Net assets/(liabilities)	285	(88)	(412)	(7)	(222)
Analysed as:					
Retirement benefit surplus					295
Retirement benefit obligations					(517)
Net liabilities					(222)
	UK plans ⁽¹⁾ £m	US plans £m	European plans £m	Other plans £m	Total £m
31 December 2022					
Plan assets	1,779	120	20	22	1,941
Plan liabilities	(1,755)	(202)	(443)	(29)	(2,429)
Net assets/(liabilities)	24	(82)	(423)	(7)	(488)
Analysed as:					
Retirement benefit surplus					93
Retirement benefit obligations					(581)
Net liabilities					(488)

⁽¹⁾ Includes a liability in respect of the GKN post-employment medical plans of £4 million (30 June 2022: £7 million, 31 December 2022: £6 million).

11. Retirement benefit obligations (continued)

Valuations of material plans have been updated at 30 June 2023 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 %	Price inflation % (RPI/CPI)
30 June 2023			
GKN UK – Group Pension Schemes (Numbers 1 and 4)	2.7	5.2	3.2/2.7
GKN US plans	n/a	4.9	n/a
30 June 2022			
GKN UK – Group Pension Schemes (Numbers 1 - 4)	2.6	3.8	3.1/2.6
GKN US plans	n/a	4.5	n/a
GKN Europe plans	2.3	3.2	2.3/2.3
31 December 2022			
GKN UK – Group Pension Schemes (Numbers 1 - 4)	2.7	4.8	3.2/2.7
GKN US plans	n/a	5.0	n/a
GKN Europe plans	2.6	3.7	2.6/2.6

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 2023.

12. Notes to the Cash Flow Statement

	6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Continuing operations			
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	(18)	(281)	(270)
Adjusting items (note 4)	177	326	417
Adjusted operating profit	159	45	147
Adjustments for:			
Depreciation of property, plant and equipment	49	52	104
Amortisation of computer software and development costs	22	21	41
Restructuring costs paid and movements in provisions	(72)	(20)	(60)
Defined benefit pension contributions paid ⁽²⁾	(47)	(2)	(23)
Change in inventories	(53)	(71)	(88)
Change in receivables	(155)	(96)	(172)
Change in payables	39	49	112
Acquisition and disposal costs	(46)	(2)	(10)
Tax paid	(15)	(8)	(8)
Interest paid on loans and borrowings ⁽³⁾	(51)	(34)	(76)
Interest paid on lease obligations	(2)	(3)	(6)
Net cash used in operating activities	(172)	(69)	(39)

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

⁽²⁾ The period ended 30 June 2023 includes £45 million for the purchase of a buy-in policy for GKN Group Pension Scheme Number 4 (see note 11).

⁽³⁾ The period ended 30 June 2023 includes £17 million of finance costs on the proportion of the Group's net debt strategically allocated to demerged businesses at the start of the period and settled on demerger (see note 4b).

	30 June 2023 £m	30 June 2022 £m	31 December 2022 £m
Reconciliation of cash and cash equivalents, net of bank overdrafts			
Cash and cash equivalents per Balance Sheet	110	293	355
Bank overdrafts included within current interest-bearing loans and borrowings	(90)	(96)	(63)
Cash and cash equivalents classified as held for sale	-	26	-
Cash and cash equivalents, net of bank overdrafts per Statement of Cash Flows	20	223	292

12. Notes to the Cash Flow Statement (continued)

	6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m
Cash flow from discontinued operations			
Net cash from discontinued operations	54	107	377
Defined benefit pension contributions paid	(5)	(9)	(36)
Tax paid	(8)	(54)	(81)
Interest paid on lease obligations	(3)	(3)	(6)
Interest paid on loans and borrowings	(2)	(2)	(11)
Net cash from operating activities from discontinued operations	36	39	243
Interest received	-	-	3
Dividends received from equity accounted investments	-	29	59
Purchase of property, plant and equipment	(62)	(78)	(203)
Proceeds from disposal of property, plant and equipment	-	21	21
Purchase of computer software and capitalised development costs	(5)	(7)	(20)
Net cash used in investing activities from discontinued operations	(67)	(35)	(140)
Repayment of principal under lease obligations	(6)	(11)	(23)
Net cash used in financing activities from discontinued operations	(6)	(11)	(23)

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

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 2023 £m	30 June 2022 £m	31 December 2022 £m
Interest-bearing loans and borrowings – due within one year	(148)	(548)	(63)
Interest-bearing loans and borrowings – due after one year	(517)	(973)	(1,433)
External debt	(665)	(1,521)	(1,496)
Less:			
Cash and cash equivalents	110	293	355
Cash and cash equivalents included within assets classified as held for sale	-	26	-
	(555)	(1,202)	(1,141)
Adjustments:			
Impact of cross-currency swaps	-	(98)	-
Non-cash acquisition fair value adjustments	2	6	2
Net debt	(553)	(1,294)	(1,139)

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

	At 31 December 2022 £m	Cash flow £m	Acquisitions and disposals £m	Other non-cash movements £m	Effect of foreign exchange £m	At 30 June 2023 £m
External debt (excluding bank overdrafts)	(1,433)	(393)	1,205	7	39	(575)
Non-cash acquisition fair value adjustments	2	-	-	-	-	2
	(1,431)	(393)	1,205	7	39	(573)
Cash and cash equivalents, net of bank overdrafts	292	104	(366)	-	(10)	20
Net debt	(1,139)	(289)	839	7	29	(553)

13. Lease obligations

Amounts payable under lease obligations:

	30 June 2023 £m	30 June 2022 £m	31 December 2022 £m
Minimum lease payments			
Amounts payable:			
Within one year	42	68	69
After one year but within five years	96	170	166
Over five years	78	198	209
Less: future finance charges	(27)	(69)	(78)
Present value of lease obligations	189	367	366
Analysed as:			
Amounts due for settlement within one year	38	56	60
Amounts due for settlement after one year	151	311	306
Present value of lease obligations	189	367	366

During the period £158 million of lease obligations were disposed with the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses (see note 8).

It is the Group's policy to lease certain of its property, plant and equipment. The average lease term is ten years. Interest rates are fixed at the contract date.

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 and comparable information has been restated⁽¹⁾.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																				
Income Statement Measures																							
Adjusting items	None	Adjusting items (note 4)	<p>Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance.</p> <p>These include items which are significant in size or volatility or by nature are non-trading or non-recurring and any item released to the Income Statement that was previously a fair value item booked on an acquisition.</p> <p>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.</p>																				
Adjusted operating profit	Operating loss ⁽²⁾	Adjusting items (note 4)	<p>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.</p> <table border="1"> <thead> <tr> <th></th><th>6 months ended 30 June 2023 £m</th><th>Restated⁽¹⁾ 6 months ended 30 June 2022 £m</th><th>Restated⁽¹⁾ Year ended 31 December 2022 £m</th></tr> </thead> <tbody> <tr> <td>Adjusted operating profit</td><td></td><td></td><td></td></tr> <tr> <td>Operating loss</td><td>(18)</td><td>(281)</td><td>(270)</td></tr> <tr> <td>Adjusting items to operating loss (note 4)</td><td>177</td><td>326</td><td>417</td></tr> <tr> <td>Adjusted operating profit</td><td>159</td><td>45</td><td>147</td></tr> </tbody> </table>		6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m	Adjusted operating profit				Operating loss	(18)	(281)	(270)	Adjusting items to operating loss (note 4)	177	326	417	Adjusted operating profit	159	45	147
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Adjusting items to operating loss (note 4)	177	326	417																				
Adjusted operating profit	159	45	147																				
Adjusted operating margin	Operating margin ⁽³⁾	Adjusting items (note 4)	<p>Adjusted operating margin represents Adjusted operating profit as a percentage of revenue. The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing performance of the Group.</p>																				

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																
Adjusted profit before tax	Loss before tax	Adjusting items (note 4)	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.																																
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Adjusted profit after tax	Loss after tax	Adjusting items (note 4)	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.																																
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	6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m																																
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Constant currency	Income Statement, which is reported using actual average foreign exchange rates	Constant currency foreign exchange rates	The Group uses GBP based constant currency models to measure performance. These are calculated by applying 2023 6 month average exchange rates to local currency reported results for the current and prior periods. This gives a GBP denominated Income Statement which excludes any variances attributable to foreign exchange rate movements.																																
Adjusted EBITDA for leverage covenant purposes	Operating loss ⁽²⁾	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⁾	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></th><th>12 months ended 30 June 2023 £m</th><th>12 months⁽⁴⁾ ended 30 June 2022 £m</th><th>Year ended⁽⁴⁾ 31 December 2022 £m</th></tr> <tr> <td>Adjusted EBITDA for leverage covenant purposes</td><td></td><td></td><td></td></tr> <tr> <td>Adjusted operating profit</td><td>261</td><td>292</td><td>480</td></tr> <tr> <td>Depreciation of property, plant and equipment and amortisation of computer software and development costs</td><td>143</td><td>415</td><td>406</td></tr> <tr> <td>Imputed lease charge</td><td>(36)</td><td>(61)</td><td>(63)</td></tr> <tr> <td>Non-controlling interests</td><td>-</td><td>(6)</td><td>(5)</td></tr> <tr> <td>Other adjustments required for leverage covenant purposes⁽⁵⁾</td><td>7</td><td>62</td><td>(19)</td></tr> <tr> <td>Adjusted EBITDA for leverage covenant purposes</td><td>375</td><td>702</td><td>799</td></tr> </table>		12 months ended 30 June 2023 £m	12 months ⁽⁴⁾ ended 30 June 2022 £m	Year ended ⁽⁴⁾ 31 December 2022 £m	Adjusted EBITDA for leverage covenant purposes				Adjusted operating profit	261	292	480	Depreciation of property, plant and equipment and amortisation of computer software and development costs	143	415	406	Imputed lease charge	(36)	(61)	(63)	Non-controlling interests	-	(6)	(5)	Other adjustments required for leverage covenant purposes ⁽⁵⁾	7	62	(19)	Adjusted EBITDA for leverage covenant purposes	375	702	799
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APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																				
Adjusted tax rate	Effective tax rate	Adjusting items, adjusting tax items and the tax impact of adjusting items (note 4 and note 5)	<p>The income tax charge for the Group excluding adjusting tax items, and the tax impact of adjusting items, divided by adjusted profit before tax.</p> <p>This measure is a useful indicator of the ongoing tax rate for the Group.</p> <table> <tr> <th></th><th>6 months ended 30 June 2023 £m</th><th>Restated⁽¹⁾ 6 months ended 30 June 2022 £m</th><th>Restated⁽¹⁾ Year ended 31 December 2022 £m</th></tr> <tr> <td>Adjusted tax rate</td><td></td><td></td><td></td></tr> <tr> <td>Tax credit per Income Statement</td><td>22</td><td>70</td><td>99</td></tr> <tr> <td>Adjusted for:</td><td></td><td></td><td></td></tr> <tr> <td> Tax impact of adjusting items</td><td>(50)</td><td>(76)</td><td>(105)</td></tr> <tr> <td> Tax impact of significant restructuring</td><td>-</td><td>-</td><td>2</td></tr> <tr> <td>Adjusted tax charge</td><td>(28)</td><td>(6)</td><td>(4)</td></tr> <tr> <td>Adjusted profit before tax</td><td>134</td><td>9</td><td>62</td></tr> <tr> <td>Adjusted tax rate</td><td>20.9%</td><td>66.7%</td><td>6.5%</td></tr> </table>		6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m	Adjusted tax rate				Tax credit per Income Statement	22	70	99	Adjusted for:				Tax impact of adjusting items	(50)	(76)	(105)	Tax impact of significant restructuring	-	-	2	Adjusted tax charge	(28)	(6)	(4)	Adjusted profit before tax	134	9	62	Adjusted tax rate	20.9%	66.7%	6.5%
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Adjusted basic earnings per share	Basic earnings per share	Adjusting items (note 4 and note 6)	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 diluted earnings per share	Diluted earnings per share	Adjusting items (note 4 and note 6)	<p>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.</p> <p>The Board considers this to be a key measure of performance when all businesses are held for the complete reporting period.</p>																																				
Interest cover	None	Not applicable	<p>Adjusted EBITDA calculated for covenant purposes (including adjusted EBITDA of businesses disposed) as a multiple of net interest payable on bank loans and overdrafts.</p> <p>This measure is used for bank covenant testing.</p>																																				

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																												
Balance Sheet Measures																															
Working capital	Inventories, trade and other receivables less trade and other payables	Not applicable	<p>Working capital comprises inventories, current trade and other receivables, non-current other receivables, current trade and other payables and non-current other payables.</p> <p>This measure provides additional information in respect of working capital management.</p>																												
Net debt	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Reconciliation of net debt (note 12)	<p>Net debt comprises cash and cash equivalents, interest-bearing loans and borrowings and cross-currency swaps but excludes non-cash acquisition fair value adjustments.</p> <p>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.</p>																												
Bank covenant definition of net debt at average rates and leverage	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Impact of foreign exchange and adjustments for bank covenant purposes	<p>Net debt (as above) is presented in the Balance Sheet translated at period end exchange rates.</p> <p>For bank covenant testing purposes net debt is converted using average exchange rates for the previous 12 months.</p> <p>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.</p> <table> <tr> <td></td><td>30 June 2023</td><td>30 June⁽⁴⁾ 2022</td><td>31 December⁽⁴⁾ 2022</td></tr> <tr> <td></td><td>£m</td><td>£m</td><td>£m</td></tr> <tr> <td>Net debt</td><td></td><td></td><td></td></tr> <tr> <td>Net debt at closing rates (note 12)</td><td>553</td><td>1,294</td><td>1,139</td></tr> <tr> <td>Impact of foreign exchange</td><td>19</td><td>(64)</td><td>(27)</td></tr> <tr> <td>Bank covenant definition of net debt at average rates</td><td>572</td><td>1,230</td><td>1,112</td></tr> <tr> <td>Leverage</td><td>1.5x</td><td>1.8x</td><td>1.4x</td></tr> </table>		30 June 2023	30 June ⁽⁴⁾ 2022	31 December ⁽⁴⁾ 2022		£m	£m	£m	Net debt				Net debt at closing rates (note 12)	553	1,294	1,139	Impact of foreign exchange	19	(64)	(27)	Bank covenant definition of net debt at average rates	572	1,230	1,112	Leverage	1.5x	1.8x	1.4x
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APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose	
Proforma opening net debt and proforma opening leverage	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Disposal of businesses net of cash and cash equivalents disposed and borrowings repaid, associated transaction costs, pension buy-in cost paid and second interim dividend paid to shareholders	Proforma opening net debt represents net debt for the Group when excluding transactions related to the demerger of the GKN Automotive, GKN Powder Metallurgy and the GKN Hydrogen businesses.	
			Proforma opening net debt is one measure that could be used to indicate the strength of the Group's opening Balance Sheet position and is a useful measure to compare against the ongoing indebtedness of the Group.	
			Proforma opening net debt and leverage	
				£m
			Opening net debt (note 12)	(1,139)
			Disposal of businesses, net of cash disposed (note 8)	(320)
			Settlement receipt from loans held with demerged entities (note 8)	1,205
			Reduction in net debt following the demerger of Dowlais	885
			Cash flows from discontinued operations (note 12)	(37)
			Finance cost on demerger settled net debt (note 4b)	(17)
			Net cash outflow from Dowlais businesses to date of demerger	(54)
			Demerger related costs ⁽⁶⁾	(62)
			Pension buy-in (note 11)	(45)
			Debt refinancing costs	(11)
			Demerger related costs and pension buy-in	(118)
Second interim dividend for the year ended 31 December 2022 (note 7)	(61)			
Proforma opening net debt		(487)		
Proforma opening adjusted EBITDA for leverage covenant purposes⁽⁷⁾		266		
Proforma opening leverage		1.8x		

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																																								
Cash Flow Measures																																																											
Adjusted operating cash flow (pre-capex)	Net cash from operating activities	Non-working capital items (note 12)	<p>Adjusted operating cash flow (pre-capex) is calculated as net cash (used in)/from operating activities before net cash from operating activities from discontinued operations, restructuring costs paid and movement in provisions, defined benefit pension contributions paid, tax paid, interest paid on loans and borrowings, interest paid on lease obligations, acquisition and disposal costs and the repayment of principal under lease obligations.</p> <p>This measure provides additional useful information in respect of cash generation and is consistent with how business performance is measured internally.</p>																																																								
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	6 months ended 30 June 2023 £m	Restated ⁽¹⁾ 6 months ended 30 June 2022 £m	Restated ⁽¹⁾ Year ended 31 December 2022 £m																																																								
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APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose			
Free cash flow	Net increase/decrease in cash and cash equivalents (net of bank overdrafts)	Acquisition and disposal related cash flows, dividends paid to owners of the parent, transactions in own shares, and movements on borrowing facilities	Free cash flow represents cash generated after all trading costs including restructuring, pension contributions, tax and interest payments.		Restated ⁽¹⁾	Restated ⁽¹⁾
				6 months ended 30 June 2023	6 months ended 30 June 2022	Year ended 31 December 2022
				£m	£m	£m
			Free cash flow			
			Net decrease in cash and cash equivalents (net of bank overdrafts)	(262)	(270)	(203)
			Debt related:			
			Repayments of borrowings	1,262	-	598
			Drawings on borrowing facilities	(450)	(7)	(632)
			Costs of raising debt finance	11	-	-
			Equity related:			
			Dividends paid to owners of the parent	61	44	77
			Purchase of own shares, including associated costs	-	119	504
			Acquisition and disposal related:			
			Disposal of businesses, net of cash disposed	320	8	(478)
			Settlement receipt from loans held with demerged entities	(1,205)	-	-
			Acquisition of subsidiaries	-	-	4
			Equity accounted investments additions	-	-	3
			Cash flows from/(used in) discontinued operations	37	7	(80)
			Acquisition and disposal costs	46	2	10
			Settlement of derivatives used in net investment hedging	-	-	109
			Finance costs on demerger settled net debt	17	-	-
			GKN UK pension plan buy-in	45	-	-
			Free cash flow	(118)	(97)	(88)
Adjusted free cash flow	Net increase/decrease in cash and cash equivalents (net of bank overdrafts)	Free cash flow, as defined above, adjusted for restructuring cash flows	Adjusted free cash flow represents free cash flow adjusted for restructuring cash flows.		Restated ⁽¹⁾	Restated ⁽¹⁾
				6 months ended 30 June 2023	6 months ended 30 June 2022	Year ended 31 December 2022
				£m	£m	£m
			Adjusted free cash flow			
			Free cash flow	(118)	(97)	(88)
			Restructuring costs paid	53	15	53
			Adjusted free cash flow	(65)	(82)	(35)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																				
Free cash flow pre-interest and tax	Net increase/decrease in cash and cash equivalents (net of bank overdrafts)	Free cash flow, as defined above, adjusted for interest and tax cash flows and excluding finance charges related to discontinued operations	Free cash flow pre-interest and tax represents free cash flow adjusted for interest and tax and excluding finance charges related to discontinued operations.																																				
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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 2022 and the year ended 31 December 2022 have been restated for discontinued operations (see note 2).

⁽²⁾ Operating loss is not defined within IFRS but is a widely accepted profit measure being 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 loss⁽²⁾ divided by revenue.

⁽⁴⁾ Period ended 30 June 2022 and year ended 31 December 2022 calculations remain aligned to the original calculations supporting the Group's bank debt compliance certificates, and have not been restated for discontinued operations.

⁽⁵⁾ Included within other adjustments required for leverage covenant purposes in the period ended 30 June 2022 and the year ended 31 December 2022 are dividends received from equity accounted investments, the removal of adjusted operating profit of equity accounted investments and the inclusion of adjusted operating profit, depreciation and an imputed lease charge in respect of businesses classified as held for sale. Included in the period ended 30 June 2023 are unrealised annualised savings from spend incurred in the period on restructuring projects.

⁽⁶⁾ Includes costs accrued in relation to the demerger of the GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses. In 2022, £4 million of demerger related costs were paid.

⁽⁷⁾ Proforma opening adjusted EBITDA for leverage covenant purposes comprises Aerospace adjusted operating profit, depreciation of property, plant and equipment and amortisation of computer software and development costs, imputed lease charge and proforma central costs of £30 million.

⁽⁸⁾ Excludes non-cash utilisation of loss-making contract provisions for continuing operations of £13 million (30 June 2022: £9 million, 31 December 2022: £23 million).